



Transcript

FirstNet Board of Directors Webcast, Washington, DC, March 24-25, 2015

Part 4 - Finance Committee

TIM BRYAN: Okay, folks. I think we're going to get going on the Finance Committee meeting. Uzoma, let me just check. This does say 1:45 when it was supposed to start, is that right?

UZOMA ONYEIJE: That is correct.

TIM BRYAN: I thought so. I just don't want to take the hit for the first hour and a half delay.

In any event, welcome everybody to the Finance Committee. I know we're running a little bit late, and unfortunately I don't have great news in that it's probably going to take at least an hour and a half to two hours from start to finish for the Finance Committee. But in any event, welcome, thank you very much for being here.

Before we get going on all of our official business, I want to do a quick introduction. There's a new face at the table. Geovette Washington joins us from OMB. She's the OMB designee for our Board of Directors. She's joined the Finance Committee. Geovette, we're delighted to have you. Thank you very much. And also a big thank you to Brian Dees, who was our Board member and who was a committee member. Brian was enormously helpful over the past several years as we got FirstNet up and running. He's gone off to do some other things, but in any event, welcome Geovette and thank you Brian.

So with that, I'm going to turn it over to Uzoma who's going to read us a few of the meeting logistics and items and then we'll get started. So Uzoma, I'll turn it over to you. Thank you.

UZOMA ONYEIJE: Great. We're going to start again with conflicts notifications. And in advance of FirstNet's committee meetings for this quarter, the management team provided an agenda to each of the Board members outlining each of the items that would be discussed and decided during the meetings. And the members were also provided with a conflicts of interest assessment. And that assessment was produced jointly by the Department of Commerce's Office of General Counsel as well as FirstNet's Chief Counsel Office. Providing these documents in advance to the Board members allows them to identify potential conflicts where they might exist and let the Board and the other members know about it.

With that, if there is anyone that believes that they have any potential conflicts, we've already heard previously, but if there's anyone that has any potential conflicts, this would be the time to speak up.

Having heard none, I think we're prepared to move into the session. I think, Tim, you've already talked a little bit about that we'll be going into a closed session and that we anticipate that this meeting will be at least an hour and a half long. And with that, I think we're ready to get started.

TIM BRYAN: Okay, Uzoma. How about before we get started, if you'd do a roll call, we'll see who's here.

UZOMA ONYEIJE: All right. Tim Bryan?

TIM BRYAN: I'm here.

UZOMA ONYEIJE: James Douglas?

JAMES DOUGLAS: Here.

UZOMA ONYEIJE: Ed Reynolds, are you on the line?

ED REYNOLDS: I'm here.

UZOMA ONYEIJE: Got you, Ed. Frank Plastina.

FRANK PLASTINA: Here.

UZOMA ONYEIJE: Sue Swenson?

SUE SWENSON: I'm here.

UZOMA ONYEIJE: Geovette Washington?

GEOVETTE WASHINGTON: Here.

UZOMA ONYEIJE: Mr. Chair, we have a quorum.

TIM BRYAN: Okay, great. Before we get going, I know that previously distributed to the Committee members were the minutes of our last meeting, and I'm wondering if anybody has any comments or questions or concerns with the minutes?

SUE SWENSON: I'll move for approval, Tim.

TIM BRYAN: We have a motion to approve.

TJ KENNEDY: Second.

TIM BRYAN: A second. Any discussion? Okay, all in favor of approving the minutes say aye.

ALL: Aye.

TIM BRYAN: Opposed? Abstentions? Okay, the minutes are approved, Uzoma.

Now we're going to turn to Randy, who's going to give us a financial update. So Randy, we're going to turn the microphone over to you. Welcome and thanks very much.

RANDY LYON: Great. Thank you very much, Mr. Chairman. It's a pleasure to be here to give the committee and the public an update on our financial situation.

I'd say there are three main messages that are going to come out of the presentation today. The first is that the resources are starting to become available in a very large way for this program, and that was – at some point there was a question about when the auctions were going to happen and were all the revenues going to be raised. And the good news is they have been raised and they're going to start flowing in a large way in the next several months.

Second message is that we are well within our spend plan that was approved by the committee back in November.

And the third piece, which is equally important, certainly, to the second is that we are very focused on making progress with the resources that we have at hand and that we are gating the resources and

applying the resources to ensure that we do make progress, and so I'm going to take you through some of that and show the committee and the public the linkage between the resources and the progress that we are making.

And then finally at the end, I'm going to touch upon administrative spending, which is capped by our statute. And it's just one of the important factors that we monitor in our progress.

So the first column here shows where we currently are. And it's showing that we have \$2 billion of borrowing, which NTIA has executed from the Treasury on behalf of this program – mostly on behalf of this program. And of that, more than half of the borrowing has been repaid from the H Block auction receipts. The H Block auction was held in 2014. So there's still \$779 million of borrowing remaining, and that's expected to be – that will be repaid when the AWS3 auction receipts start flowing.

From that \$2 billion worth of spending, there have been about \$50 million of outlays to date, that's from inception of the trust fund that holds that borrowing. Almost all that has been FirstNet. There's been a small portion of about \$4 million that's been NTIA. And so those figures are through December 31st, so that's through the first quarter of this fiscal year.

Okay, this is where we're headed now. And that \$2 billion is going to be fully repaid with the AWS-3 auction receipts, and then in addition to that we're going to be receiving another \$5 billion of receipts which are going to flow to the Network Construction Fund, which is another related fund which executes the primary mission of FirstNet. And, again, NTIA also – these are actually both NTIA-managed trust funds that provide resources to FirstNet.

And so by the end of this fiscal year, we're expecting roughly another \$50 to \$60 million of outlays on top of the \$50 million that's occurred life to date of these programs, so about \$110 million will have been spent, and so that will leave about \$6.89 or \$6.9 billion of resources going forward in terms of the cash resources.

In looking at the AWS-3 auction, our authorizing statute sets a priority in which the funds will flow. And actually the first little piece of this that's not actually specifically mentioned in our statute but it's a more general feature of auction receipts, is the FCC has the ability to recover its costs of running the auction program. And it's still evaluating how much, if any, that it's going to need to take from the receipts.

The next tranche of the receipts goes to relocate federal agencies, and about 40 MHz of the 65 MHz that were auctioned in AWS-3 auction were actually currently occupied by federal users, Department of Defense, NOAA, Department of Justice, and so the law specifies that those agencies are reimbursed for their relocation costs to move and retune their equipment to other frequencies. So that's the first \$11 billion, approximately, of receipts are going to go to that purpose.

And then the receipts start flowing to FirstNet and related public safety needs. So the next priority is the \$779 million that's going to repay the existing borrowing in the Public Safety Trust Fund. Then there's \$135 million that will be deposited for NTIA's State and Local Implementation Grant Program. And then the next piece is \$5 billion for the Network Construction Fund. Obviously, very important to us.

And then there are actually some related things which are also going to be very constructive in the public safety world. There's \$100 million that will go to NIST for public safety research, some of which is very similar and supportive of the kinds of things which PSCR is doing with us right now.

And then a large tranche of funding, over \$20 billion, goes for deficit reduction. And then after that tranche, there's further public safety related money for the 9-1-1 program, E9-1-1 and Next Generation 9-1-1, and then another \$200 million tranche for NIST, and then finally still further deficit reduction.

So this chart summarizes our spending for Fiscal Year 2015, and it shows the \$86 million obligation spend plan which the committee has set. And it shows, that's the black line at the top. And the blue line

is the cumulative spending that we forecast in terms of obligations, whereas the red lines are on an expense basis. And it shows that on an obligation basis, we're going to be slightly under that cap, and we're going to be a little further under it on an expense basis. That's because outlay obligations occur up front and then they spend out over a period of time. And we're going to see obligations expanding in the second quarter. We have a couple of important things happening that are important to our progress. Very importantly, our agreement with SPAWAR, which is the Space and Naval Warfare Systems Command, which is a Navy operation which is going to be helping us out with our consultation activities, that's going to obligate. We also have contractor support, primarily in the CTO area that those contracts are going to obligate. Those are going to obviously be valuable for us over the next 12 months. Certainly the CTO piece of that. And then expenses are going to gradually ramp up.

This next chart shows the milestones, and this is a fairly busy chart. We're going to see it broken down in slides that follow. So I wouldn't worry too much about figuring out specific dots and so on in this chart because we're going to see them in an exploded view on follow-on slides.

But basically today we've had a lot of focus on the RFP development, which is our first major stream of work. And then it's kind of other companion major stream of work is the consultation work. And what this slide is doing is showing the milestones there. And I'll talk in more detail about those as we break those areas out.

And then finally below that is kind of all of the supporting activities that we do; HR, IT, facilities, and so on. And again it's showing that as a whole, we're well within our forecast.

So now looking at the first stream, development of a comprehensive RFP, the spend plan set by the Finance Committee was for \$42 1/2 million. We're expecting to be at about \$41, so actually pretty close to that by the end of the year in terms of our obligations and our expenses of about \$32 million.

To give people a sense of what that money is being used for, about half of it is for contracts. This is for CTO contractors, NEPA studies, financial advisors, a small amount for program management. About a third of it is federal salaries and benefits, and also the PSCR activities and other kinds of interagency agreements. And there's a small amount for some other equipment and things like that.

So this next slide is that exploded view of the RFP and related milestones. It's showing on the top line the impending release of draft RFP documents. And then later in this year the release of the RFP itself with a period in between to gather comments and feedback from industry. A period of meetings with industry, and outreach to industry. There's also a very important public notice process. We have a second public notice which is out and has some very important components to it.

There's also been a lot of the issues that Jeff Bratcher was speaking about a couple of sessions ago looking at the milestones that we're receiving from PSCR in terms of development of, contributions to standards development and testing of priority and preemption types of things. So those milestones there.

And then below that are some milestones for the early builders, which, also as Jeff spoke about, are our technical team is developing learning conditions from those.

We're also showing a stream from our NEPA work, where that work is gradually ramping up. That contract was obligated on the very last day of Fiscal Year 14, and so it's been ramping up. People have been on-boarding and so there's both National Environmental Protection Act work and also Historical Preservation Act work that's going on there. Consultation with tribes, states, federal agencies, etc.

In terms of the consultation and planning and outreach stream of work, about a third of that money is salaries and benefits, and about 40% of it is federal sources, the most important of which is the federal agreements with SPAWAR. And you're seeing – that's the big bulge that's occurring in that second quarter, so it has been awarded and SPAWAR is starting to work with us. That's very important to our progress.

And you'll see that on this next page where we look at some of the milestones for consultation. And so we had a couple of consultation events relatively late in Fiscal Year 14. We've had 16 in the first half of the current fiscal year, and we expect about 38 in the second half. So roughly doubling the pace from the first half of the year, and that explains why the expenses and obviously the leveraging the resources that are going to come on board and join us with SPAWAR is going to be a big help with that.

The next piece is our organizational infrastructure. Again, underneath the spend plan set by the committee. A little more than a third of that is federal FirstNet salaries and benefits. About half of it, separate from that is interagency agreements, largely with Commerce Department bureaus but also with some other bureaus, so this would be with General Counsel, with Human Resources, NTIA, the Office of Inspector General, and NIST provides some financial management services. The remainder is relatively small contracts.

And this shows some of the activities which are – or the key activities which are happening in the organizational area. I'm actually going to start in the middle because I think that's some of the most exciting, the renovation of our neighboring wing in the USGS or in our headquarters building is occurring. And you can see what the open office space is starting to look like there. So that work is under way.

And then on the top line, the IT build is going to, obviously, kind of phase into that so that the system is fully wired and has network capabilities. Jim Gwinn and Frank Freeman are both leading both of those two efforts.

The other important thing, it's actually only shown as one diamond, but it's actually – I shouldn't overstate the facility because the personnel is equally or even more important. We've transitioned to a new, the Commerce Alternative Personnel System, which is a more flexible personnel system, and this is going to increase our flexibility in hiring, and improve incentives, and have, we think, some very important effects, both in recruiting and in managing our existing staff.

And then finally we have a whole series of interagency agreements, which, again, are a significant fraction of the funding here.

So the last piece I'd like to touch on is the administrative spending. Our statute caps administrative spending at \$100 million over ten years. And that means through 2022. And it's a relative tight cap. We've worked with the CFOs of both NTIA and the Commerce Department, as well as with OMB, to define a policy for how we're going to define administrative costs and which elements meet that criteria. So it's something we're watching very carefully. To date, through FY14, we've spent just a little bit over \$10 million cumulatively, and we expect with the increased pace of activity and the greater staff that we have on board in FY15, it will probably be about \$10 million for this year as well, on top of that.

So, again, this is something we're watching carefully because it is a hard constraint.

So that concludes my presentation. I'd like to open it up to questions.

SUE SWENSON: Just a question on the space. I'm trying to remember what we were planning for, and based on perhaps similar recent discussions, are there any issues about that space being able to accommodate what we're currently thinking?

TJ KENNEDY: Right now we would be okay within this fiscal year and for some of the next fiscal year. We're looking at some different options with the USGS management of the building that there would be some additional space next door that we could grow into in the future if we needed to. So there's definitely some possible need depending on our current growth that we might need to have some additional space at that facility. But our space will meet our needs for this year. We're also looking at some items related to source selection facilities, and if there's some people that need to be segregated for some portion of time, that that might actually occur at an offsite facility.

TIM BRYAN: I have a comment and a question. The comment is that for those of us who have followed FirstNet over a couple of years, or two and a half years, I compliment you, Randy, and TJ, Steuart and the team for really taking to heart the notion that we're going to put in front of the public our priorities, how they sort of map into why they're important to us and what they need to accomplish, and then tying spending to those things that are most important, not just in terms of the amount, but the timing so that we don't whoosh by some things that then we have to go back and pick up. So for folks who think well, maybe you're spending it too slowly, or folks who think maybe you're spending it too quickly, I think the process that you've gone through to do this kind of planning and budgeting and then tying spending to it has been really useful. And I think it will pay dividends in the long run. I think we'll end up with a better program delivered at a better price, which is obviously a key goal. So that's a comment, and you can comment on it.

But I do have one quick question. On administrative spending, it is the case, I would think, obviously it's going to be tight, and I know we're going to look at it, but as we transition from an organization that's planning on operating and building a network to an organization that is running a network that is in operation, theoretically, you know, a good deal of the expense associated with that is not an administrative expense. It's an expense associated with the program. Maybe you can just sort of comment on that.

RANDY LYON: Yes, that's a good point. And there are – we've been very cognizant of that in our definition of administrative expenses, so that there are types of expenses that you might think of as administrative, like HR services. But if there are HR services supporting engineering and network development, we're considering those program costs. And those are going to be increasingly important. And so, yeah, kind of the core, you know, the oversight activities don't necessarily need to expand proportionately to the size. So, yes. And same thing goes for IT costs, space costs. You know, those are allocated based on the types of uses, and so yes, again you're instinct is right that as those are heavier and heavier into programmatic types of uses, it's not necessary that administrative costs are going to necessarily be increasing.

TJ KENNEDY: I also just want to comment on your first point. I think it's been really helpful to work with both you and the Finance Committee as we've kind of really focused on both consultation and the RFP and acquisition process. That's really our core focus and built these milestones and kind of detailed checkpoints that allow us not only to control our costs and make sure we're being very prudent with how we spend the money, but also make it very easy to identify when we're meeting those milestones as well as where we're falling behind. Some issues that have come up in the past with hiring or some things that needed to happen quicker. So I think it's really helped us to be really clear about that and to share it with the staff so everybody is quite aware of where we're trying to hit those targets as well as the public. So I think it's been a great effort and really good feedback from the Finance Committee. So thank you.

TIM BRYAN: Okay.

SUE SWENSON: Tim, just a question for you as the chair. It's hard to believe we're probably entering into the planning cycle again. When do you envision us having to think about the next fiscal year?

TIM BRYAN: To be honest, we've already started to think about it. You know, when we did – even when we did this year's plan, we have some idea of the continuing effects of the obligations that we make and the ramp that we're on. So, I would think likely by the next Board meeting we'll have some preliminary ideas of where we're going. We're in the process of working through the final audit for last year, so we've got to complete that as well. But, yes, in some respects the government is no different than private enterprise. As soon as you sort of wrap up one budget and start working your way through it, alas, another one appears. So I think we'll be seeing that in the next quarter for sure.

And I guess my final comment is I'm also very pleased with the kind of financial transparency we're making to the public. I think we're trying to keep the public completely informed, you know, in as much detail as we can provide about where we're spending money and what our activities are, so I hope we're

meeting the goals of the Act, certainly in our transparency. Any other questions from the committee on Randy's report? Okay, Randy. Thank you very much.

RANDY LYON: Thank you.

TIM BRYAN: And I could read this for the fourth time today, but I think I'll paraphrase it instead. As you know, we're going to be entering a closed session. We have a lot of things to consider on the Finance Committee. Obviously, these are sensitive acquisition matters that we have an obligation to keep confidential. So, we're going to go away for some period of time, which I won't predict because our ratio hasn't been great on that. But obviously we will come back. We will report back – why don't we say this. If for any – we're going to report back one way or the other by 5:00. That's an hour and a half. But one way or the other, either we're going to be done by then, or we'll come back and report, and who knows, maybe we'll be done before then, but I wouldn't count on that. So, in any event, how about if I take a motion now to close the committee for the time being?

~~UNKNOWN~~ FRANK PLASTINA: So moved.

TIM BRYAN: Moved.

~~UNKNOWN~~ SUE SWENSON: Second.

TIM BRYAN: Second. Any discussion? All in favor?

ALL: Aye.

TIM BRYAN: Opposed? Abstentions? We'll see you in a little bit. Sorry about breaking into your happy hour.

[pause]

TIM BRYAN: Okay, folks. 5:20. I know we're past our time. Really appreciate everybody's sticking with us here in the auditorium. Let's see. First of all, Ed – do we still have you on the line, Ed?

ED REYNOLDS: (Inaudible)

TIM BRYAN: Okay. Excellent. Ed's still on the line. It looks like we've got everybody else here.

ED REYNOLDS: (Inaudible)

UNKNOWN: We can hear you.

TIM BRYAN: Yeah, got you, Ed. Okay. So we've reestablished the webcast, we're all set, correct? All righty.

So, obviously, as you know, we went into closed session to talk a lot about very sensitive acquisition matters. And we heard from James Mitchell. We heard from John Quinlan. We obviously had a very robust debate witnessed by the fact that we're a little late coming back.

Just only as a short preface, I'm sure it comes as a surprise to nobody that we have a business case for FirstNet, and underlying the business case are a considerable number of assumptions, and this RFP is not a process unto itself, it's a process that helps us really solidify a number of critically important assumptions that underlie FirstNet's business case. So you can understand why we're really taking the time and effort to go through this, as much as humanly possible.

So in the closed session, we talked about everything that relates to the business plan, and the finances, and how FirstNet will roll out. We talked about a lot of the things that you've heard from before, in terms of the acquisition strategy, the number of proposed partners, the geographic scope, the states, the nation, regions. We talked about a variety of other pricing and structural mechanisms that would be applied to the acquisition.

The bottom line is we have, as a committee, come to agreement on a lot of what we discussed today, but there are a few things that we still want a little bit more information on. And so we've asked TJ, and Randy, and Stuart, and the acquisition team if they would help us over the next few weeks, and just work on a few issues that there's still a few questions about that we'd just like a little bit more information. So, as a consequence, that's sort of where we ended up as a committee. And so, the bad news is you'll have to see us again sometime in the very near future when we reconvene, and we'll talk a little bit about these last few issues. But I think it's – this is such a critically important part of FirstNet and the business plan. .And the underpinning of the business plan, that I think we're willing to take the few weeks to really hit those last few points.

So I would ask the committee if there are any other comments in terms of what we discussed in the closed session or any other views?

SUE SWENSON: (Inaudible)

TIM BRYAN: Okay. So as a consequence that's all our business that we had scheduled for today at the Finance Committee. I would –

SUE SWENSON: I move we adjourn.

TIM BRYAN: There's a motion to adjourn from Sue. Second?

FRANK PLASTINA: Second.

TIM BRYAN: Frank seconds. Any discussion? Any other items? All in favor to adjourn say aye.

ALL: Aye.

TIM BRYAN: Any opposition? Any abstentions? We're adjourned for the day. Thanks very much, everybody.

SUE SWENSON: Thank you.