



STAFF REPORT

Discussion and Direction Regarding Report From Special Fire Financial Project Sub-Committee

Honorable President and Directors of the Belmont Fire Protection District:

Summary: This report serves as a transmittal for the report prepared by the Special Fire Financial Project Sub-Committee, and outlines options for the Directors to consider. Approval of the recommendations outlined in the attached report, or alternatives, will lead to a financial plan and implement a short and long-term course of action for Belmont Fire Protection District (the "District").

Background: During South County Fire Protection Authority's (the "Authority") budget deliberations, and subsequently confirmed at the District Director's Priority Calendar setting process, a three-member sub-committee of the Finance Commission, along with the City Treasurers of Belmont and San Carlos and others, was formed with the expressed mission of developing financial recommendations that address the current and future needs for fire service for both the Authority and the District which have experienced continual financial difficulty.

The Sub-Committee has completed their work and made a presentation of their report to the Authority's Commission at their meeting on December 8th and will make a presentation to the District Directors on December 14th.

As a related but separate matter, for a decade the District has experienced ongoing, structural financial imbalances between revenues and expenditures. Recognizing the problem, the Directors engaged PriceWaterhouseCoopers to perform a special review of the District in 1998. That report documented the erosion of the District's reserves as far back as 1994. Furthermore, the report outlined several recommendations to improve the cash position of the District and ensure that revenues are sufficient to meet all future expenditures, most of which were adopted. A significant recommendation in that report was a special tax for fire suppression services.

In November 2003, the Authority put forth an \$88 per resident revenue measure to address an impending budget shortfall. While failing to acquire the necessary 2/3rds vote requirement for passage, the measure received 62% support. As a consequence, the Authority took immediate corrective action and reduced staff in December 2003. One of the Authority's five (5) fire companies was closed. In addition, the Authority has no reserves and has repeatedly deferred capital expenditures.

As part of the FY 2005 Budget process and consideration of a potential fire assessment, the

Authority's Controller developed a five year financial pro forma. This pro forma with alternative scenarios was shared with the District in October. Again, the pro forma showed deficits beginning in FY 2007 when considering capital requirements. While the exact timing of the deficits can be a matter of debate, as is the case with any forecast, the structural financial imbalance is undeniable. This fact was confirmed as recently as last August in the *Memorandum of Internal Control* issued by Maze & Associates to the District Directors. In that report, the external auditors again expressed concern of the continuing impact of deficits in the Authority. Furthermore, the auditors stated the Authority should formulate a long-term plan to replenish and stabilize fund reserves and provide for the replacement of capital assets.

Discussion: In the attached report, the Sub-Committee recommends the following course of action for financial stability for the Authority and District:

Authority Recommendation

The Authority continues to move forward with the implementation of a Fire Suppression Assessment for a term not to exceed 5 years. The assessment could be pursued either on a cooperative basis by both the District and San Carlos or on a stand-alone basis for the District.

This recommendation is intended to be a short-term financial strategy to improve the financial stability of the District and, by extension, the Authority. The Authority has discussed its financial situation on numerous occasions and had debated the need for additional revenue. No decision has been made by the Authority regarding revenue. On August 10, 2004, the District approved engagement of MuniFinancial to serve as a special tax consultant for the purposes of forming a Fire Suppression Assessment District. Different timelines were discussed and the current direction is to pursue an assessment in July 2005.

District Recommendation

Within the duration of that 5-year period, the District should transition to a Contract for Services, assuming acceptable terms, with a neighboring city or other large service provider for fire protection services within the District.

The Sub-Committee recommendation above specifically pertains to the District. Implementation of this recommendation would require termination of the Joint Powers Authority agreement that established the Authority with the City of San Carlos. Article VIII, Section 8.2 of the agreement states termination does not become effective until the June 30th next succeeding eighteen (18) months following the giving of written notice. To actively and fully pursue contract for services options, it would be appropriate to provide such notice. Providing such notice, however, does not make it a foregone conclusion that the Authority would be dissolved.

Options

As discussed above, the report outlines two major recommendations for the District, i.e. revenue assessment and contract for services. Staff has developed a framework for the Directors to use when considering the recommendations and has provided several options. The options below are by no means exhaustive of all the possibilities the Director's could consider. Fundamentally, the District must determine whether it is satisfied with the current method and financing of fire suppression

services or if it desired to explore alternatives.

1. Revenue Assessment

- a. Accept the recommendation for a 5-year assessment, and continue with the current plan of a District sponsored assessment in July 2005.
- b. Pursue an assessment on an alternative timeline.
- c. Delay a determination on an assessment until sufficient negotiations have occurred with other agencies on a contract for services.

2. Contract for Services

- a. Accept the Sub-Committee's recommendation to transition to a contract for services and give required termination notice by December 31, 2004.
- b. Accept the Sub-Committee's recommendation to transition to a contract for services and give required termination notice by December 31, 2005.

This recommendation is intended to be a long-term strategy to improve the financial stability of the District only. Proceeding with Option 2A assumes the District will immediately begin exploration of options with an eye toward being able to convert to a new service provider by July 1, 2006. Proceeding with Option 2B assumes the District will convert to a new service provider by July 1, 2007. An earlier date than either option could be achieved if mutually agreed to by the District and City of San Carlos.

3. Consider other options.

- a. Work with the Authority to determine a timeline for a joint assessment.
- b. Other.

There are a considerable number of alternative scenarios that could be pursued, such as renegotiating the existing JPA agreement and allocation share with the City of San Carlos on terms acceptable to the District, seeking expansion of the Authority or other form of governance with a broader base of agencies, and others. It is premature at this time point to try to identify and elaborate on all such options. There will be challenges to any alternative and additional analysis would be necessary prior to District action. The issue to be determined at this point in time is whether or not any option should be explored, or the current structure should be maintained.

4. Reject the recommendations outlined in the report and any alternatives.

This option assumes status quo and continuance of the existing agreement with the Authority. Proceeding with this option assumes an alternative short-term and long-term correction strategy has, or can be, identified.

Fire Chief Recommendations

As a separate endeavor, the Authority's Fire Chief is developing several options that will likely include alternative service delivery. That report is anticipated early next calendar year.

Proposed Steps

1. The Sub-Committee presents their report.
2. Directors ask questions of clarification to Sub-Committee.
3. Directors hear testimonies from the public.
4. Directors discuss recommendations and options as described above.
5. Directors direct staff on course of action.

Recommendation

Staff believes it is in the best interest of the District to maintain the greatest range of options possible. As such, staff recommends:

1. The District accepts the report of the Special Fire Financial Project Sub-Committee.
2. Direct the District Manager to give notice of termination by December 31, 2004.
3. Direct the District Manager to begin discussions with potential providers of services.
4. Direct staff to report back within three months to provide an update and further discuss options.

Alternatives: The District Directors can take action with regards to any one or more of the options provided above, or request additional information/research by staff.

Fiscal Impact: There is no fiscal impact associated with this report.

The audited ending fund balance as of June 30, 2004 for the District was (\$44,841). The audited ending General Fund balance as of June 30, 2004 for the Authority was (\$213,848).

Public Contact: Notice of this item has been posted with the agenda. The Sub-Committee has been advised of the item and will be present to make the report and the Authority was also advised about this item.

Attachments:

1. Report from Special Fire Financial Sub-Committee: Recommendation to Adopt a Course of Action for Short Term and Long Term Financial Stability

Respectfully submitted,

Thomas Fil, Finance Director

Daniel Rich, Interim District Manager