



Meeting of the PSERN Board of Directors (Monthly Meeting)

Location: To be conducted virtually: Microsoft Teams Meeting

Date: Thursday, April 28, 2022

Time: 4:00 p.m. – 5:00 p.m.

Teams Call: Members of the public are invited to participate in the virtual meeting by telephone or video by using the following phone number and meeting ID: 1-425-653-6586 Meeting ID: 607 105 419#

Directors: Lora Ueland (Chair), Harold Scoggins, Kurt Triplett, Dwight Dively, Chris Elwell, Dan Yourkoski

Alternates: Brad Miyake, Kristin Meitzler, Mark Schmidt, Matt Morris, Shawn Hayes (King County does not have an alternate at present.)

Agenda Details:

1. Call to Order – Lora Ueland 4:00 p.m.
2. Roll Call – Tracey Doss 4:01 – 4:03 p.m.
3. Approve the Minutes – Lora Ueland 4:04 – 4:05 p.m.

(Decision: Motion to approve the minutes from the 03-24-22 Monthly Meeting of the PSERN Board of Directors)

4. Public Comment – Lora Ueland 4:06 – 4:10 p.m.

Board Chairperson to open floor for public comment. Members of the public are invited to address the Board of Directors for a period of time not to exceed three minutes.

5. Executive Director Report – Mike Webb 4:10 – 4:15 p.m.

(Discussion)

6. Startup Spending Update – Mike Webb 4:15 – 4:20 p.m.

(Discussion)

7. 2023 Budget and Rates – Mike Webb 4:20 – 4:40 p.m.

(Discussion)

8. Operational Startup Funding – Mike Webb 4:40 – 4:55 p.m.

(Decision)

9. PSERN Board of Directors Officer Report – Board Officers 4:55 – 4:57 p.m.
(Discussion)
10. Review Action Items – Lora Ueland 4:57 – 5:00 p.m.

Next Meeting: May 26, 2022



Meeting of the PSERN Board of Directors – Meeting Minutes

Location: Microsoft Teams Meeting

Date: Thursday, March 24, 2022

Time: 4:00 p.m. – 5:00 p.m.

Teams Call: Members of the public were invited to participate in the virtual meeting by telephone or video by using the following phone number and meeting ID: 1-425-653-6586 Meeting ID: 607 105 419#

Attendees:

- **Directors:** Lora Ueland (Chair), Harold Scoggins, Kurt Triplett, Dwight Dively, Chris Elwell
- **Alternates:** Kristin Meitzler, Mark Schmidt, (King County does not have an alternate at present)
- **Directors Absent:** Dan Yourkoski
- **Other Attendees:** Spencer Bahner, Tom Bloomingdale, Erin Clarke, Sean Douglas, Armand Eichhorn, Gail Houser, Hank Krajewski, Dino Lamanna, Christopher Lombard, David Mendel, Kimberly Nuber, Joel Thornton, Michael Webb, Ellen Whitely

Meeting Minutes:

1. Call to Order – Board Vice Chairperson 4:00 p.m.
 - The Chair called the meeting to order at 4:01.
2. Roll Call – All 4:01 – 4:03 p.m.
 - Quorum was noted.
3. Approve the Minutes – Board Chairperson 4:03 – 4:05 p.m.

(Decision: Motion to approve the minutes from the 02-24-22 Regular Meeting of the PSERN Board of Directors)

 - **MOTION:** A motion was made to approve the minutes of the meeting held on 24th February 2022 by Dwight Dively. It was seconded by Kurt Triplett. The Board members unanimously approved the motion.
4. Public Comment – Board Chairperson 4:05 – 4:06 p.m.
 - There were no public comments.

5. Executive Director Report – Mike Webb

4:07 – 4:13 p.m.

- Mike Webb presented a report that summarizes the activities of the PSERN Operator since the last meeting of the Board in February.
 - An agreement for asset and lease assignment, as part of Project to Operator Transition, is being drafted and will need to get into the pipeline for approval by King County Council by June of this year; the PSERN Board will have to approve at some point after King County approval, likely late 2022.
 - Recruitment of the PSERN Finance Manager is underway (posting closes March 28) and a posting for Technical Operations Manager will be made shortly.
 - The Financial advisory project is underway; the consultants wish to interview board members one on one over the next couple of weeks
 - Interim workspace at the King County Chinook building is being arranged with KCIT and work has begun to identify a permanent facility that would include both office and technical/warehouse space.
- Items for upcoming board meetings:
 - April – 1) Operational startup funding requirements; 2) 2023 budget and service fee development
 - May – 1) Approval of technical staff hiring; 2) 2023 budget development update
 - June – Facility recommendation and approval

6. Startup Spending Update – Mike Webb

4:14 – 4:17 p.m.

- Mike Webb presented the report which details a revised updated forecast of start-up expenditures for the Operator.
 - Spending is currently tracking to or under forecast.
 - Finance Manager start date will be at least a month later than budget.

7. Technical Operational Staffing Plan – Mike Webb

4:17 – 4:20 p.m.

- Mike Webb reviewed a report that outlines a proposed plan hiring technical and operation positions for the PSERN Operator.
 - The staffing plan is being put forward for discussion and to establish a baseline plan that will guide funding, operational transition planning and HR/recruiting planning by the Operator
 - Funding is not currently in place to enable the Operator to hire technical staff prior to FSA
 - A further report will be brought forward in April that outlines the funding gap, including staffing costs and costs for establishing an operational facility for PSERN
 - It is recommended that the Board consider fixing the date of transition of operational responsibility and detach it from the FSA contractual milestone.
 - PSERN service fees would begin at this date
 - This will enable the staffing ramp-up and operational transition to occur on a definite timeline and to minimize the Operator’s start-up funding requirements
 - Further work will have to be undertaken to determine the feasibility, timing, and implications

of such a decision

- Kurt Triplett indicated he appreciates the analysis that is included in the plan as presented but full support and approval can only be made once the financial implications are known
- Board members indicated overall endorsement of plan as a baseline as requested, subject to further discussion in April once the financial implications have been defined, both the one-time/start-up costs and the potential impact on ongoing service fees.

8. Subleases at PSERN Radio Sites – Mike Webb

4:21 – 4:36 p.m.

- Mike Webb presented a report discussing the current subleases in place for the Project and recent requests to generate new agreements to collocate at radio sites.
 - A significant number of radio site subleases will be assigned by the County (PSERN Project) to the PSERN Operator, so PSERN will need to dedicate resources and budget to ongoing management of its lease and sublease portfolio.
 - T-Mobile recently requested PSERN consider new subleases at several sites, and there appears to be additional opportunities to initiate agreements with other commercial providers and public safety/public service agencies.
 - The amount of potential revenue is unknown at this time and will depend on several factors, including wireless provider coverage requirements, market availability, timing and location.
 - PSERN Operator policy considerations will need to be further discussed and considered.
 - Board members expressed reservations regarding both staff and Board capacity, as actively promoting and responding to sublease opportunities could require a great deal of time and resources.
 - It was suggested that work on this could be deferred until the project successfully reaches FSA and in a timely manner.
 - Mike Webb indicated the Operator intends to target implementing/executing new subleases after radio site assets are transferred to the Operator at FSA in 2023.
 - There is no plan to proactively seek or execute subleases prior to FSA and the immediate focus will be to work on the development of commercial sublease template agreements.
 - Mike Webb will be looking into the cost of having a template agreement drawn up for further discussion.
 - He indicated that this process would take many months, so it is recommended that work start in the near future.

9. PSERN Board of Directors Officer Report – Board Officers

4:36 – 4:37 p.m.

- No items noted.

10. Review Action Items – Board Vice Chairperson

4:37 – 4:38 p.m.

- No action items noted.

Next Meeting: April 28, 2022

Adjourn 4:38 p.m.

PSERN Board of Directors Staff Report

Agenda Item #5



Title: Executive Director Report – April 2022
Meeting Date: April 28, 2022
PSERN Staff Contact: Michael Webb, Executive Director
Action: Discussion

SUMMARY:

This report provides a summary of the activities of the PSERN Operator since the last report to the Board at the March 2022 meeting.

ANALYSIS:

Stakeholder Engagement

- On April 9th, PSERN Project staff and I attended the King County Emergency Coordinators meeting and provided an update on the PSERN Project and the establishment of the PSERN Operator.
- On April 13th, we attended the King County Emergency Management Advisory Committee meeting and provided an update on the PSERN Project and the establishment of the PSERN Operator.

PSERN Project to Operator Transition

- Discussions among the PSERN Project, King County RCS and City of Seattle Radio Shop regarding the operational transition to the PSERN Operator are continuing.
- The current focus of work and discussion is in three areas:
 - Implementing a Change Control process/practice to ensure that all changes to the combined KCERCS/PSERN network are appropriately tracked, assessed, and communicated for the purpose of minimizing unplanned service interruptions due to poorly executed changes.
 - Defining the process and tools required to enable the King County and Seattle radio shops to efficiently manage user radios (provision, configure, enable, disable, etc.) on the PSERN system.
 - Defining the incident management and response process, roles, and responsibilities for the combined KCERCS/PSERN network during the interim operational period prior to FSA.

Staffing/Hiring

- The Finance Manager position was posted on March 7th and closed on March 28th:
 - 10 applications were received and 5 were selected for interview (one subsequently dropped out).
 - First round interviews occurred during the week of April 11 and resulted in one candidate moving to a second interview on April 19th:
 - At the time of writing, an offer was being made to the successful candidate.
 - Target start date is mid May.

- The Technical Operations Manager position was posted on April 14th:
 - The job is being posted on the same job boards used for the Executive Director hiring.
 - A list of prospective interview panelists is being developed.
- The funding requirements for technical and operational staff to be hired prior to FSA are the subject of a report being presented at the April meeting.

Financial Advisory Phase 1 Project

- The consultants (Clark Nuber PS) have interviewed Board members and other key stakeholders to gather input in several areas, including financial policy, internal controls, reporting and asset transferal.
- The report from the Phase 1 project is expected in early May and will be presented to the Board at the May meeting.

Operating Budget Development

- A discussion paper on 2023 budget and service fee development has been prepared for the April meeting.
- A high-level review and re-estimation of 2023 – 2026 operating expenses and service fee rates has been completed, incorporating the revised staffing plan and a variety of other cost updates (see separate report at the April meeting).

Records Management

- Pacifica Law Group are developing a records management plan/policy for the Operator:
 - Target completion is end of May.

BoD Workplan Updates

- The latest full workplan update was provided to the Board at the January 2022 meeting.
- The following workplan items have been completed since the last update:
 - (16) Submit year-end tax information to the City of Seattle – this is not required until the end of 2022.
- Work is currently underway on the following items:
 - (12) Set and adopt a PSERN staffing plan that includes the Operator’s supervisory structure.
 - Technical and Operational staffing plan – March 2022 report.
 - Funding requirements – April 2022 report.
 - (17) Determine place of employment (office/location).
 - See below.
 - (19) Establish policies related to co-location tenants (sub-leasing) at radio sites.
 - Discussed at March 2022 meeting; commercial sublease template will be developed prior to FSA.

Workspace

- An arrangement has been made with KCIT for interim use of 4 workspaces at the Chinook building by PSERN Operator staff.

- An initial assessment has determined that the PSERN Operator will require a facility of approximately 7,500 sq. ft. – mixed office and warehouse.
- Contact has been made with the property manager responsible for 925 Hiawatha, Seattle (the King County facility being used by the Project) to enquire about cost and availability of that facility in January 2023.
- Contact has also been made with a commercial realtor for the purpose of investigating available properties in the Tukwila/Kent/Renton area:
 - This has highlighted that PSERN should plan for triple net lease rates in the range of \$1.50 - \$1.75 per sq. ft. per month (e.g. 7,500 sq. ft. x \$1.60 = \$12,000 per month).
 - The market for suitable properties is very tight at the present time (not a lot on the market).
- A facility should be identified, and a lease approved, by June 2022, with occupancy to occur in the fall.

Upcoming Board Meeting Topics

- Topics expected to be brought forward over the next 3 board meetings include the following:
 - May 2022:
 - Approval of operational startup and hiring/staffing plans.
 - Clark Nuber report on Phase 1 Financial Advisory project.
 - June 2022:
 - Update and approval on facility acquisition/lease.
 - Update on 2023 budget and service fee development.
 - July 2022:
 - To be determined.
- The timing of several of these items is based on an objective of issuing initial job offers to transitioning staff in the July-August 2022 timeframe.
- These topics are in addition to the regular standing items, including the Executive Director’s report and Startup Spending Update.

CONCLUSION:

This report has provided a summary of the work undertaken by the PSERN Operator since the previous report in March.

SUPPORTING DOCUMENTATION:

None

PSERN Operator Board of Directors

Staff Report - Agenda Item #6



Title: Administrative Startup Spending Update – April 2022
Meeting Date: April 28, 2022
Staff Contact: Michael Webb, Executive Director
Action: Discussion

SUMMARY:

This report provides an update on PSERN Operator administrative start-up expenditures to the end of March 2022, and a forecast of expenditures to Full System Acceptance in March 2023.

BACKGROUND:

As discussed in the January 2022 report to the Board (Start-up Staffing and Spending Plan), in the absence of a financial management system and supporting policy and processes for PSERN, the Executive Director will provide monthly status reports/updates at each Board meeting that describe:

- Year-To-Date spending against the baseline spending plan (for administrative start-up).
- Revisions to expenditure forecasts, including cost estimates and timing.

Currently, all PSERN Operator expenditures are being recorded against a specific expense code within the broader PSERN Project accounts/funds in the King County financial system (Oracle). Reports can be run on demand to show expenditures/transactions coded against the Operator.

At the point the PSERN Operator has its own financial management system later in 2022, standardized or pro forma financial reports will be provided on a regular basis to be determined by the Board.

ANALYSIS:

Appendix A provides a summary of the Year-to-Date spending of the PSERN Operator as of the end of March 2022. Spending to date is currently on-track and/or below the estimates provided in the baseline spending plan.

The following notes apply:

- The 2023 forecast is for 3 months, as FSA is assumed to occur at the end of March 2023.
- Staffing spending is shown as tracking to forecast although it is expected that the Finance Manager on-boarding will likely occur no earlier than May 15th (budget is based on April 1st).
- The majority of expenditures to date are staffing and benefits, with small expenditures for legal services, King County IT services and miscellaneous administrative expenses (e.g. business license fees).
- The first phase of financial advisory work (\$25K committed) is underway, but no expenses have been booked to date.
- This spending summary does not include any expenses associated with operational startup (operational staffing, facility expenses, additional vehicles).

CONCLUSION:

This report provides an update on administrative start-up expenditures to the end of March 2022 and a revised forecast of expenditures to Full System Acceptance in March 2023. Spending to date is on-track or below the estimates provided in the baseline spending plan.

SUPPORTING DOCUMENTATION:

Appendix A: PSERN Operator Spending (Year-to-Date and Forecast) – March 2022

A summary of expenditures to end of March 2022 and forecasted expenditures during PSERN’s startup phase in 2021, 2022 and 2023 (prior to FSA), are provided in the table below.

This only covers the administrative staffing and initiatives discussed in the January 2022 report as reflected in the approved baseline expenditure plan indicated in the table.

Item	2021 (actual)	2021 (baseline)	Mar-22 (actual)	2022 (YTD)	2022 (forecast)	2022 (baseline)	2022 (variance)	2023 (baseline)	Total Startup (forecast)	TOTAL Startup (baseline)
<u>Salary & Benefits</u>	\$ 46,308	\$ 39,724	\$ 30,576	\$ 84,852	\$ 661,000	\$ 667,800	\$ (6,800)	\$ 342,000	\$ 1,049,308	\$ 1,049,500
<u>Insurance</u>	\$ 3,488	\$ 3,488		\$ -	\$ 5,000	\$ 5,000	\$ -	\$ 1,500	\$ 9,988	\$ 10,000
<u>King County Services</u>										
<i>HR, IT Support, Office Lease</i>	\$ 7,506	\$ 7,355	\$ 1,096	\$ 2,552	\$ 54,200	\$ 54,200	\$ -	\$ 29,900	\$ 91,606	\$ 91,500
<u>Consulting Services</u>										
<i>Legal Services</i>	\$ 6,766	\$ 6,766	\$ 1,784	\$ 6,990	\$ 86,400	\$ 86,400	\$ -	\$ 28,800	\$ 121,966	\$ 122,000
<i>Financial Advisory</i>				\$ -	\$ 60,000	\$ 60,000	\$ -	\$ 30,000	\$ 90,000	\$ 90,000
<i>Security/ Other Consulting</i>				\$ -	\$ 50,000	\$ 50,000	\$ -	\$ 30,000	\$ 80,000	\$ 80,000
<u>Office/Administrative Expenses</u>				\$ 238	\$ 12,900	\$ 12,900	\$ -	\$ 8,100	\$ 21,000	\$ 21,000
<u>Transportation Expenses</u>				\$ -	\$ 6,500	\$ 6,500	\$ -	\$ 3,300	\$ 9,800	\$ 9,800
<u>PSERN-Specific IT Systems</u>										
<i>Financial/Accounting</i>				\$ -	\$ 37,700	\$ 37,700	\$ -	\$ 16,500	\$ 54,200	\$ 54,200
<i>Asset Management</i>				\$ -	\$ 54,300	\$ 54,300	\$ -	\$ 16,000	\$ 70,300	\$ 70,300
<i>Service Management</i>				\$ -	\$ 6,000	\$ 6,000	\$ -	\$ 9,000	\$ 15,000	\$ 15,000
<u>IT Equipment (all staff)</u>								\$ 79,400	\$ 79,400	\$ 79,400
<u>Vehicle Fit-Out</u>								\$ 142,000	\$ 142,000	\$ 142,000
<u>Technician Tools/Equipment</u>								\$ 12,800	\$ 12,800	\$ 12,800
TOTAL	\$ 64,067	\$ 57,333	\$ 33,456	\$ 94,631	\$ 1,034,000	\$ 1,040,800	\$ (6,800)	\$ 749,300	\$ 1,847,367	\$ 1,847,500
TOTAL Startup by Year		\$ 57,333				\$ 1,040,800		\$ 749,300	\$ 1,847,367	\$ 1,847,500

PSERN Operator Board of Directors

Staff Report - Agenda Item #7



Title: 2023 PSERN Operating Budget and Rate Setting
Meeting Date: April 28, 2022
Staff Contact: Michael Webb, Executive Director
Action: Discussion

SUMMARY:

This report discusses several issues and considerations related to establishing the initial (2023) operating budget and service fee rates for the PSERN Operator.

The report also summarizes historical discussions and decisions involving the Project Joint Board related to the PSERN Operator budget, cost allocation model, startup/seed funding requirements and rate stabilization. Several of these topics have unresolved issues that will require further discussion and action by the Operator Board in consultation with the Joint Board.

A preliminary, updated view of the 2023 operating budget and service fees is also provided, which is broadly in-line with the most recent estimate developed in 2019/2020. As the work depends on the PSERN Operator acquiring additional financial management resources, the current target for developing a draft 2023 operating budget and service fee rates is the end of August 2022.

Additional work and analysis is required between now and August to further investigate and validate operating costs and address the outstanding issues described in this report related to cost allocation methodology, rate stabilization fund requirements and establishment of operating and capital reserves.

BACKGROUND:

PSERN Cost Allocation Model

Work to establish a cost allocation model for PSERN was undertaken by the PSERN Project Steering Committee in 2014 and earlier. Among other decisions, at its October 28, 2014 meeting, the Steering Committee adopted a blended rate model which showed the first year service fees for radios to be 78% of the PSERN Operating budget, with consoles comprising 22%.

The blended rate model proposed that PSERN employee-related (labor) costs and vendor support/maintenance costs be allocated between user radios and consoles differently, as shown in the figure below.

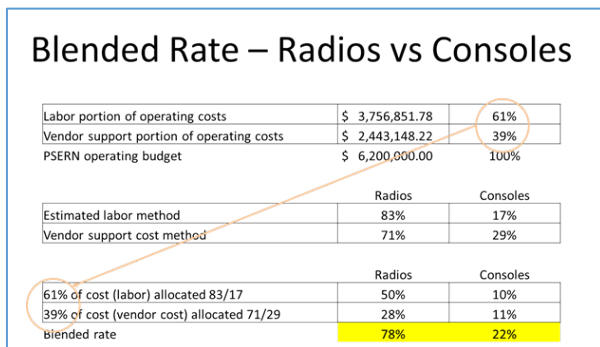


Figure 1. Extract from Presentation at 10/28/14 Steering Committee

Decisions made by the Steering Committee were subsequently ratified by the PSERN Joint Board in its Resolution 15-2, which essentially states “The Joint Board hereby ratifies and adopts all of the decisions made by the Steering Committee...”. This includes its decisions with respect to the PSERN End User Rate Model and Cost Allocation Model.

The cost allocation model was incorporated into both the PSERN Implementation Period ILA and the PSERN Operations Period ILA as follows:

Division of Budget Between Radios and Consoles

Percentage of annual budget to be paid with radio user fees = X
 Percentage of annual budget to be paid with console user fees = Y

$X = [83\% \text{ of employee-related costs in the PSERN System annual operating budget} + \text{annual vendor costs for radio-related equipment}] / \text{PSERN System annual operating budget} \times 100.$

$Y = [17\% \text{ of employee-related costs in the PSERN System annual operating budget} + \text{annual vendor costs for console-related equipment}] / \text{PSERN System annual operating budget} \times 100.$

In addition, non-public safety radio rates are specified to be 78% of the public safety radio rate.

From this review, it can be seen that the ILA does not explicitly define the split of vendor costs between radios and consoles (i.e. 71/29 as discussed at the Steering Committee in October 2014). This allocation will need to be further assessed and updated during the development of future budgets.

However, an overall split of 78/22 was used as the basis of subsequent estimates of PSERN radio and console rates.

2020 Operator Budget and Service Fee Estimates

The most recent published estimate of PSERN Operator operating budget and service fees was prepared in 2019 and 2020 and presented to the PSERN Joint Board at its January 28th 2021 meeting (see Appendix A). A summary of these costs, for the “Fully Autonomous” model, as captured in this report are shown below:

Table 1 – 2019/2020 PSERN Operating Budget Estimates

Budget Category	Set Up (Autonomous)	Operation (Fully Autonomous)			
		Year 1	Year 2	Year 3	Year 4
SALARY AND BENEFITS:	688,750	4,644,804	4,784,148	4,927,672	5,075,503
OPERATING COSTS:	1,167,408	997,601	1,017,218	1,037,308	1,057,884
CONSULTING SERVICES (outsourced):	264,000	113,000	114,695	116,415	118,162
OTHER OFFICE COSTS:	903,408	884,601	902,523	920,893	939,723
INSURANCE:	-	631,000	640,465	650,072	659,823
SITE COSTS:	-	1,965,744	2,026,978	2,068,910	2,107,235
MSI SERVICES:	-	-	-	1,441,596	1,461,433
ER&R	-	411,957	423,440	506,278	518,094
Total	1,856,158	8,651,106	8,892,249	10,631,836	10,879,972

Note: Year 1 = 2022.

These operating costs correspond to the follow radio and console rates:

Table 2 – 2019/2020 Estimated Unsubsidized Radio and Console Rates

PSERN Ops budget (2019 Draft Pro- Forma Budget)	Public Safety Radio Rate	Other Radio Rate (non-public safety)	Dispatch Console Rate	
\$ 8,651,106	\$ 34.52	\$ 26.93	\$ 1,109.12	<-- year 1 budget (2022)
\$ 8,892,249	\$ 35.48	\$ 27.68	\$ 1,140.03	<-- year 2 budget (2023)
\$ 10,631,836	\$ 42.43	\$ 33.09	\$ 1,363.06	<-- year 3 budget (2024)
\$ 10,879,972	\$ 43.42	\$ 33.86	\$ 1,394.87	<-- year 4 budget (2025)

These radio and console rates are unsubsidized, i.e. they are the rates prior to the application of rate stabilization funds.

Rate Stabilization Funds

As a result of higher service fees associated with PSERN for some agencies, and to enable those agencies to gradually address the impact on their budgets, \$2.6 M was set aside from Project levy funds (known as Rate Stabilization funds) in 2014 for the purpose of subsidizing rates for a limited period. Further background information on Rate Stabilization funds is provided in two attached staff reports that were provided to the PSERN Joint Board in January 2021 (Appendix A) and February 2021 (Appendix B).

Agency subsidies and overall rate stabilization fund requirements were previously estimated by calculating the difference between the agency’s current (baseline) service fees for KCERCS and the agency’s projected service fees for PSERN, where the PSERN fees are higher. This was first done in 2014 and resulted in approval of the \$2.6M allocation.

The method originally used for estimation of rate stabilization funds in this calculation assumed that the subsidy would apply for a maximum of 3 years after PSERN FSA, with subsidies of 100%, 66% and 33% for those three years. This estimate also incorporated the 78/22 split of PSERN operating costs between radios and consoles as discussed above.

A more recent estimate, prepared using the same methodology and presented to the Joint Board in January 2021 (see Appendix A), indicated that the total requirement for rate stabilization funds is \$6.5 M, resulting a shortfall of \$3.9 M. Funding for this level of subsidies is not currently in place and so the PSERN Operator Board and Project Joint Board will need to make several decisions about rate stabilization, which are outlined in the February 2021 report (Appendix B).

At the February 2021 Joint Board meeting, it was determined that a decision to designate additional Project funds for rate stabilization would be deferred, but that at a future meeting, the Project would provide updated assumptions for the Board to consider adopting as policy. To date, no further Joint Board decisions have been made on this matter.

PSERN Operator Startup Funding

As shown above (Table 1) and in a January 2022 report to the PSERN Operator Board, start-up funding of \$1.85 M has been set aside for Operator administrative start-up expenses and a spending plan approved. This funding covers the hiring of administrative and management staff prior to FSA and certain other one-time expenses.

This funding is not sufficient to cover operational expenses (staff, transportation and facility costs) to be incurred prior to FSA. This issue is the subject of a separate report to the Board at the April 2022 meeting.

ISSUES:

To enable the process of developing the 2023 budget and service fee rates to move forward, the Board should consider the following issues:

Issue #1: What is the current view of the 2023 operating budget and how does this compare to previous estimates?

Issue #2: What cost allocation methodology should be used for the first year?

Issue #3: What other considerations should go into establishing 2023 service fees?

Issue #4: What is the plan and timeline for developing and approving the 2023 budget and service fees?

ANALYSIS/DISCUSSION:

The following analysis and discussion addresses the issues identified in the previous section.

Issue #1: What is the current view of the 2023 operating budget and how does this compare to previous estimates?

The PSERN operating budget needs to incorporate the following categories of costs, starting at FSA (currently targeted for end of March 2023):

- Salaries, benefits and retirement plan costs for PSERN staff
- Radio site lease expenses (net of sub-lease revenues)
- Network operating costs
 - Radio site equipment support and maintenance
 - Utilities
 - Generator fueling (including 3 generator-only sites)
 - Motorola support services (starting in year 3 after FSA)
- Facility and transportation costs
 - Workspace for PSERN staff
 - Vehicle acquisition, operating and maintenance costs
- Insurance
 - Liability, pollution, cyber, business interruption
 - Property coverage for all PSERN assets including radio site infrastructure and equipment
- Administrative and office expenses
 - IT systems
 - Legal services
 - Outsourced financial services
 - Other consulting services
- Emergency reserve
 - Previously estimated at 5% of the total operating budget

Since the previous operating budget estimate was provided to the Joint Board in January 2021 (see Appendix A), the following changes have occurred and have been incorporated into a revised budget estimate:

- Modified “Fully Autonomous” model adopted:
 - The PSERN Operator will acquire/procure required administrative services directly (IT, financial management, procurement)

- PSERN Operator staff will be employed through the staffing agreement with King County for at least the first year after FSA
- Updated staffing plan:
 - Presented to the Board at the March 2022 meeting
 - Total PSERN Operator headcount of 26 FTE (19 technical/operational & 7 administrative/management) in comparison with previous headcount of 23 FTE
- Inflation and re-estimation of operating expenses:
 - Salary costs have increased – King County 2022 salary scale has been used
 - General cost escalation of 3% per year is assumed
 - Other operating costs are being re-estimated
- Radio and console quantity changes:
 - Public safety radio quantities have increased from 12,945 to 14,440
 - Non-public safety radio quantities have decreased from 4,287 to 3,752
 - Total radio quantity has increased from 17,232 to 18,192
 - Console quantities have increased to 147 (previously 143)
- Sublease revenues added:
 - An estimate of \$500,000 in sublease revenue associated with existing subleases has been incorporated

With these assumptions incorporated, updated operating budget and service rates estimates are as follows:

Table 3 - Updated PSERN Operating Budget Estimates (Year 1 = 2023)

Budget Category	Set Up (Autonomous)	Operation (Fully Autonomous)			
		Year 1	Year 2	Year 3	Year 4
SALARY AND BENEFITS:	1,049,500	5,002,591	5,152,669	5,307,249	5,466,467
OPERATING COSTS:	788,000	852,368	872,508	893,171	914,370
CONSULTING SERVICES (outsourced):	397,000	272,000	276,080	280,221	284,425
OTHER OFFICE COSTS:	391,000	580,368	596,428	612,949	629,946
INSURANCE:	10,000	700,000	710,500	721,158	731,975
SITE COSTS:	-	2,351,692	2,434,761	2,499,087	2,560,378
MSI SERVICES:	-	-	-	1,441,596	1,461,433
ER&R	-	445,333	458,522	543,113	556,731
Total	1,847,500	9,351,984	9,628,960	11,405,372	11,691,355

These operating costs correspond to the follow radio and console service rates:

Table 4 – Updated Service Fee Rates (Year 1 – 2023) and Comparison to 2019/2020 Estimates

Updated Ops budget estimate	Public Safety Radio Rate	Other Radio Rate (non-public safety)	Dispatch Console Rate	
\$ 9,351,984	\$ 35.00	\$ 27.30	\$ 1,166.35	<-- year 1 budget (2023)
8.1%	1.4%	1.4%	5.2%	<-- increase vs. 2019/20
\$ 9,628,960	\$ 36.04	\$ 28.11	\$ 1,200.89	<-- year 2 budget (2024)
8.3%	1.6%	1.6%	5.3%	<-- increase vs. 2019/20
\$ 11,405,372	\$ 42.69	\$ 33.30	\$ 1,422.44	<-- year 3 budget (2025)
7.3%	0.6%	0.6%	4.4%	<-- increase vs. 2019/20
\$ 11,691,355	\$ 43.76	\$ 34.13	\$ 1,458.11	<-- year 4 budget (2026)
7.5%	0.8%	0.8%	4.5%	<-- increase vs. 2019/20

The following notes apply to these estimates:

- Allocation of PSERN operating costs between radios and consoles is assumed to be 78/22, consistent with previous estimates
- “Set Up” cost estimates include administrative costs as defined in the January 2022 Board “2022/23 Staffing and Spending Plan” – network operating expenses and costs for technical or operational staff prior to FSA are not included
- The revised estimate has 2023 as the first year after FSA – the 2019/2020 estimate had 2022 as the first year
- The operating budget shows a full year of expenses in 2023, however FSA will not occur before April 2023
- Radio and console rates are unsubsidized – they do not include application of rate stabilization funds
- Staffing costs in 2023 assume the Operator is fully staffed (26 FTE) at FSA
- The operating budget includes 5% of total operating expense as an emergency reserve
- Radio rates are broadly in-line with the 2019/2020 estimates due to the increased radio quantities
- Console rates are higher than 2019/2020 estimates as console quantities have not increased significantly

This budget estimate is preliminary as there are a number of operating expense items that are estimates that need to be further investigated and verified. The 2023 operating expense run-rate will almost certainly be less than estimated as it is very unlikely that the Operator will be able to achieve full staffing by FSA.

In February 2021, a report to the Joint Board (see Appendix C) identified the PSERN Operator’s projected year 1 cash flow requirements. As a result of that analysis, an additional \$500K of additional project funding was allocated to ensure the Operator remains in a positive financial position during the first year operation and provide a reserve to address unplanned expenses.

Although the cash flow analysis has not been updated since the February report, the revised operating budget estimate is not sufficiently different to suggest that the cash flow requirements will be materially higher. However, this will be dependent on the timing of the Operator assuming operational responsibility for the network and commencement of PSERN service fees.

Issue #2: What cost allocation methodology should be used for the first year and beyond?

As discussed above, there is a difference between the cost allocation model defined in the two ILA documents and the assumptions behind earlier decisions of the PSERN Steering Committee and Joint Board. Previous estimates of PSERN radio and console rates have been estimated using a blended 78/22 split of the total PSERN operating budget.

The ILA specifies an 83/17 split between radios and consoles for employee related costs and doesn’t specify the split of vendor support costs. The previous analysis that led to the 71/29 split dates to 2014 and many aspects of the PSERN operating costs have changed since then. This means that an updated method for allocating vendor support costs between radios and consoles should be defined and approved as part of developing the 2023 budget.

The rationale for explicitly defining the split of employee-related costs in the Operator ILA, but not explicitly defining the split of vendor support costs, is not clear. However, the ILA only specifies the cost allocation model for the first year (Exhibit A). The Operator Board has the ability to amend or modify the cost allocation model as it determines for subsequent years.

An further issue that needs to be addressed is how costs for additional or optional services, that are not currently part of the “standard” PSERN service offering, should be recovered. The following are examples of additional services that some agencies have requested:

- Console CAD interface
- Console GPS location interface
- Integrated radio audio recording

If these services are requested by all or nearly all agencies, then it would make sense to incorporate the costs in base PSERN service fee rates for radios and consoles. However, if only some agencies require them, or if there are specific, incremental costs associated with certain agencies (e.g. CAD integration), then those agencies should bear those incremental costs

More information needs to be gathered regarding the requirements for these additional services before such a determination can be made. This work does not gate development of the baseline 2023 budget and service fees.

Issue #3: What other considerations should go into establishing 2023 service fees?

There are several considerations that should be made during the process of establishing 2023 service fees.

Incorporation of Sublease Revenues

The operating budget estimate provided above assumes that \$500K of annual sublease revenue is received by the PSERN Operator and used to offset overall radio site lease expenses (estimated at \$1.37 M annual). This is a conservative estimate of the value of existing subleases in place between King County and various wireless network operators at PSERN sites. These subleases will be assigned to the PSERN Operator at FSA.

Based on direction from the Board at the March 2022 meeting, the Operator will not implement additional sublease agreements until after FSA. Therefore, it is assumed that the 2023 budget and service fees should not incorporate any additional sublease revenues.

Establishment of Operating and Capital Reserves

Operating budget estimates currently include a 5% emergency reserve. This is assumed to be for the purpose of providing the Operator funding to address unexpected operating costs associated with unplanned or emergency events. Further work needs to be done to develop a policy or guidelines regarding how these funds should be managed:

- What can funds be used for?
- What approval/authority is required to expend those funds?
- What should be done with unspent funds, i.e. creation of an operating reserve?
- If an operating reserve is created, should a maximum balance be set?

An additional issue is the creation of a capital reserve. The operating budget does not incorporate funds for any capital equipment replacement (amortization/depreciation). Although the PSERN network infrastructure is new, certain equipment may need to be replaced on a lifecycle that is significantly less than the overall lifetime of the network.

The Motorola contract includes lifecycle replacement of certain components such as network routing/switching and computing equipment (typically 5-7 year lifecycle). However, there may be components outside of the Motorola contract scope, primarily radio site infrastructure, that will require lifecycle replacement in a 5-7 year timeframe. This has not been extensively assessed to date.

A further consideration is that surplus funding from the PSERN Project levies may be transferred to the Operator and could be designated for use as either operating or capital reserves.

Given the current uncertainty around capital replacement requirements and availability of surplus project

funds, further work needs to be done before requirements and guidelines for a capital reserve can be established. As discussed in the January 2022 report to the Board on Financial Advisory Services, Clark Nuber PS will be engaged later in 2022 to develop such guidance as part of supporting 2023 PSERN budget development.

Application of Rate Stabilization Funds

As noted above, no further Joint Board decisions have been made regarding increasing the availability of rate stabilization funds since it was last discussed in February 2021. A number of questions were raised at that time (see Appendix B) that have so far not been addressed:

- *Should rate stabilization subsidies apply to additional consoles that were purchased at the request of dispatch centers earlier in the Project?*
- *Should changes to the variables used to calculate radio rates be accommodated in funding made available to the Operator for rate stabilization?*
- *Should other variables that have changed also be accommodated with subsidy funds?*
- *Should the Joint Board positively affirm that the assumptions the Project has used in making calculations be continued?*
- *Should the Joint Board take action in one step or two?*

It is clear that the \$2.6M allocated in 2014 is not sufficient to enable the previous method of distribution of rate stabilization funds given the current budget estimates – a shortfall in excess of \$4M exists based on current budget estimates. Therefore, the PSERN Operator Board will need to determine whether to:

- Request the Joint Board allocate additional Project funds to support the previous subsidy allocation method, or
- Revise the subsidy allocation method to reduce or eliminate the additional funding requirement

The following considerations need to be addressed in developing and approving a revised rate stabilization distribution methodology:

- PSERN radio and console quantities have increased since 2014 (quantities have increased)
- PSERN operating budget estimates have evolved since 2014 (operating cost has increased)
- Rates for EPSCA and Valleycom agencies were reduced as a result of the upcoming transition to PSERN
- Agency eligibility for subsidies needs to be explicitly defined and approved (it is not currently)

Issue #4: What is the plan and timeline for developing and approving the 2023 budget and service fees?

A general timeline for the work required to develop the 2023 PSERN Operator budget is as follows:

- May 2022 – PSERN Finance Manager on-boarding
- May 2022 – Clark Nuber Phase 1 Financial Advisory project completes; report presented to Board
- May – August 2022 – Operating cost estimates revised and updated
- June – August 2022 – Clark Nuber Phase 2 Financial Advisory project (budget guidance) undertaken
- May – July 2022 – PSERN Operator Board and Joint Board address issues related to:
 - Cost allocation methodology
 - Rate stabilization fund requirements and allocation methodology
 - Establishment of operational and capital reserves
- August 2022 – Initial draft of proposed 2023 operating budget and service fees to Operator Board
- September 2022 – Updated draft of 2023 operating budget and service fees to Operator Board
- October 2022 – Budget and service fees approved

A more detailed plan will be prepared and presented once the PSERN Finance Manager is hired and on-boarded in May.

CONCLUSION:

This report has discussed a number of issues and considerations related to establishing the 2023 PSERN Operator operating budget and service fee rates.

While preliminary, updated views of the operating budget and service fees have been presented in this report, further work, analysis and decision-making is required between now and August 2022. These are summarized as follows:

- Further estimation and validation of operating costs needs to be done
- The cost allocation methodology to be used needs to be confirmed, based on a re-estimation of the split of operating costs between radios and consoles
- Rate stabilization fund requirements and allocation method need to be determined
- A determination needs to be made of if and when additional operating and capital reserves should be established and how they should be funded

At this point, the target for final approval of the 2023 PSERN Operator budget and service fee rates is October 2023.

SUPPORTING DOCUMENTATION:

Appendix A: January 2021 Project Joint Board Staff Report – Seed Money and Rate Stabilization

The referenced report is provided on the next page. Below is an extract from the minutes of the January 2021 Joint Board meeting that addresses the report:

Staff Report – Seed Money and Rate Stabilization

- *Funding Responsibilities:*
 - *PSERN Project Joint Board approves any additional Project expenditures that are not currently in the budget from now until the Full System Acceptance (FSA).*
 - *PSERN Operator Board of Directors will approve spending related to establishing the Operator and the Operator budget once it is created by the Executive Director.*
- *The Project will provide seed money to the Operator to assist in setting up the agency prior to FSA. Seed money will likely be used for hiring staff, purchasing business software, or other preparation expenses.*
- *Year 1 Expenses are based on the high-end range of the 2019 analysis that was provided to the Joint Board.*
 - *Expenses could include rent for one or more radio sites, salaries/benefits, or other costs.*
 - *The PSERN Project will provide the Joint Board with financial analysis so that the Joint Board can make policy to ensure that the PSERN Operator will remain solvent with cash flow.*
- *The PSERN Project will provide the Joint Board with the overall PSERN Operator budget next month.*
- *Kurt Triplett requested information on the Year 1 cash flow and rates, relation to how much revenue generated per month, and what is included for the \$39/month rate.*
- *Chief Scoggins requested information on rate stabilization.*
 - *David Mendel confirmed that PSERN Project staff will be able to provide that information*

PSERN Staff Report

Title: (Operator) Seed Money and Rate Stabilization

Joint Board Meeting Date: January 28, 2021

Staff Contact: David Mendel

Action: Discussion



SUMMARY:

The purpose of this staff report is to reintroduce the topic of transferring funds from the PSERN Project's Available Balance to the new PSERN Operator. The purpose of this funding would be to ensure that the PSERN Operator is set up for success. This report focuses on two topics – 1) seed money and 2) rate stabilization.

As the PSERN Operator (Operator) formation progresses, the PSERN Project (Project) will be seeking a decision on several outstanding questions on the use of Project funds for establishing the Operator and for providing rate stabilization for some PSERN Operator customers. The Project has developed draft budgets, cost allocation models, and is currently conducting a radio inventory to further solidify its numbers and recommendations. The Project will present recommendations for action at future Joint Board meetings.

BACKGROUND:

This section provides information on why seed money and rate stabilization are included in the Project budget and why the Joint Board should consider making decisions on these topics in the near future.

2014 Planning Efforts for Operator Budget:

The initial draft Operator budget was created in 2014 while the Project budget was also being finalized. The Project partners recognized that since the Operator would be a brand-new agency that is funded through system user fees, and collection of user fees would not begin until day one of the agency's operations, this would mean that the agency has no funds to pay for operations. Therefore, Project partners decided to add line items in the Project's budget for Operator seed money – funding for setting up the Operator between formation of the Board of Directors and Full System Acceptance (FSA) – and rate stabilization. The rate stabilization funding requirement was called out in the 2015 Implementation Period ILA (ILA1) that governs the Project. Section 8.8 of ILA1 lists the timing for the Joint Board to decide on rate stabilization funding. It states:

“The County shall, within the Project Budget, set aside a Rate Stabilization Allocation in the amount of \$2,619,406,00, the purpose of which shall be to reduce and phase in the impact of increased console and radio rates on PSERN System User Agencies and Dispatch Centers, **By March 31 of the year prior to the expected date for FSA** as projected by the Project Director, the Joint Board shall adopt a Rate Stabilization Allocation plan.”

The Project team proposed the following plan for subsidizing increased costs due to a small subset of PSERN customers that, in 2014, were projected to experience rate increases and be financially impacted by the transition from KCERCS to PSERN. The intent of this subsidy was for it make up the difference between what an agency had been paying for KCERCS rates (in 2014) and the cost for PSERN Operator rates after FSA.

The subsidy would be applied in decreasing percentage amounts over Years 1-3 of the Operator running the system, and with no subsidy from Year 4 and beyond. This subsidy plan is shown in the following table (Table 1).

Table 1. Draft Rate Subsidy Plan.

Year	Percent of subsidy of increased costs due to PSERN rates
1	100%
2	67%
3	33%
4	0%

2019 Operator Budget Modeling:

In the fall of 2019, significant work was done by Project staff and the King County Office of Performance, Strategy and Budget to update the 2014 draft Operator budget (cost to run the system) and then to create two budget models/options for the Operator’s Board of Directors to consider when establishing the Operator budget. At the December 12, 2019 Joint Board meeting, these draft Operator budget options were reviewed to help inform the Joint Board on a decision regarding whether they would fund the updated estimates for seed money and rate stabilization. The two draft budget models for the Operator Board of Directors (Board of Directors) to choose from were called 1) Fully Autonomous and 2) Mixed.

The Fully Autonomous model assumes the Operator directly procures all its own services and hires its staff. The Mixed model assumes the Operator is independent but contracts for certain services, such as most (or all) of the staff, with another agency. Based on the latest draft of the PSERN Operator budget models, revised in November 2020, the PSERN rates are projected to be as follows:

Table 2. Draft PSERN rates based on the Fully Autonomous budget model.

Draft PSERN Rates per unit per month			
	Public Safety	General Government	Consoles
Year 1 Autonomous	\$34.52	\$26.93	\$1,109.12
Year 2 Autonomous	\$35.48	\$27.68	\$1140.03
Year 3 Autonomous	\$42.43	\$33.09	\$1,363.06
Year 4 Autonomous	\$43.42	\$33.86	\$1,394.87

Table 3. Draft PSERN rates based on the Mixed budget model.

Draft PSERN Rates per unit per month*			
	Public Safety	General Government	Consoles
Year 1 Mixed	\$32.51	\$25.36	\$1,044.43
Year 2 Mixed	\$33.41	\$26.06	\$1,073.48
Year 3 Mixed	\$40.29	\$31.43	\$1,294.59
Year 4 Mixed	\$41.22	\$32.15	\$1,324.42

NOTES for Tables 2 & 3:

- Final radio inventory will impact the projected rates as the count of radios will likely change.
- Source: PSERN Operator Draft Budget Staff Report_Dec 12 2019 mtg.pdf

For comparison, today's monthly radio rates on the current system (KCERCS) are*:

City of Seattle	\$32.73
Eastside Public Safety Communications Agency (EPSCA)	\$25.25
King County	\$39.00
Valley Communications	\$3.24 - \$15.00

NOTE: No agency pays a console rate today.

In addition to the cost to run the Operator under the two budget models, the Project team provided additional funding considerations to the Joint Board that would further support the Operator's ability to start on solid financial ground.

- **Year 1 operational expenses**
- **Equipment reserves** for years 1 through 4 of agency operations
- Minimal **emergency reserves**

The Joint Board weighed the state of the Project in 2019 against the goal to help launch a financially successful Operator and determined that because the Project was amid site development work and still had major deliverables to complete, further discussions/decisions on setting aside funds for the Operator within the Project budget would be tabled.

Seed Money Estimates:

The 2014 draft Operator budget allocated \$750,000 in seed money that the Project would provide to the Operator to assist in setting up the agency prior to FSA, when the Operator is to take over running the new system. At the December 2019 Joint Board meeting, the Project updated the 2014 budget based on estimated costs of changes to the Project scope, and it was clear that the original seed money would not be enough to properly set up the Operator. The current draft of the Operator budget, updated in November 2020, contains even more accurate information with previously estimated costs being updated to actuals. The November 2020 estimated seed money amount is \$1,856,158.

Rate Stabilization Estimates:

In 2014, staff from the four partners of the PSERN Project, led by City of Seattle staff, worked to establish a formula for setting the Operator's monthly service rates charged to end-user agencies. At a high level, the first year of PSERN rates charged by the Operator are set by distributing the agency's operating expenses across all the active PSERN end-user equipment (radios and consoles) according to a formula defined in Exhibit 4 of ILA1. The cost to operate the PSERN system will be divided between all radios and consoles on the system (approximately 17,600 radios and 143 consoles).

As currently laid out in the Project team's proposed Operator budget models, the Operator would have three categories of rates – a) Public safety radio rate, b) General government radio rate, and c) Dispatch console rate.

It is important to note that the Project still has key programs/deliverables to complete, so FSA (or Full System Acceptance) could continue to shift back and forth between 2022 and 2023. Even so, the Project team believes that a Joint Board decision at the March 2021 meeting needs to occur for the sake of Project and end-user agencies, especially for budget planning purposes.

Joint Board recommendations about the PSERN Operator budget and rates will assist the Operator’s Board of Directors in quickly establishing the new agency and help the Executive Director (ED) plan for successful / appropriately financed operations. *The Operator Board of Directors will ultimately determine what type of Operator budget model it wants and will set the PSERN subscriber rates.*

ISSUES:

There are outstanding policy issues to be addressed by the Joint Board on providing the Operator with funding to help successfully launch the new agency. These issues are as follows:

1. **Will the seed money allocated within the Project budget be enough to adequately set up the agency? If not, should the Project provide funding to cover all of these expenses?**
2. **Because the environment has changed since the rate subsidy plan was developed, should the rate subsidy apply to changes in agency rates, and agencies and equipment added since 2014?**
3. **Is the existing rate stabilization line item within the Project budget adequate to cover the updated rate subsidy plan? If not, should the Project provide funding to cover all these expenses?**

ANALYSIS:

To provide the Joint Board with context for a future decision on the Project’s seed money allocation and rate stabilization, the following grid (Table 4) provides a list of all potential funding needs that the Project team and other King County staff believe are necessary for a successful launch of the new Operator.

Table 4. Potential PSERN Operator Funding Considerations:

Funding Consideration	2020 Operator Budget Estimates*	Currently in Project Budget
Seed Money Costs	\$1,856,158	\$750,000
Year 1 Expenses	\$8,651,106	\$0
Equipment Replacement & Reserves (ER&R) Years 1-4	\$1,686,920	\$0
Minimal Emergency Reserves	\$770,807	\$0
Subtotal of Start-up Funding:	\$12,964,991	\$750,000
Rate Stabilization	\$6,533,884	2,619,406
TOTAL of all Potential Funding:	\$19,498,875	\$3,441,406

**Source. Draft Operator Budget (updated November 2020)*

The policy questions from the *Issues* section are divided up under the two topics of seed money and rate stabilization for this section.

Part 1: Operator Seed Money:

Issue #1: Will the seed money allocated within the Project budget be enough to adequately set up the agency? If not, should the Project provide funding to cover all these expenses?

The Project budget's current line item for seed money is \$750,000. However, the two budget models listed previously in this staff report (and in Exhibit A) now estimate the seed money needs to be nearly \$1.9M. The Joint Board must determine if it agrees with how seed money is calculated and determine if it's willing to commit Project funds for the updated estimated amount of \$1.9M. The Project team can provide more detailed information at the February 2021 Joint Board meeting.

Part 2: Rate Stabilization:

Issue #2: Because the environment has changed since the rate subsidy plan was developed in 2014, should the rate subsidy apply to changes in agency rates, and agencies and equipment added since 2014?

- a) Additional Agencies: New agencies have signed on to PSERN since the original stabilization amount was established in 2014. The impact of these agencies on the stabilization fund needs to be determined.
- b) Additional equipment: Agencies have acquired new equipment which impacts rates and the planned subsidy. The preliminary radio inventory in March 2019 totaled 17,300 radios and 144 consoles. The difference between the 2014 radio inventory and 2019 is approximately 900, and there are 25 additional consoles. The Final Radio Inventory process will inform the final numbers.
- c) Other Increased costs in the Operator budget.

Issue #3: Is the existing rate stabilization line item in the Project budget enough to adequately cover the updated rate subsidy plan? If not, should the Project provide funding to cover all these expenses?

The Project has increased in scope and cost since the 2014 rate stabilization amount was set in the Project budget. Some of the scope and cost increases will impact the Operator budget, and therefore the end-user agency rates will be increased. Examples include lease rates set in legal agreements that the Operator will be bound to honor, and additional radio sites, consoles, and customers that were added since the original Project plan and budget were written.

The Project budget's current line item for rate stabilization is \$2,619,406 and it's based on 2014 estimates. However, the Project now estimates that if rate stabilization is applied to all agencies paying more under PSERN, and the number of customer agencies has significantly increased since 2014, the Project's seed money budget line item needs to be increased to between \$3M to \$3.9M. A summary of the changes in rate stabilization is summarized below according to the two budget models previously listed in this staff report.

	Autonomous	Mixed
Current Estimated Cost of Rate Subsidy:	\$6,533,884	\$5,639,195
Available Rate Stabilization in Project Budget:	\$2,619,406	\$2,619,406
Difference:	(\$3,914,478)	(\$3,019,789)

Details on the changes that have occurred since 2014, and a further breakdown of the components and costs that comprise the rate stabilization plan, require more time to prepare. The Project team plans to address this topic more in-depth at the February 2021 Joint Board meeting.

CONCLUSION

In total, there are five budget line items that the Project team has identified for the Operator as needing a funding source so that the agency can begin operations on solid financial ground. Seed money and rate stabilization are two of those line items. (The other three are listed in Table 4 on page four of this report.)

The Project has further broken down these line items into three categories requiring a Joint Board decision on whether to provide funding. The timing of events, such as formation of the Operator's Board of Directors and FSA, will drive the schedule for these decisions. However, the Project team is not expecting decisions on any of these items today.

As previously noted in this report, by the March 2021 Joint Board meeting, the Joint Board should be prepared to determine the amount of seed money it will approve for transfer to the Operator. This is because the Board of Directors will begin meeting in the spring of 2021 and will need to know how much budget is available for the ED recruitment.

Additionally, the Joint Board will soon need to determine how much funding it will provide beyond the rate stabilization already allocated for in the Project budget, and when Joint board members are willing to commit these funds. Although the determination of the rate stabilization funding is required by March 31 in the year prior to the expected FSA date, FSA can change as the Project progresses. Meanwhile, the launch of the Operator is happening in 2021. End-user agencies need a decision on rate stabilization in order to plan for any increases in their individual agency budgets.

Finally, the other startup costs, (Year 1 expenses and reserves), will need to be discussed soon.

REFERENCE DOCUMENTS

Appendix A: Draft Fully Autonomous and Mixed Budget Models

Appendix A: Draft Fully Autonomous and Mixed Budget Models.

Draft Fully Autonomous Budget Model

Budget Category	Set Up <i>(Autonomous)</i>	Operation <i>(Fully Autonomous)</i>			
		Year 1	Year 2	Year 3	Year 4
SALARY AND BENEFITS:	688,750	4,644,804	4,784,148	4,927,672	5,075,503
OPERATING COSTS:	1,167,408	997,601	1,017,218	1,037,308	1,057,884
CONSULTING SERVICES (outsourced):	264,000	113,000	114,695	116,415	118,162
OTHER OFFICE COSTS:	903,408	884,601	902,523	920,893	939,723
INSURANCE:	-	631,000	640,465	650,072	659,823
SITE COSTS:	-	1,965,744	2,026,978	2,068,910	2,107,235
MSI SERVICES:	-	-	-	1,441,596	1,461,433
ER&R	-	411,957	423,440	506,278	518,094
Total	1,856,158	8,651,106	8,892,249	10,631,836	10,879,972

2.79% 19.56% 2.33%

Draft Mixed Budget Model

Budget Category	Set Up <i>(KC)</i>	Operation <i>(Mixed)</i>			
		Year 1	Year 2	Year 3	Year 4
SALARY AND BENEFITS (KC provided labor):	501,016	4,034,853	4,155,899	4,280,575	4,408,993
OPERATING COSTS:	1,038,025	1,157,016	1,181,554	1,206,677	1,232,398
KING COUNTY OVERHEAD (KC provided services/	760,897	510,285	519,150	528,184	537,391
CONSULTING SERVICES:	216,000	113,000	114,695	116,415	118,162
OTHER OFFICE COSTS (to be independently sourced)	61,128	533,731	547,710	562,077	576,845
INSURANCE:	-	601,000	610,015	619,165	628,453
SITE COSTS (to be independently sourced):	-	1,965,744	2,026,978	2,068,910	2,107,235
MSI SERVICES:	-	-	-	1,441,596	1,461,433
ER&R	-	387,931	398,722	480,846	491,926
Total	1,539,041	8,146,544	8,373,168	10,097,769	10,330,437

2.78% 20.60% 2.30%

Appendix B: February 2021 Project Joint Board Staff Report - PSERN Operator Rate Stabilization

The referenced report is provided on the next page. Below is an extract from the minutes of the February 2021 Joint Board meeting that addresses the report:

Staff Report – PSERN Operator Rate Stabilization

- *The Staff Report aims to document a clear, single historical record of rate stabilization.*
- *The formula presented illustrates how the PSERN end-user rates are calculated.*

Rate per month = (Operator costs / number of radios/consoles) / 12 months

- *In 2014, the plan was that agencies with an increase in rates for PSERN compared to KCERCS would be eligible for a subsidy.*
- *Previously, when the FSA was December 2022, the rate stabilization allocation plan adoption deadline was March 2021, but now that the FSA is February 2023, the deadline to adopt a plan for rate stabilization is March 2022.*
- *Discussion:*
 - *Chief Scoggins inquired as to why the ValleyCom and EPSCA rates went down between 2014 and today. Kurt Triplett and Lora Ueland explained that their agencies had stopped charging agencies the cost of replacing existing radio towers since PSERN would now be building the new towers. With PSERN, their subscriber rates will be increasing.*
 - *David Mendel, referencing slide 28, Rate Stabilization – Assumptions, indicated that the subsidy formula created in 2014 would step subsidies down for eligible agencies equally over 3 years.*
 - *1 st year - 100% subsidy*
 - *2 nd year – 66.67% subsidy*
 - *3 rd year – 33.33% subsidy*
 - *4 th year – full rates across all agencies*
 - *Chair, Brenda Bauer, indicated that this assumption was made because it will be harder for smaller agencies to pay more originally.*
- *Action Item: It was determined to defer the decision to designate additional Project funds for rate stabilization, but that at a future meeting the Project would provide updated assumptions for the Board to consider adopting as policy.*

PSERN Staff Report

Title: PSERN Operator Rate Stabilization
Joint Board Meeting Date: February 25, 2021
Staff Contact: David Mendel
Action: Decision

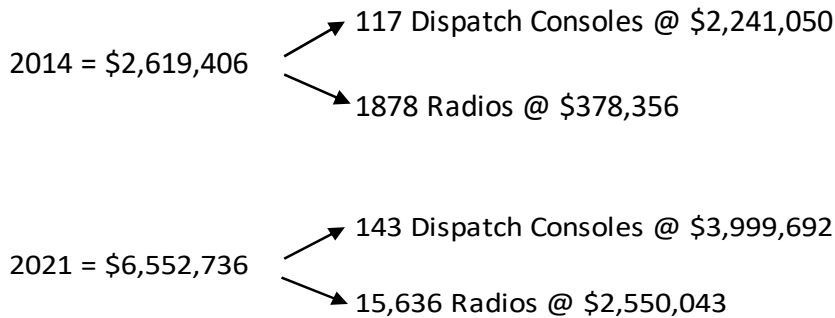


SUMMARY:

The purpose of this staff report is to share the most pertinent details of how the need for rate stabilization funds has increased since 2014 so that the PSERN Joint Board(Board) may ultimately determine how much Project funding to dedicate to rate stabilization for the PSERN Operator (Operator). Rate stabilization funds are to be used to offset increased end-user fees when agencies transition from KCERCS to PSERN.

The Project will be seeking final decisions related to the use of Project funding for rate stabilization. Currently, the Project has \$2,619,406 budgeted for use as rate stabilization, but this does not appear to be enough to fully subsidize increases in the way that was envisioned in 2014 when the funding was identified. Unfortunately, since 2014, all the component variables that went into the computations have changed which complicates the details of this topic. The Project has developed draft Operator budgets, cost allocation models, and is currently conducting a radio inventory to further solidify its numbers and recommendations. Policy decisions are needed as well as confirmation that Project assumptions are appropriate in order for the final rate stabilization number to be determined.

A contrast of the 2014 situation vs. the current situation is provided below:



BACKGROUND:

Additional background information can be found in the staff report from the January 2021 Joint Board meeting, titled “Seed Money and Rate Stabilization.”

The predecessor to the Joint Board, the PSERN Steering Committee, decided on November 10, 2014 to allocate “no more than \$2,619,406” to rate stabilization and authorized that amount to be included in Implementation Period ILA (ILA1).

In 2014 work was done to develop a draft PSERN Operator Budget and each of the KCERCS system managers at the time provided the Project with radio and dispatch console quantities that were thought to be in service. Also, in 2014, the City of Seattle led efforts to develop a cost allocation model that would be used to determine Operator rates. This model was then codified in the ILA1 and then again in the Operations Period ILA (ILA2).

As part of the cost allocation model, costs were divided between various rate buckets that represented costs for each of the three Operator rates. The rate buckets represent costs related to public safety radios, non-public safety radios (aka “general government” or “public works” radios), and dispatch consoles. The generic methodology used to set the rates was:

$$\text{Per month, per unit rate} = \left(\frac{\text{Total cost of cost bucket}}{\text{Number of radios or consoles}} \right) \text{ divided by 12 months}$$

Other assumptions were that subsidies would offset 100% of rate increases in year one, 66.667% of increases in year two, and 33.333% of increases in year three for agencies that had increased costs because of the Operator rates.

ISSUES:

There are outstanding policy issues to be addressed by the Joint Board related to rate stabilization. These issues are as follows:

- 1. Should rate stabilization subsidies apply to additional consoles that were purchased at the request of dispatch centers earlier in the Project?**
- 2. Should changes to the variables used to calculate radio rates be accommodated in funding made available to the Operator for rate stabilization?**
- 3. Should other variables that have changed also be accommodated with subsidy funds?**
- 4. Should the Joint Board positively affirm that the assumptions the Project has used in making calculations be continued?**
- 5. Should the Joint Board take action in one step or two?**

ANALYSIS:

The January 2021 Joint Board staff report revealed to the Board that a potential need exists for rate stabilization funding to be increased from \$2.6M to over \$6.5M¹. This is based on applying the same methodology and assumptions that were used in 2014 to develop the original projections.

Thus far in the Project, the Board has not set many policies related to rate stabilization. Because of this, the Project has continued to use the same assumptions and methodologies applied in 2014 when performing rate stabilization calculations. As a result of this and changes to the variables that are used in the calculations, the number of agencies that might be eligible for rate stabilization has increased from 49 to 83.

It is important for us to turn our attention to the variables to see what has significantly changed since 2014 and in doing so inform the Board so that decisions can be made.

¹ The PSERN Operator Rates and Operator Budget are a dynamic because the variables that comprise them are always changing. For this reason, the amount of total rate stabilization in this staff report has increased just slightly from the report included in the January 2021 Joint Board materials.

- A. The original rate stabilization model assumed that all console costs under PSERN would be eligible for full subsidies because in KCERCS no consoles were paying to use the radio system².
- Console counts have increased from 117 to 143 consoles in the PSERN. This single factor has caused rate stabilization needs to increase by just over \$727K from the projections made in 2014.
- B. Since 2014, some KCERCS sub-region radio rates have decreased, and others have increased. Both have impacts on the computations for how much rate stabilization is needed for the Operator and end-user agencies.
- In 2014 there were just under 1900 radios eligible for rate stabilization funding. Without considering any other variables that have changed, today there are 15,600 radios eligible. This results in an increase from \$378K to almost \$2.6M of needed rate stabilization funds.
- C. Other factors have changed since 2014, such as radio inventory counts, and additional agencies have come onto KCERCS or are planning to join PSERN later.
- D. The Joint Board has never formally approved certain assumptions the project has used to develop rate stabilization models

Below are two tables containing the pertinent data needed to analyze the issues listed in the *Issues* section. Table 1 contains the factors used in 2014 to develop initial information leading to the setting of the rate stabilization data. Directly following is the current information we have as laid out in Table 2.

Table 1 – 2014 Factors

	KCERCS Rate	Projected PSERN Rates as of November 10, 2014		
		1 st Yr	2 nd Yr	3 rd Yr
EPSCA	\$33.01	\$18.59	\$18.59	\$25.73
King County	\$34.19			
Seattle	\$26.62			
Valley Comm	\$4.36-\$34.31			
Consoles	\$0	\$761.39	\$761.39	\$981.65

Data Used to set Rates:

- 117 Consoles (includes the TRIS console)
- 16,843 total radios
- \$4.8M 1st and 2nd year PSERN Operator Budget
- \$6.2M 3rd year PSERN Operator Budget

Table 2 – 2021 Factors

	KCERCS Rate	Projected PSERN Rates as of February 10, 2021 (Fully Autonomous Model)		
		1 st Yr PS (non-PS)	2 nd Yr PS (non-PS)	3 rd Yr PS (non-PS)
EPSCA	\$25.25	\$34.57 (\$26.97)	\$35.54 (\$27.72)	\$42.48 (\$33.13)
King County	\$39.00			
Seattle	\$36.92			
Valley Comm	\$3.31 - \$15.00			
Consoles	\$0	\$1110.82	\$1147.70	\$1364.63

² However, dispatch centers were paying for updates, upgrades, repairs, and maintenance through separately assessed fees. The Project has no visibility to the extent of these and has never considered them in calculations.

Updated Data Used to set Rates:

143 Dispatch Consoles (excludes the TRIS Console)
17,232 total radios
\$8.6M 1st year PSERN Operator Budget
\$8.9M 2nd year PSERN Operator Budget
\$10.6M 3rd year PSERN Operator Budget

Notes:

1. **The projected PSERN rates in Table 2 should not be considered final rates. Many variable factors go into rate setting and impact the models we use in different ways. The main factors that will impact rates are the number of end-user units that will actually be on PSERN as well as the Final Operator Budget.**
2. **PS = Public Safety, non-PS = non-public safety.**
3. **The projected PSERN rates in 2014 did not differentiate between PS and non-PS.**

Issue 1 – Should rate stabilization subsidies apply to additional consoles that were purchased at the request of dispatch centers earlier in the project?

Historically, consoles have not paid for airtime from the radio system providers in our region. Therefore in 2014, the agency's console costs in PSERN were all assumed to be subjected to subsidies.

In the early part of the Project, many dispatch centers submitted change request forms to the Board seeking changes in their dispatch console counts. Typically, these requests resulted in a net increase in the final console counts at these centers. Operational needs were presented as the justification for the additional consoles and the Board approved all the requests it received.

An inadvertent outcome of the approvals of additional dispatch consoles is that the rate stabilization funding is increased significantly if the same calculations are to be continued. In addition, other factors have impacted the funding models. As noted in Tables 1 and 2, the projected PSERN Operator Budget has increased significantly, and this too has added to the need for additional rate stabilization funds. For example, had there been no increase in the number of consoles, the funding needed would still increase by over \$1M on the original 117 consoles due to the increase in rates.

The addition of the 26 consoles to the system results in a potential increase of required rate stabilization funding of \$727K.

Issue 2 – Should changes to the variables used to calculate radio rates be accommodated in funding made available to the Operator for rate stabilization?

Most radios have always paid for airtime from the radio system operators, and for the most part, they pay a common rate within their sub-region, but different sub-regions have different rates. Tables 1 and 2 above show the rates that were in effect in 2014, as well as what is charged today.

As stated above, all the variables attributed to radios have changed since 2014. Agencies were designated as either public safety or as non-public safety and a rate for each classification was developed³. Rates that agencies are paying

³ In 2014 the calculations that set the draft PSERN Operator rates at the time did not differentiate between public safety and non-public safety for simplicity sake. The concept of having two rates was first enumerated in the cost allocation model, roughly at the same time as the rate stabilization funding was being identified. After the draft ILA1 was approved (prior to execution) modeling of rates for both types of radios was instituted.

today are different than they were in 2014, some going down, and others up. At the same time inventory counts have changed and the projected PSERN rates have increased significantly due to increases in the Draft Operator Budget.

Similar to the discussion above regarding console rates, this analysis would ideally articulate how much each variable contributes to changes in the rate stabilization funding picture. Unfortunately, that analysis would be very burdensome on the Project and very complex to perform because so many variables changed in all directions, essentially all at once. So rather than get into the details, this analysis will focus on the larger issues that we can clearly identify.

From 2014, the radio inventory has modestly changed with an increase in total radios of nearly 500 radios. Final radio inventory work may alter this even more, but which direction is unclear. If all other factors are constant, adding more radios to the inventory would decrease the monthly rates but would tend to increase the need for rate stabilization. The entire rate structure in KCERCS as well as the projected PSERN rates have changed significantly since 2014. The aggregate impact of these variables absent any policy decisions unfolds as follows:

2014	2021
~1900 Radios eligible for Rate Stabilization ~\$378K of subsidy needed	~15,600 radios eligible for Rate Stabilization ~\$2.55M of subsidy needed

In 2014 only agencies from the Valley Comm sub-region were thought to be eligible for subsidies as they were the only agencies with rates lower than the projected PSERN Operator Rates. However, primarily due to two factors - the lowering of some KCERCS rates and the increase of the PSERN Operator draft budget, the numbers have ballooned as shown above. Now the only radios that are not eligible for subsidy are King County's public safety customers.

Issue 3 – Should other variables that have changed also be accommodated with subsidy funds?

Since 2014, approximately four small agencies have joined KCERCS and at least one more is pending. These new agencies account for less than 50 radios and have had minimal impact on rates and subsidy calculation

The impacts of changes on the inventory were addressed in Issue 2 above, but it should also be noted that the data that was used in 2014 did not come directly from agencies, it came from the KCERCS system managers and was used for various efforts including estimating how many radios should be in the MSI contract and how much subsidy would be needed for rate stabilization.

Issue 4 – Should the Joint Board positively affirm that the assumptions the Project has used in making calculations be continued?

There are several assumptions the Project has used to develop rates and rate stabilization calculations consistently over the last 7 years. Most or all of them have never been the official position of the Board. Some cannot ultimately be decided until the PSERN Operator is formed and the PSERN Board of Directors (Board of Directors) make their own decisions. But it is the responsibility of the Board to determine how much project funding should be made available to the Operator, and the Operator will have final authority to determine how to actually use it.

Assumptions the Project has been using to date, where we have:

1. Tended to lean toward the Fully Autonomous PSERN Operator Budget model when sharing rate information.
2. Calculated the per year costs under PSERN rates for the first 3 years and compared them to their current costs.
3. Used a subsidy formula that steps subsidies down equally over 3 years (100%, 66.667%, 33.333%)
4. Assumed that as conditions and variables changed, rate stabilization funding should also change.

Regarding Assumption 1, the decision to set the final Operator budget and whether to contract out services that may decrease their expenses are for the Operator to make. Additionally, the extent to which they contract out for services is

also up to them. The Project budget models are two polar opposites, where Fully Autonomous assumes maximum costs to the Operator as they will bear all the costs as an agency and will likely have low economies of scale. Conversely, the Mixed model assumes maximum contracting with another agency for certain services and the assumption is those will cost less. Therefore, to be on the safe side the Project has generally assumed the higher cost model of the Fully Autonomous budget model.

In Assumption 2, the nuance here is that at least one more option could exist when calculating subsidy amounts. Calculations could leave KCERCS rates as they were in 2014 and only subsidize agencies to the extent that the rates in effect in 2014 would have resulted in increases to agencies under current PSERN Operator rate projections. Doing this appears to add to the needed subsidy by ~\$150K because KCERCS rates both went up and down since 2014. Thus, it appears to be more advantageous to use current KCERCS rates not the 2014 KCERCS rates for calculations.

As noted in Assumption 3, the Project has always performed calculations using a three-step graduated scale over the first three years of PSERN Operations. Under this methodology rate increases were calculated over the first three years and:

- In year one, 100% of those increases would be subsidized
- In year two, 66% of the increases would be subsidized
- In year three, 33% of the increases would be subsidized.

Lastly, in Assumption 4 the Project has always assumed that if projected PSERN Operator rates increased, those increases would be subjected to more subsidies, similarly, if more radios come online, those would also be eligible for subsidization. Essentially, all the variables in this staffing report can change, and using the practiced methodology employed so far, rate stabilization would be recalculated under the assumption that rate stabilization would change accordingly.

Issue 5 - Should the Joint Board take action in one step or two?

The last part of the analysis is should the Joint Board even make a decision about some or all of this now? As stated in the January 2021 Joint Board Staff report, the Board is required under ILA1 to adopt a rate stabilization Allocation plan by March 31 of the year prior to the expected date for Full System Acceptance (FSA). Just one month ago, FSA was projected in 2022, which meant March of 2021, or next month is the date by which a decision was required. However, currently, FSA is projected for early 2023, so technically the Board can wait as long as until March of 2022.

Waiting will impact agencies as they are working on budgeting exercises over the next year. We are already in the window for agencies with biennial budgets to want to have more precision over their initial PSERN costs.

PSERN Project budget planning is also impacted by this decision. The overall expense plan for the Project has to be considered so that members are clear on budget line items, potential budget savings, and potential additional expenses.

RECOMMENDATIONS:

Issue 1 – Should rate stabilization subsidies apply to additional consoles that were purchased at the request of dispatch centers earlier in the project? The project recommends that the Joint Board fund only the original 117 Dispatch Consoles which would result in an increase to the subsidy of just over \$1M from the original projections in 2014 but would save over \$727K. Agencies were told when they requested additional consoles that they would incur approximately \$1K of monthly fees for each console that was added to their centers.

Issue 2 – Should changes to the variables used to calculate radio rates be accommodated in funding made available to the Operator for rate stabilization? The project recommends that the Joint Board fund the changes to the value of the total subsidy due to variable changes for radio rates. These changes are due to reasons outside of anyone's

control. For instance, had the inventory's been more precise in 2014, the Steering Committee would have approved additional rate stabilization funds for additional radios. Other changes in radio counts are normal, in that radios come and go over time naturally. **Approval of this recommendation will add \$2.55M to the overall subsidy.**

Issue 3 – Should other variables that have changed also be accommodated with subsidy funds? The project believes that in keeping with the recommendation for Issue 2 above that the Joint Board also authorize fully funding these changes. Similar to the above, these changes were largely out of the control of anyone in the Project. Additional agencies on the system have not made any substantive change to PSERN rates, so that is also insignificant. There is no value to this issue, but it does set policy and gives the Project clear direction.

Issue 4 – Should the Joint Board positively affirm that the assumptions the Project has used in making calculations be continued? The Project recommends to the Joint Board to adopt the assumptions that have been historically used as an ongoing policy. Making this decision is a policy decision and does not have a direct impact on the subsidy amount.

Issue 5 - Should the Joint Board take action in one step or two? The Project recommends that the Joint Board make the decisions outlined in this staff report in one step and that it do so in either the February or March 2021 Joint Board meetings. For the reasons stated above in the analysis, the Project believes this will be helpful to end-user agencies and also allow for better budget planning for the Project.

CONCLUSION:

Many changes have occurred since the decisions establishing a rate stabilization fund took place in 2014. These include new equipment, new agencies, and new operating cost estimates. This document informs and supports the recommended options related to the rate stabilization fund.

The Project has grouped these changes into three financial considerations, noted above as Issues 1-3, needing a Board decision on whether to increase funding. Increasing the rate stabilization fund by \$3.55M will remain consistent with the original intent of the fund and minimize the impact to subscribers.

Issues 4 and 5 address questions related to how the Project has been estimating costs, and the timing for deciding the rate stabilization funding.

REFERENCE DOCUMENTS:

Additional Information:

For the entirety of this staff report, rates are computed with the following assumptions:

- A. 100%/66%/33% subsidy for increases of PSERN rates over what agencies pay in KCERCS in 2021
- B. Radios are divided according to the definition provided by the Operations board between Public Safety agencies and non-public safety agencies.
- C. The 78/22 Blended Rate model developed in 2014 is utilized (attributes 78% of costs for the network to radios, 22% to dispatch consoles, and further divides costs among radios between public safety and non-public safety.
- D. Inventory numbers are based on the preliminary radio inventory.

Appendix C: February 2021 Project Joint Board Staff Report - PSERN Operator Financial Forecast

The referenced report is provided on the next page. Below is an extract from the minutes of the February 2021 Joint Board meeting that addresses the report:

Staff Report – PSERN Operator Financial Forecast

- *At the last Joint Board meeting, there was a request for the Project to conduct a cash flow analysis and it is included in the Joint Board packet. There are three tables related to the timing of the Full System Acceptance (FSA). There is no significant difference in cash flow between the tables.*
- *Displayed the table illustrating the earlier of the FSA dates because it shows the most appropriate visualization of assuming flat revenue and outlined expected expenses.*
- *The assumptions are derived from the FSA of November 2022 of the first month of radio end-user and dispatch center fees. The red line is the cumulation of negative cash flow, not month by month, which equates to only four months of negative cash flow.*
- *Overall, the table indicates that in year one of the Operator, the maximum negative cash flow could be \$190K.*
- *The Project recommends Option B: The Project provides \$500K from the Available Balance to allow for variance in revenue and expenses.*
 - *Discussion:*
 - *Chief Scoggins inquired as to where the \$400K - \$600K/per month delay cost who be documented if needed. David Mendel explained that delay costs are within the Project costs up until FSA, but the table illustrates where the Project ends and the Operator begins. If there was a delay cost, it would be represented on slide 8, Project Available Balance Deductions, indicating a subtraction from the Available Balance.*
 - *David Mendel explained that February is the highest lease month by far.*
 - *Kurt Triplett inquired about the distinction between Option B and Option C. David Mendel explained that Option C, would allow the Project to add the \$500K to the budget as a placeholder that would have to be approved for actual payment by the Joint Board later.*
 - *Kurt Triplett expressed his concern with providing \$500K is that while the PSERN Operator will have the ability to generate more revenue through rates, the Project cannot raise any money. His preference is to ensure that the Project has enough money to finish the project first.*
 - *Chief Scoggins inquired when the property tax collection ends. David Mendel clarified that the PSERN Project tax collection does not end with FSA. The levy collection is for 9 years, starting in 2016, which means it continues until 2024, after the FSA, in order for the Project to reimburse King County for years when expenses exceeded revenue.*
 - *Chair, Brenda Bauer inquired as to what the remaining risks are to the Project and David Mendel responded that the primary risk is for delay that could be caused in various ways.*
 - *For example, installing 35 mobile radios a day will be a logistical challenge. Also, there could be impacts from COVID that cause delays to coverage testing or other tasks.*
 - *The expense would come from overhead costs of staffing for more months if there is a delay.*

- *Kurt Triplett inquired if a delay could also increase cost more with leasing fees, but David Mendel clarified that leases are included in the overhead costs.*
- *Action Item: Chair, Brenda Bauer, requested that the Project conduct an analysis of costs for delay past the current scheduled FSA.*

MOTION: *Motion to approve the Joint Board providing the Operator with \$500,000 from the Available Balance to address year one forecasted financial deficits was made by Lora Ueland, Second by Tanya Hannah, Members unanimously approved the motion.*

PSERN Staff Report

Title: PSERN Operator Financial Forecast
Joint Board Meeting Date: February 25, 2021
Staff Contact: David Mendel
Action: Decision



SUMMARY:

The purpose of this staff report is to provide the Joint Board (Board) with information about the PSERN Operator (Operator) year one financial forecast. The Operator projected cash flow statement will aid in the discussion and identification of any future actions needed to assure the solvency of the Operator.

BACKGROUND:

This section provides information on the history of the Project team's estimation of the Operator's revenue and expenses.

The draft Operator Budget focuses on system maintenance and operations which includes customer management. This budget provides for running the system and agency, fully staffed, starting on day one of operations.

In the fall of 2019, significant work was done by Project staff and the King County Office of Performance, Strategy, and Budget to update the 2014 draft Operator budget resulting in two budget models/options for the PSERN Board of Directors (Board of Directors) to consider when establishing the Operator budget.

These two draft budget models are identified as 1) Fully Autonomous and 2) Mixed. The Fully Autonomous model assumes the Operator directly procures all its own services and hires its staff. The Mixed model assumes the Operator is independent but contracts for some services with another agency. All estimates in this staff report are based on the Fully Autonomous model.

At the December 12, 2019 Joint Board meeting, these draft Operator budget models were presented to inform the Board about the updated budget estimates. No action was taken at the time.

At the January 28, 2021 Joint Board meeting, the November 2020 draft Operator budget was presented to aid in discussion around some upcoming financial decisions. An outcome of the discussion was a request from the Board for the Project team to present an overview of the projected year one Operator cash flow statement.

At a high level, an operating cash flow statement focuses on the agency's operating revenues and expenses. The cash flow statement lists all the major operating receipts and payments during a time period. Using the direct method calculation, the formula is:

$$\text{Total Revenue} - \text{Operating Expenses} = \text{Operating Cash Flow}$$

ISSUE:

An outstanding policy issue to be addressed by the Board is how to ensure the Operator is financially stable as the new agency takes over the support of the PSERN system. This issue is as follows:

- **Should the Joint Board provide the Operator additional funding from the Project budget to ensure that the Operator remains in a positive financial position during the first year of operation?**

ANALYSIS:

This section provides projected cash flow statements in Tables 1- 3 based on three different projected Full System Acceptance (FSA) dates when the Operator will take over support of the PSERN system. In each scenario, the estimated revenue is a consistent value over the year. The only variable by month is lease expenses as each lease agreement has a unique payment structure. Because of this, the analysis below provides snapshots of three different scenarios based on the date of FSA. This illustrates cash flow difficulties based on differences in due dates for lease rents, which is the most variable expense in the portfolio.

For each of the Tables listed below, the following definitions apply:

- Site Lease Expenses = Lease costs.
- Other Site Expenses = Site fuel and fuel maintenance, utilities, site and road maintenance, fire monitoring, and winter access costs.
- All Other Expenses = Salary and benefits, insurance, consulting services, office costs.

Table 1. Estimated Cash Flow Statement with FSA occurring November 2022

	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Total Revenue	\$718,795	\$718,795	\$718,795	\$718,795	\$718,795	\$718,795	\$718,795	\$718,795	\$718,795	\$718,795	\$718,795	\$718,795
Site Lease Expenses	\$58,054	\$164,956	\$188,307	\$227,298	\$68,118	\$68,118	\$100,782	\$120,050	\$108,532	\$68,554	\$83,910	\$92,016
Other Site Expenses	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392
All other expenses	\$557,012	\$557,012	\$557,012	\$557,012	\$557,012	\$557,012	\$557,012	\$557,012	\$557,012	\$557,012	\$557,012	\$557,012
Total Expenses	\$664,457	\$771,360	\$794,711	\$833,701	\$674,522	\$674,522	\$707,186	\$726,453	\$714,936	\$674,958	\$690,314	\$698,420
Net Cash Flow	\$54,337	(\$52,565)	(\$75,916)	(\$114,906)	\$44,273	\$44,273	\$11,609	(\$7,658)	\$3,859	\$43,837	\$28,481	\$20,375
Cumulative Cash Flow	\$54,337	\$1,772	(\$74,144)	(\$189,050)	(\$144,777)	(\$100,504)	(\$88,895)	(\$96,553)	(\$92,694)	(\$48,857)	(\$20,375)	(\$0)

Table 2. Estimated Cash Flow Statement with FSA occurring February 2023

	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Total Revenue	\$721,285	\$721,285	\$721,285	\$721,285	\$721,285	\$721,285	\$721,285	\$721,285	\$721,285	\$721,285	\$721,285	\$721,285
Site Lease Expenses	\$227,298	\$68,118	\$68,118	\$100,782	\$120,050	\$108,532	\$68,554	\$83,910	\$92,016	\$69,029	\$177,972	\$192,778
Other Site Expenses	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392
All other expenses	\$557,131	\$557,131	\$557,131	\$557,131	\$557,131	\$557,131	\$557,131	\$557,131	\$557,131	\$557,131	\$557,131	\$557,131
Total Expenses	\$833,820	\$674,641	\$674,641	\$707,304	\$726,572	\$715,054	\$675,076	\$690,432	\$698,538	\$675,551	\$784,494	\$799,300
Net Cash Flow	(\$112,534)	\$46,645	\$46,645	\$13,981	(\$5,287)	\$6,231	\$46,209	\$30,853	\$22,747	\$45,734	(\$63,209)	(\$78,015)
Cumulative Cash Flow	(\$112,534)	(\$65,890)	(\$19,245)	(\$5,264)	(\$10,550)	(\$4,319)	\$41,890	\$72,743	\$95,490	\$141,224	\$78,015	(\$0)

Table 3. Estimated Cash Flow Statement with FSA occurring June 2023

	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Total Revenue	\$722,229	\$722,229	\$722,229	\$722,229	\$722,229	\$722,229	\$722,229	\$722,229	\$722,229	\$722,229	\$722,229	\$722,229
Site Lease Expenses	\$120,050	\$108,532	\$68,554	\$83,910	\$92,016	\$69,029	\$177,972	\$192,778	\$232,644	\$69,713	\$69,713	\$103,032
Other Site Expenses	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392	\$49,392
All other expenses	\$557,176	\$557,176	\$557,176	\$557,176	\$557,176	\$557,176	\$557,176	\$557,176	\$557,176	\$557,176	\$557,176	\$557,176
Total Expenses	\$726,617	\$715,099	\$675,121	\$690,477	\$698,583	\$675,596	\$784,539	\$799,345	\$839,211	\$676,280	\$676,280	\$709,599
Net Cash Flow	(\$4,388)	\$7,130	\$47,108	\$31,752	\$23,646	\$46,633	(\$62,310)	(\$77,116)	(\$116,982)	\$45,949	\$45,949	\$12,630
Cumulative Cash Flow	(\$4,388)	\$2,742	\$49,850	\$81,601	\$105,247	\$151,880	\$89,570	\$12,453	(\$104,529)	(\$58,579)	(\$12,630)	\$0

*Source. Draft Operator Budget (updated November 2020)

The policy question from the *Issue* section is addressed below.

Issue: Should the Joint Board provide the Operator additional funding from the Project budget to ensure that the Operator remains in a positive financial position during the first year of operation?

The estimated cash flow statements in Tables 1-3 reveal how the fluctuations of lease costs impact the financial standing of the Operator. All three scenarios show that at some point in the first year of operation, the Operator will not be solvent by an amount up to \$190K.

The following options for addressing the funding of the Operator year one operating shortfall have been identified:

A. The Project provides \$190K from the Available Balance.

Pros:

- Funds the worst-case scenario currently identified.

Cons:

- Project incurs an unbudgeted cost.
- Provides no additional financial cushion to address unplanned expenses.

B. The Project provides \$500K from the Available Balance.

Pros:

- Provides an additional financial cushion to address unplanned expenses.
- Funds the worst-case scenario currently identified.

Cons:

- Project incurs a larger unbudgeted cost.

C. The Project reserves \$500K from the Available Balance for possible distribution to the Operator after the Operator's budget is finalized.

Pros:

- Provides flexibility to the Project as the decision to distribute the money would be made after the Operator's budget is set. At that point, the Board could revisit this topic to decide if additional funding is needed and, if so, what amount is appropriate.
- Provides an additional financial cushion to address unplanned expenses.

- Funds the worst-case scenario currently identified.

Cons:

- Project incurs a larger unbudgeted cost.

RECOMMENDATIONS:

The Project team recommends the following option for providing the Operator additional funding to ensure a successful year one operation of the PSERN system.

Issue: Should the Joint Board provide the Operator additional funding from the Project budget to ensure that the Operator remains in a positive financial position during the first year of operation? The Project recommends Option B - The Project provides \$500K from the Available Balance. It provides the Operator with financial stability and creates a reserve that the Operator can use to address unplanned expenses.

CONCLUSION

The Project team identified the estimated year one cash flow for several FSA date scenarios. All scenarios demonstrate that the Operator will face a shortfall at some point in year one of operations. To ensure that the Operator can fully support the PSERN system, additional funding should be provided from the Project's Available Balance.

PSERN Operator Board of Directors

Staff Report - Agenda Item #8



Title: Operational Startup Funding Requirements
Meeting Date: April 28, 2022
Staff Contact: Michael Webb, Executive Director
Action: Decision

SUMMARY:

This report defines the one-time funding required to staff certain technical and operational positions with the PSERN Operator and acquire a facility and operational vehicles, prior to Full System Acceptance (FSA). This is required to enable effective and efficient transition of operational responsibility from the PSERN Project to the Operator in a timely and prescribed manner.

Additional funding of \$1.2 M from project funds will need to be allocated to the PSERN Operator by the Project Joint Board. It is recommended that the Board request such an allocation prior to the May meeting.

Proceeding with hiring and other expenditures according to the timeline in this report creates a potential financial risk if FSA is delayed significantly past the planned end of March 2023 date. To mitigate this risk, the Board should consider fixing the date at which PSERN service fees commence. The Board has the required authority to amend the Operator ILA to enable this. Such an action will need to be taken in consultation with the Project Joint Board and the KCERCS governing board.

BACKGROUND:

PSERN Operator Startup Staffing Plan

At its January 2022 meeting, the Board approved a staffing and spending plan for the administrative startup of the PSERN Operator organization. That plan covers administrative and management staff (a total of 7 positions) and administrative expenses prior to Full System Acceptance (FSA), along with specific one-time organizational start-up costs that are not included in the PSERN project scope (IT systems, consulting, etc.). Funding of \$1.85 M has been allocated from the project budget to cover these expenses in 2021, 2022 and 2023. This plan does not include any technical staff or network operating expenses prior to FSA.

At the March 2022 meeting, a Technical and Operational Staffing Plan for the PSERN Operator was presented for discussion. This plan shows the Operator starting to add technical and operational staff in October 2022 (6 months prior to FSA) and reaching full headcount of 19 at FSA (assumed to be end of March 2023). This plan incorporates the mandated transition of existing King County RCS staff to the PSERN Operator as defined in the Operator ILA.

The following table summarizes the positions to be added prior to FSA and the total staff at FSA.

Table 1. Technical/Operational Staffing Plan

PSERN Position	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
<u>Technical/Operational</u>							
Security Analyst	1	1	1	1	1	1	1
System Administrator	1	1	1	1	1	1	1
Engineering Supervisor				1	1	1	1
RF Systems Engineer	1	1	1	1	1	1	2
Network Engineer			1	1	1	1	2
Radio Operations Supervisor			1	1	1	1	1
Radio Technician (from KC RCS)	2	2	3	3	3	3	5
Radio Technician (Additional)			4	4	4	4	4
Facilities Technician			1	1	1	1	2
Total Technical Staff	5	5	13	14	14	14	19

The positions highlighted in yellow are not currently funded prior to FSA. Positions highlighted in green are funded by existing KCERCS funding until FSA, but would be assigned to the PSERN Operator prior to FSA as KCERCS user agencies transition to PSERN.

As described in the March report, availability of key resources prior to FSA enables the operational transition of the network and more general ramp-up of the PSERN Operator organization. Specific activities that drive needs for early resource availability are described on page 7 of the March report. It should be noted that several of the positions to be filled prior to FSA do not currently exist in either the PSERN Project or King County RCS and so represent functions that are new with PSERN and required to support its operational mandate.

Additional Operational Startup Expenses

The addition of operational staff prior to FSA, as shown in Table 1 above, will require additional facilities and services to support the work of that staff in the same timeframe:

- A facility to house the PSERN operator – administrative and operational staff and other support capabilities (technical workspace, network monitoring, equipment/spares storage, etc.)
- Vehicles for operational staff
- Additional IT services and office expenses

Transition and FSA Timing

User radio deployment and transition from KCERCS to PSERN is planned to occur in four “Waves”, the first of which is already underway. Wave 1 transition is planned to occur in May 2022 and at that point, the majority of PSERN radio sites will be operational. The current schedule shows the last transition occurring in February 2023¹, shortly before FSA. However, there is a significant probability that these dates will delay further and impact timing of FSA.

ISSUES:

To enable the proposed technical/operational staffing plan to be approved and implemented, the Board should consider and address the following issues:

¹ Transition date forecasts as of April 11, 2022.

Issue #1: How much funding is required to support the proposed operational startup plan and where should that funding come from?

Issue #2: How should the risk associated with FSA timing be addressed?

ANALYSIS:

The following analysis and discussion addresses the issues identified in the previous section.

Issue #1: How much funding is required to support the proposed operational startup plan and where should that funding come from?

The table below summarizes the additional funding required. This should be viewed as “worst case” as there is significant risk that the Operator will not be able to hire according to the timeline provided in the staffing plan. In the event that specific roles cannot be recruited according to the timeline in the staffing plan, funding for salaries and benefits would be reallocated to contract resources as required to address priority startup activities.

Table 2. Additional Pre-FSA Funding Requirement

Item	Amount	Note
Salaries & Benefits	\$816,000	Ramp up to 11 staff over 6 months. Excludes King County RCS staff to be assigned to PSERN prior to FSA.
King County Services	\$41,000	IT services prior to FSA, HR support, general business/admin support.
Facility Costs	\$278,000	Tenant Improvements, Lease, Taxes, Utilities
Vehicle Costs	\$58,000	Acquisition of 11 leased vehicles, lease and operating expenses for 3.
Office Expenses	\$18,000	Cell phones, Supplies, Miscellaneous Expenses
TOTAL (Oct 2022 – Mar 2023)	\$1,211,000	One-time Costs

Facility Costs

A facility of approximately 7,500 square feet will be required as of October 2022, consisting of 5,000 sq. ft. of office/technical space and 2,500 sq. ft. of warehouse space. The costs for such a facility have been estimated at \$13,000 per month for 6 months (lease and operating), plus \$200,000 in one-time costs for tenant improvements. The total pre-FSA cost for the facility is \$278,000.

Vehicles

When fully operational, it is estimated that the PSERN Operator will require 11 vehicles, which are proposed to be leased, as the Operator does not have capital funding to purchase. Of these 11 vehicles, 1 is proposed to be acquired in October 2022 and a further 2 in January 2022. Lease, maintenance and operating expenses are estimated at \$1,850 per vehicle per month with down payment of \$3,000 at lease start. Note that vehicle outfitting costs are included in the administrative startup funding previously approved.

The total pre-FSA cost is \$58,000, which includes lease acquisition costs for all 11 vehicles.

How to Fund

There are relatively few alternatives available to fund this additional \$1.2 M. The most feasible approach is to seek the transfer of additional funding, on a one-time basis, from PSERN Project funds. Doing so would increase the total funding commitment for PSERN Operator startup to:

- Administrative startup and one-time organizational expenses - \$1.85 M
- Technical/Operational startup (including facility & vehicles) - \$1.2 M
- Additional funding to support PSERN Operator startup cashflow requirements - \$0.5 M
- TOTAL: \$3.55 M

This amount does not include the rate stabilization funds already committed (\$2.6M) or any additional rate stabilization funds that may be required (reference April 2022 report on 2023 Budget and Rate Setting).

Issue #2: How should the risk associated with FSA timing be addressed?

The cost estimates provided above assume that FSA occurs at the end of March 2023. The significance of this milestone is that it is the point at which agencies stop paying KCERCS service fees and PSERN service fees start flowing to the PSERN Operator to fund its operating expenses.

If the PSERN Operator ramps up staffing and other operational expenses as discussed in the January 2022 administrative staffing plan, the March 2022 technical/operational staffing plan report and in this report, and the start of PSERN service fees delays past the end of March 2023, the PSERN Operator will have additional funding exposures.

An estimate of the worst-case monthly burn rate for the Operator, for both administrative and technical/operational expenses at end March 2023 is as follows, assuming staffing proceeds on the timeline provided in the staffing plan:

- Administrative - \$130,000 / month (headcount of 7)
- Technical/Operational - \$215,000 / month (headcount of 11)
- Total - \$345,000 / month

This includes staff, facility, vehicle and office expenses as discussed above. It does not include network operating expenses (site lease costs, equipment maintenance and operating expenses, etc.) that are assumed to continue to be funded by the PSERN Project until FSA.

The following approaches can be used to mitigate the risk of the PSERN Operator experiencing the additional financial exposure outlined above:

1. Defer additional PSERN Operator financial commitments (staffing, facility, vehicles) until the FSA date is known with certainty.
2. Establish a fixed date for the commencement of PSERN service fees and the receipt of those fees by the PSERN Operator.
3. Some combination of both approaches.

Defer Additional PSERN Operator Financial Commitments

There are significant risks with deferring the commencement of technical/operational staffing. As the PSERN network goes live over the next few months, significant work is needed to develop new tools, processes and operating procedures to ensure the network meets the operational requirements of its users.

Furthermore, as outlined in the March 2022 report, during the period in which an interim (or “hybrid”) operational model is in place (the transition period prior to FSA), resources within the PSERN Project, City of

Seattle Radio Shop and KC RCS will be stretched to support the combined network. Some PSERN Project staff are also scheduled to roll-off during this period, prior to FSA (project funding will cease).

Complicating all of this is that specific positions and skillsets (Security Analyst, Network Engineer, RF Systems Engineer) are in high demand and may take a significant amount of time to recruit. Deferring the funding of these roles will delay their hiring and if/when suitable candidates are identified, the PSERN Operator may not be in a position to make job offers and secure those hires.

Establish a Fixed Date for the Commencement of PSERN Service Fees

A lower-risk approach would be to fix in time the date at which PSERN service fees commence. If that date is fixed at the current FSA forecast (e.g. end March, 2023), agencies that are using PSERN at that point would start paying the new PSERN service fees to the PSERN Operator. This would also be the point at which the PSERN Operator becomes responsible for operating the PSERN network and paying all network operating expenses.

The following are consequences of this approach that will need to be considered and addressed:

- Some users/radios will not be transitioned and still operating on KCERCS at this point – should they continue to pay KCERCS fees?
- Funding and resources will be needed to continue to support the KCERCS infrastructure until all remaining users transition.
- The PSERN Operator will likely need to assume responsibility for work to decommission KCERCS infrastructure using staff that transitioned from KC RCS.
- The PSERN Project will need to undertake the following activities after the PSERN Operator assumes responsibility for the network:
 - Complete radio deployment and agency transitions.
 - Complete DAS migrations.
 - Implement the planned pre-FSA system upgrade.
- The Implementation and Operator ILAs may not currently permit this.

All of these considerations, except for the ILA issue, are matters of funding or operational coordination. As such, a way forward can be established through consultation and dialogue among the various stakeholders.

The ILA issue is more involved. The Operator ILA is fairly clear on when the Operator assumes operational responsibility, i.e.:

1.2.12 Puget Sound Emergency Radio Network Operator or PSERN Operator means the governmental agency formed under this Agreement and RCW 39.34.030(3)(b) that is organized as a non-profit corporation under chapter 24.06 RCW as authorized by the Interlocal Cooperation Act for the purpose of owning, operating, maintaining, managing and ongoing upgrading/replacing of the PSERN System during the Operations Period.

3.0 The Parties each assign to the PSERN Operator the responsibility of owning, operating, maintaining, managing and ongoing upgrading/replacing of the PSERN System during the Operations Period as permitted by the Interlocal Cooperation Act.

The PSERN Operator shall have the responsibility and authority for providing communication Services as provided in this Agreement, including but not limited to owning, operating, maintaining, managing and ongoing upgrading/replacing of the PSERN System during the Operations Period and all related incidental radio communications functions

1.2.10 Operations Period means the period that commences with the first full month after FSA and continuing through the life of the PSERN System.

1.2.8 Full System Acceptance or FSA means the determination issued to the PSERN System Contractor upon the Contractor satisfactorily completing the final system development phase milestone pursuant to King County Contract No. 5729347 (Contract for the Design, Development, Implementation, Testing and On-Going Support, Maintenance and Upgrade of the Puget Sound Emergency Radio System, executed on December 17, 2014).

There is nothing in the Operator ILA that addresses the transition of KCERCS funding. The Implementation ILA states:

5.5.1 The Parties agree to continue to operate and maintain the central switch, sub-systems and other elements of KCERCS to the extent the Parties directly or indirectly control such elements until the issuance of FSA of the PSERN System or such other time as the Joint Board approves. Nothing in this Agreement shall be interpreted to require a Party to undertake any action that would adversely and materially impact a Party's ability to operate KCERCS as necessary for public safety through the Implementation Period.

5.5.4 Through their direct or indirect participation on the KCERCS's Regional Communications Board, the Parties agree to take such actions as are necessary to effect the purposes of this section and any other matter necessary to the transition from the KCERCS to the PSERN System.

It therefore appears that the PSERN Operator will not be able assume operational responsibility and PSERN service fees cannot commence prior to the Motorola contractual FSA milestone, without amending the Operator ILA. However, amending the Operator ILA is within the Board's authority.

Section 15.13 of the Operator ILA authorizes the Board to amend the Operator ILA from time to time to carry out the corporate purposes of the PSERN Operator. With the exception of certain specified amendments which require the approval of each of the legislative bodies of Seattle, King County, EPSCA and Valley Com (such as expansion of the PSERN Operator's scope of services or party funding obligations, composition of the Board of Directors, the addition of new parties, voting rights, powers of the Board, hold harmless/indemnification provisions, provisions regarding duration, dissolution, or termination or withdrawal, and the conditions of the amendment section), *all other amendments may be approved and effective with solely the unanimous approval of the Board*. Therefore, the Board has the authority under the terms of the Operator ILA to amend the Operator ILA as needed to provide for the operational changes summarized in this memo.

If the Board determines to amend the Operator ILA, staff will work with legal counsel to draft an amendment and a resolution approving the amendment to be considered by the Board. A copy of the proposed amendment will be delivered to the parties at least 30 days prior to the date for consideration. After notice is provided, if the Board unanimously approves the amendment, the amendment will be signed by the Board Chair and will become effective immediately.

RECOMMENDATIONS:

As a result of the analysis presented, it is recommended that the Board:

1. Request the Project Joint Board allocate an additional \$1.2 M of project funds to the PSERN Operator to enable it to hire technical/operational staff, acquire a facility and operational vehicles prior to FSA, in accordance with the staffing plan presented at the March meeting and additional discussion in this report. This request should be made in advance of the May 2022 Joint Board meeting so it can be considered and acted upon at that meeting.

2. Consider fixing the date at which the PSERN Operator assumes operational responsibility for the network. This will mitigate operational and financial risk and ensure that the staffing/hiring plan does not become a moving target if the FSA milestone delays further. To enable this, certain provisions in the Operator ILA will need to be amended by the Board. The Project Joint Board and the KCERCS RCB may also need to take action to effect an early transition.

The Board could elect to undertake item 1) above and defer action on 2) until it becomes clearer that FSA will delay significantly past the current date of end March 2023. However, it is recommended that the work to determine all the implications and draft the required documentation for a future ILA amendment commence as soon as possible.

CONCLUSION:

This report has defined the one-time funding required to staff certain technical and operational positions with the PSERN Operator and acquire a facility and operational vehicles, prior to Full System Acceptance (FSA). It is recommended that the Board request, prior to the May meeting, additional funding of \$1.2 M be allocated to the PSERN Operator by the Project Joint Board.

To mitigate financial and operational risk if FSA is delayed significantly past the planned end of March 2023 date, the Board should consider fixing the date at which PSERN service fees commence. The Board has the required authority to amend the Operator ILA to enable and such action should be taken in consultation with the Project Joint Board and the KCERCS governing board. The legal work required to fully assess the implications and draft such an amendment should begin as soon as possible.

SUPPORTING DOCUMENTATION:

None