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Transcript

FirstNet Board of Directors Finance Committee Meeting June 2, 2015 – San Diego, California

TIM BRYAN: Well, good afternoon everybody. Welcome back. This is the last committee meeting of the day, as is usual for the Finance Committee. Welcome to our folks back on the East Coast at 5:45. We actually have a lighter agenda than normal, so I think right now we're planning on about 45 minutes for our Finance Committee meeting.

I've got a couple of quick announcements to make, but I think what I'll do first is handle a few administrative matters. I'll get Uzoma to give us a conflicts notification, give us a little talk on meeting logistics, take the roll call, pass the minutes, and then I'll make a few comments. So Uzoma, let's go with your section first.

UZOMA ONYEIJE: Good afternoon everyone. In advance of this June's Committee and Board meetings, the Management Team has provided the Board with an agenda outlining each of the items that were going to be discussed and decided during the meetings. And in addition to those materials, the Board members were also provided with a conflicts of interest assessment. That assessment was done by the Office of General Counsel in consultation with FirstNet's Office of Chief Counsel. Providing these documents in advance to the Board members allows them to identify potential conflicts of interest and recuse themselves from participation if required. We will, prior to each meeting, and we have, prior to each meeting, asked to see if anyone had any conflicts, so to the extent that anyone believes they have a conflict of interest, please say so for the record now.

Hearing none, I think we're ready to proceed. I think you've heard the spiel three times today, so I won't repeat it. I think we're ready to move on to actually take the roll.

TIM BRYAN: Please do so.

UZOMA ONYEIJE: Tim Bryan?

TIM BRYAN: I'm here.

UZOMA ONYEIJE: Sue Swenson?

SUSAN SWENSON: Here.

UZOMA ONYEIJE: Ed Reynolds?

ED REYNOLDS: Here.

UZOMA ONYEIJE: James Douglas?

JAMES DOUGLAS: Here.

TIM BRYAN: Ed is here.

UZOMA ONYEIJE: Frank Plastina?

FRANK PLASTINA: Here.

UZOMA ONYEIJE: And Geovette Washington?

GEOVETTE WASHINGTON: Here.

UZOMA ONYEIJE: And we have a quorum.

TIM BRYAN: Okay, great. Well before we do our first presentation, just a couple of quick things. First of all, Sue thanks very much for hosting us here in your home town of San Diego. I greatly lamented the no-necktie policy, but only in order to remain in accord with your wishes I left mine at home. But thanks, it was nice to meet in a casual setting. You know me.

The second thing I want to take a moment and tell the folks in the audience and also on the call is that our Chief Financial Officer Randy Lyons retired from the federal government a few months ago. Randy was absolutely instrumental in the early formation of FirstNet, sort of arriving on the scene when, you know, there's really not much of anything in terms of accounting systems and records, people, procedures. And Randy really beavered through a lot of the early and difficult workings of FirstNet. He put up with this Finance Committee for several sessions. We hashed it out on budget items, particularly those of us with private sector experience and those of us from the government. In any event, Randy was a great asset to FirstNet. He's retired. I'm sure he's not watching this webcast, he's probably fishing, but in any event, I just wanted to make sure and publicly recognize Randy for his service to FirstNet.

And having said that, Kim Farington has joined FirstNet. She's on detail from OMB. Nope, OPM. Dog gone it.

TJ KENNEDY: Good catch.

TIM BRYAN: She worked for OMB before, but is on detail from OPM. I knew I would get that mixed up. But in any event, Kim had some longstanding plans to be out this week, so unfortunately she is not with us either, but I just want to make sure and publicly welcome Kim. I went over to the FirstNet headquarters, saw the demolition taking place, saw where they were, but also had a chance to visit with Kim and talked a little bit about sort of where we are and what we're up to at FirstNet. So I'm sure she's going to be a welcome addition. Just want to make the Finance Committee aware of that, although I'm sure you all know that.

So now, Dave, for the big moment. Dave's going to present a financial update for the Finance Committee. After that Jason will give us an update on some of the Second Notice discussion. And then we'll take some Q&A as we go along. And so, Dave, the podium is yours.

DAVID SOCOLOF: Thank you. I appreciate being here, and I'm happy to be here for Kim, who will be back taking the reins next week.

On this first slide here, what I was really trying to show here, and if you look at the far left, is the allocation of the funding among the three main work streams that the Finance Committee approved in November. Essentially the Finance Committee was directing management to spend slightly more than half of its resources on the network development, the RFP work, and then among the mission support functions, which are procurement, and HR, and rent, and state consultation, was roughly the other quarters. Year to date, what you see in the middle there is that we are meeting the Finance Committee's allocation priorities. We're spending the bulk of our resources on the network development. Consultation is a little bit behind because we were late in getting an interagency agreement for some contracted consultants on

board. That was completed in February, and those consultants don't actually start working until April and May. So if you look at the far right, which is where we think we'll be at the end of the year, I think we're going to be right on those allocations, at least in percentage terms if not in the dollars that the Finance Committee had hoped we would spend, so that our priorities are where the Board's are. And that's really the message here.

This here slide is really the capture of the three work streams. There on the top, the RFP and network, the Consultation and then the mission support functions sort of at the bottom. To show you the milestones. We are continuing to meet the milestones that Randy had briefed you in March. We are holding to the Q1 FY16 RFP release. The State Consultation is proceeding apace. Obviously we're here today at the Spring-Summer PSAC, which is occurring, and we are on track to get moved into our new office space this year. I think Frank talked about that earlier in the Governance Committee.

And, oops. Oh, I didn't realize it did that.

So all those checkmarks are showing that we are actually achieving these milestones on schedule with what we briefed back at the last Board meeting.

This here merely shows you the progress we're making, actually, in terms of the dollars. And as I said, we underspent, really, what we desired in Q1. And you're seeing that reflected in the cumulative totals here. Then at the end of the year we will probably have an underspend from the Board, but I think the key point is that from the previous slide, we are making those milestones. And I think we're doing it with tremendous effort and staff is just putting in the time and the work to get it done.

Here, again, this is just a look at the first work stream, which is the Comprehensive RFP. I'm going to try this button. Look at that. We are achieving the milestones. They're popping up. And I think if you look at the expenses on the bottom, what you really see is the expenses are ramping up as we are beginning to bring on additional contractor resources in the CTO world, we are renewing the PSCR agreement, and you'll see that activity really play out in third and fourth quarter and set us up for FY16 activities.

Again, merely showing that it's very difficult to recover from a First Quarter underspend on a cumulative basis. What you see in the second quarter, in the third quarter, is some real success by Jeff Bratcher and his team on getting the PSCR renewal agreement in place with NIST, and getting his contractor renewals and new contractor agreements all in place, and as those folks come on board, you see that the spending on the – which is the red expense columns – continue to increase quarter by quarter. And I think that's a good trend.

Here we are looking at the Consultation. There we are achieving our objectives again. On track. This is a place where essentially I think this is the place where we're seeing the underspend really in terms of our challenges in hiring. I know that finding the really talented and qualified folks to work in the regions with our stakeholders is really a challenge, and we have not been able to hire as quickly as we'd like. And we are making some steps, and you'll see that in Mission Support, to address that, and I know it was addressed somewhat in the Governance Committee this morning. But I think you'll start to see the spending there ramps up for a very modest amount in Q1 and Q2 with the interagency agreement now for additional Consultation support that I said was completed in February and those contractors coming on in April, you really see that spending start to ramp up. And we should have much more robust contact with our stakeholders going forward.

TJ KENNEDY: And one note on this one, too, I think. Real kudos to the Outreach and Consultation Team. They've buckled down and been on the road quite frequently to conduct the Consultations that have been occurring. They've also been able to, as Amanda noted in the last committee meeting, reach out to about 30,000 stakeholders so far this year. We were about 20,000 for the entire fiscal year last year, so the amount of work and the amount of contacts and the amount of key milestones that they're knocking off are great even though they've been short handed, and so really the team has stepped up tremendously.

Also just a quick update, even since this slide was created, we only have about seven states left to get scheduled. They continue to come in and get scheduled. Currently all the ones that are on the schedule for their first phase are due to complete by Labor Day, so we're working really hard to get the rest of the few states that need to come in by September so that we can meet our milestones of trying to get through this first phase and then really go out to data validation in the next round of Consultation.

DAVID SOCOLOF: So the next slide really just recaptures again the point that very tough to make up that Q1 underspend. The successful award of that interagency agreement for the consultation support in Q2 is why you see that high bar there. And then you see expenditures begin to ramp up in Qs three and four as a reflection of that, and you'll see it even more in FY16 as those folks come on full steam.

In the mission support function, again this is an area where we are achieving our objectives. We are on track to complete our move into the Reston office in Q4. We just awarded a contract for the IT support for that facility, I think in the last couple of days, so the IT is in place. And we made progress there.

And I think what you really see here, on the next slide – oh, achieve some objectives – is that, you know, at the end of the year we will have obligated, in this particular area, pretty much all the contracts and agreements that we had at the beginning of the year, and I think a lot of that is the fact that that these are really known quantities for the Mission Support. We knew what we needed to do. We needed to get in place agreements for HR support, and acquisition support, and the facilities, and we've been working on those a long time and those are coming online.

TJ KENNEDY: One thing on that, though, just to be completely clear with the committee, there were a number of the smaller procurements that we had to make for IT and certain technology, and a lot of those took a lot longer than we expected. So some of this is coming later in the year, so even though we're fairly on target for accomplishing those key tasks, it's later than we wanted it to be. Some of the construction and other things drug on later because of the procurement and the contracting as well. And so we have not necessarily been on time on each of these issues, but we pushed very hard to get them done and get them done in a way that is good for the overall organization as we work through it.

DAVID SOCOLOF: And I would make one other point before I forget is that in terms of the hiring and things, TJ and Frank have worked hard. I know they talked about the agreements with OPM and with OHRM, which is the departments, we are, you know, realigning resources, almost a million dollars, in Q3 and Q4 so that those organizations can bring on the support that they need to support FirstNet. And hopefully we'll see a real bang for that buck shortly.

TJ KENNEDY: And one of the things along with that that we've been doing, is it's not just bringing on people to bring on people. We are trying to really focus on bringing on the folks that we need to get the RFP out the door and also to evaluate the RFP proposals that come in next year. And secondarily is the Consultation efforts that we just talked about for the last few hours is making sure that that's adequately staffed as we move forward. So these particular hires are very focused on those two main areas and really staffing those up to where they need to be.

TIM BRYAN: Well I think this is a very helpful review, Dave and TJ. I think a couple of comments. One is this very consistent tracking of expenses to goals you're trying to achieve, to milestones you're trying to achieve, both not just the timing of them, but the actual achievement of them to carry the plan forward is going to be sort of a hallmark, hopefully, of the kinds of things you continue to look at in terms of FirstNet financial performance. I don't want to ever just put numbers out there in a vacuum. Really the goal is to tie them to these sorts of efforts.

I think it might be useful just to sort of do a little crystal ball, Dave, and talk about how you're going to take this as a jumping off point, sort of where you're thinking about in terms of the budget, this timing and process, maybe a two-minute update for the committee. Then the committee may have a couple of questions of sort of where you're headed with that.

DAVID SOCOLOF: Sure. Sure. So as we look at the rest of FY15, and it was briefed in the Governance Committee this morning, you know, we are really pushing to get that additional staffing on board, and that will drive some of our FY16 schedule. And we have teams who are working the schedule. They are looking at the roadmap, seeing what needs to be done, identifying those tasks, identifying the resources they need for the task, and really doing a zero, a bottoms-up build of a schedule. And then we are going in and trying to lay in the dollar resources to make sure that the staffing they need and the contractual support they need to meet each of the tasks and durations of those tasks is fully funded. There's a team actually back at Reston right now who is working on that. Our goal is to wrap that up internally this month and be able to bring something forward to the Board later this summer, July, early August, I think, at the latest, so that you guys will have an opportunity to really review a robust FY16 budget that's built off of a schedule tied to the roadmap that we've been working on to date.

TIM BRYAN: That's great, Dave. I mean, I've seen, obviously, just internally, some of the beginnings of that, and I think it carries forward nicely on the kinds of concepts you've put out for the public to measure, and being able to continue that process, I think, is really helpful. Sue?

SUSAN SWENSON: Yeah, I have a question about planning for FY16, Tim, and TJ, and Dave and Steve. You know, as we think about outreach, I mean, obviously, state consultation is important to ensure that we're getting information back that we need to put into the RFP. But it seems to me that we have a broad set of constituencies out there. And part of it is educating, getting feedback, and I don't know to what degree we've thought about the significant expansion of consultation in FY16 to accommodate I think a very necessary step as we move towards, as we talked about in the last meeting, state plans and educating people about the process and that sort of thing. To what degree have we considered that in the '16 plan?

TJ KENNEDY: We have absolutely have. The work that's been done by Rich and Dave and Amanda, for example, on that detailed project plan with a resource loaded network. So having all those resources that they need loaded into that for Fiscal Year '16 has been a huge part of what they've been looking at. Along with working with Ed Parkinson and the Government Affairs Team, and looking at the amount of visits that need to occur to governors, governors' staff, CIOs, key state leadership, tribal, state, and local public safety across the country. And as we've seen, the amount of requests for that kind of high-touch consultation and discussions continue to grow, and we plan on basically really ramping that up into this FY16 request.

At the same point, we're trying to do it in a measured way where we have a good span of control, we're really knocking off the key face-to-face required Consultations, but also being responsive to the kinds of requests that we've heard. And one specific example of this is we've heard from some of the metropolitan areas that they want to have a metro engagement in addition to the key state engagements that we've done, so we're actually looking at how to go out and reach the largest metropolitan and urban areas in the country, and involve the state SPOCs and others, but also make sure there's a big discussion around those big urban areas that have a lot of key questions that are important to them and to FirstNet. So in addition to our state consultations, we're adding in that urban effort as just one additional example. We've ramped up both the federal and the tribal tasks and working with the Tribal Working Group. And then really getting the early builder information into the actual RFP as well as consultation and sharing those lessons learned. So the answer is yes, it's going to require more resources and the team is building those into that schedule.

DAVID SOCOLOF: I would also note that, you know, one of the nice things about it is now that we have the IAA for consultation support in place, unlike going into this year, going into next year, we actually have the vehicle to bring those resources on board.

SUSAN SWENSON: (Inaudible.)

DAVID SOCOLOF: And that should help us accelerate that activity.

UNIDENTIFIED: (Inaudible.)

DAVID SOCOLOF: Having a vehicle in place is great.

TIM BRYAN: I can't remember if – you can either go back to the chart, but I think you're going in also with you've obligated a considerable amount more than you've expended this year, so you're going in with also a little bit of a tailwind, I guess, so to speak, with \$7 million more in obligations than in expenses so you'll be able to continue those contracts forward.

TJ KENNEDY: Correct. But one of the great things with the IAA in place, too, is we can also grow that IAA to make sure it meets the needs of us going forward, and that should save some time then creating it the first time around, which is an important process piece from a timing perspective.

JASON KARP: The other thing I would add, TJ, and I think this is important, and I think you all understand this, is it's not just the expansion, right, of the Consultation efforts as TJ explained, but there is a huge support mechanism that is behind the faces that do this. And I think Chief Johnson mentioned the presentations are just one aspect of it. But TJ mentioned the early builders, and the learning, and there's legal support, and there's contractor support, in some cases finance support and communications support. And as part of this scheduling and tasking that Dave described that's going to form the basis for FY16, we're building all of that in, you know, so we're really contemplating what it's going to take to achieve those objectives. I think it's important not to forget all the support that goes on behind the scenes that makes those efforts possible.

TIM BRYAN: I think it's a good goal to keep working at during the summer with the view to having a good, robust presentation for the next Board meeting in August. That's a good timeframe and a good goal.

Any other questions from the committee for Dave?

SUSAN SWENSON: You know, Tim, I would just suggest that since we've had some challenges in the past with the budgeting process that we not wait until September. That we have maybe an earlier view of it so that if we need to iterate something that we have time to do that so we can get it done in time for the new Fiscal Year.

TIM BRYAN: Yeah. I think we're all aligned on that plan.

SUSAN SWENSON: Okay.

TIM BRYAN: All of us. We agree. Yeah.

SUSAN SWENSON: Okay.

TIM BRYAN: So we're in good shape.

TJ KENNEDY: And what that means for folks out there, too, is we'll be likely calling interim finance committee and board meeting prior to September to be able to bring that forward.

TIM BRYAN: Okay, Mr. Karp. I think in a presentation you've gotten somewhat accustomed to making, but with different topics, how about a little summary of the responses from the Second Notice?

JASON KARP: I was going to say you're stealing my – I was like, who wants to talk about the Second Notice? Anybody? So I actually think this will be very quick because we've hit on most of these points. There's, I think, one new point that I want to touch on. Grab that there. Thanks. But, again, to reiterate, we are tailoring kind of the presentation to those issues that are germane to the particular committee. We touched on some of that given consultation and outreach preceded finance, as it ordinarily does, and really everything we have done in the Public Notice impacts that. You've heard a lot of this, but we did save a little something special for the Finance Committee of course.

But again, you've seen all of this, so I don't need to kind of go back over it. I'm certainly happy to answer all the questions that we talked about and what the Second Notice covers and the four topics. We're really going to focus on that last bullet, and you heard a little bit about that at the end of the last presentation. Again, I've gone over this a couple of times, so happy to entertain questions, but I don't think we need to spend time on it.

So this is really actually a topic you haven't seen yet, which is the concept of the customer relationship. And the situation as we described in detail in the last committee meeting when a state assumes responsibility for the deployment of the RAN. The Act is really silent about which entity is going to have the customer relationship at the end of the day. And I talked a little bit about the funding considerations and the issues associated with how, to the extent a state that does assume responsibility for the RAN, mechanism for potentially sharing that revenue related to the excess spectrum capacity and the subscribers to ensure the nationwide build out. And what we really kind of focused on here is maintaining a flexible relationship with the states so that we can accomplish those goals.

And so what we really asked here was, you know we believe the Act provides sufficient flexibility to accommodate a variety of different customer relationships and customer facing arrangements so long as – this is the important piece – the interoperability and self-sustainment goals of the Act are met. Right, so to the extent that, again, if a state were to maintain a customer relationship, and maintain all the revenues in that given state and they were – fell all along the green of the chart I showed earlier, and we'll get to that in a minute, that could impact the interoperability, self-sustainability of the network nationally. So we want to maintain flexible arrangements to be able to work with the states in order to achieve that objective. And lo and behold, I got a green circle on that one. So very proud of that.

So we got 100% agreement. I'm just going to leave this one up here for a while.

But the truth is, you know, I think the comments really came back and appreciated the approach we were taking, which is, and I think several people noted this earlier, the collaboration and the collaborative approach that we plan to take with the states on this issue. And this is a very difficult issue, and one we're going to have to resolve.

And really, you know, that was a real big differentiator for this committee. You've seen this, and this is what we just talked about, but I do want to kind of lay it out there, offer this committee the ability to interact with some questions or some points that they may want to make in light of the presentation we just made. But, again, to kind of reiterate, FirstNet is a zero sum game. And our costs have to equal our fees and we have to build out a nationwide network. And that means nationwide. And that nationwide deployment can't be at the expense of a particular state who's able to utilize revenues to reinvest back either in their network or in their state beyond what they reasonably need to sustain their radio access network.

And we've got our three funding sources to make that happen. Everyone knows \$7 billion is not enough to build out a nationwide network. We have to leverage these assets. And we have to do it in a way that's responsible, and is going to create a financially-sustainable model for us. So, again, we've kind of, you know, you've seen this, and everybody has seen this, but it's important to kind of emphasize the scope here. And I'm sure each of the states, you know, is going to undertake their own analysis, but our internal modeling really shows that it's a very few handful of states that will be able to adequately build out their RAN and have sufficient revenues beyond that. And that additional expense is necessary for FirstNet to be able to utilize to build out nationally. And that's just a reality of the Act and the business model that we have to pursue.

And, of course, then we talked about these two questions, again, and again to reiterate so how did folks feel about that, well, I think they get it. That's right. Where's my green circle?

No, but the reality is I think folks are getting it. And I know TJ has had this conversation with folks out in the field. I have. Rich, Dave, and we've engaged our stakeholders on this. And the good news is they understand this. Some may not like it. It's a political issue. It can be an emotional issue. A state

sovereignty issue. And we get that. We're very appreciative of all of that. And that's why it's important for us to collaborate and be flexible in our approach. But they really do get it and they understand that ultimately we have to deploy this network nationally for public safety's benefit.

TIM BRYAN: This is obviously the piece that, you know, most carriers, even, not just the national carriers but also regional carriers, generally don't operate with respect to state boundaries. The South Dakota guys sneak into Iowa, who go into a little bit of Minnesota, they come sometimes west into Nebraska. You know, it just – and of course, the nationwide carriers generally operate on a nationwide basis. So what they take for granted in terms of an economic model is this. So it's – this will be a way to respect what the states are doing, what the public safety entities inside the states are doing and want, with an ability to make sure the whole network gets built and is interoperable. This is an interesting part of the FirstNet experience.

JASON KARP: It is.

TIM BRYAN: How's that?

JASON KARP: And we've spent a lot of time on this. And I really encourage folks. I mean, we obviously ask the question from a legal perspective in the Second Notice, but really, we have laid this out in excruciating detail in our Special Notice and our draft RFP documents that really outline the entire operating model, the operational architecture of how we're going to allocate resources, and we're asking the industry to propose how we should allocate those resources given this model to support this infrastructure. And how we can make this work from a financial sustainability perspective. And so it's out there. And we encourage folks who responded here to look at that and to digest more of the detail and provide us further input because it's critical for us.

TJ KENNEDY: And as a good example, Tim, we also discussed this in depth at the Industry Day, and probably gave a 90-minute presentation of which John Quinlan got much more air time than he normally does, and really jumped into the details behind this. And I think it was a very fruitful conversation, not just from a presentation perspective, but we had over an hour and 15 minutes or so of questions, both in the room and on the webinar and online and on the phone, and we really got into a number of questions in and around this where I do think people are starting to wrap their head around it much more so than they did months ago. So it's been very fruitful.

TIM BRYAN: That's great.

JASON KARP: So that's it. I'll give back some time this time. I took it in the last committee meeting.

TIM BRYAN: I know that our audience is used to action packed finance committees, but the RFP, you know, the draft RFP documents really occupied so much of our time over the first half of the year, frankly, up until this meeting, that this one seems a little anticlimactic by comparison, but, obviously, it's because we're really hitting on all our cylinders in terms of what we're supposed to do, we're in line with the budget, and we're going to be – we're sort of in a lull, if I want to call it that, before the wave catches up with us in a few months and we get back to dissecting the comments from the draft RFP.

So any questions from the committee on Jason's presentation or any other items to come before the Finance Committee at this point? Okay. Well, with that – gosh, ten minutes ahead of time, I almost don't know what – I feel like I need to make a ten minute speech just to bring it right up to - .

UNIDENTIFIED: (Inaudible.)

TIM BRYAN: We will – Frank just reminded me we do have some minutes in the binder if everyone has had an opportunity to look at them? Sue has made a motion to approve. Frank seconds. Any comments? Discussion? All in favor say aye.

ALL: Aye.

TIM BRYAN: Aye. Opposed? None opposed. The minutes are approved.

So while we're on a motion-making frenzy, anybody move to adjourn? Sue? Frank? Second. I just turn to you – and very well. We will stand adjourned. Thank you all for your time today.