Rodeo Hercules Fire District

Fiscal Analysis and Stabilization Report

Municipal Resource Group, LLC
NHA Advisors, LLC
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A. Introduction

The Rodeo Hercules Fire District Board engaged Municipal Resource Group, LLC (MRG) and NHA Advisors (NHA) to assist it in defining and addressing its current and future fiscal situation. MRG and NHA have worked with District staff, members of the Board, other Fire Districts, the Cities of Hercules and Pinole, the Contra Costa County Employees' Retirement Association staff, and other agencies to develop a thorough understanding of the District's operations, financial status and future service opportunities.

The District is currently exploring several measures to address its present situation. These include examining alternative methods of obtaining Fire leadership services and evaluating the opportunity to re-engage the community and pursue a replacement tax measure for the expiring benefit district. The District is also working to strengthen its relationships with neighboring jurisdictions to enhance the existing joint emergency services provided through its participation in the West County Battalion 7 operations.

This project has been conducted on an accelerated timeline in an effort to provide the District with accurate financial data regarding its current financial condition as well as cost projections for the District of various operational scenarios the District is considering. We have enjoyed the highest level of cooperation and untiring support from the District's staff throughout the past two months and are appreciative of their professionalism and commitment to the District. We are hopeful that the information and recommendations in this Report provide an adequate depiction of the District's financial condition and useful recommendations for the Board's consideration and use in planning the future of the District.

B. Project Scope

As outlined in our Proposal and further refined in the approved Workplan, our Report has been focused on completing the following:

1. Development of an assessment and clearly defined statement of the District's financial condition;
2. Development of an assessment and clearly defined statement of the District's financial obligations and liabilities;
3. Development of a clearly stated set of recommended actions to address the District's fiscal situation;
4. Development of a clearly stated set of sustainability options for the Board's consideration; and

5. Completion of an analysis of the options for alternate financing for existing and potential future obligations.

Although the District's current fiscal situation is unsettled and the future not clearly defined at this time, we believe the District will be able to use the findings of this project to move forward on a positive path to ensure continued emergency services to the community.

C. Executive Summary

Fiscal Factors Affecting the District:

In conducting this project, we found that the current fiscal condition of the District is due to a variety of factors, many of which were, are and will continue to be out of the control of the District. We believe it is important to briefly describe these factors to provide an objective context for the current fiscal situation. The District's tax rate would generate adequate property taxes to support the growth of the community from its initial rural-industrial status to include single family, commercial, light industrial and multi-family units. This tax base has; however, been severely eroded over the past 30+ years by the following:

1. Establishment of the City of Hercules Redevelopment Agency, which significantly reduced the property tax revenue generated within the City when large areas of formerly industrial and undeveloped land were removed from the tax rolls by Redevelopment. Despite the demise of Redevelopment, the extraordinarily high debt burden of the Hercules Redevelopment Agency makes it is unlikely that the District will obtain unrestricted property tax revenue from these areas in the foreseeable future.
2. Special Districts have also been particularly hard hit by special State Legislation, beginning in 1992 when the Education Revenue Augmentation Fund (ERAF) was created by reducing property tax allocations to Cities, Counties and Special Districts. These funds were redirected from the taxing agencies to the State's funding for school districts. This shift is permanent and billions of dollars have been redirected from Special Districts since ERAF was established.
3. In an effort to preserve their revenues, counties (including Contra Costa County) have adopted policies that seek to maintain the county revenue base to ensure the agency's ability to provide services. An example of these policies is embodied in the mandatory Tax Sharing Agreement the District was required to agree to as a condition of the County approving the annexation of the Phillips 66 (Unocal) refinery property.
4. Finally, despite the best efforts of the District, and an affirmation by the District's residents, a recent benefit district has been abandoned due to the settlement of a lawsuit regarding the technical adequacy of the implementing ordinance.

In an effort to preserve services, the District obtained a federal grant to reopen its second station in Rodeo and re-establish that service to the Rodeo community. Unfortunately, that limited term grant will be expiring during the next fiscal year, as will the remaining year of the benefit district sunset at the end of the 2016-17 Fiscal Year.

The District is assertively seeking to address these issues with the goal of stabilizing revenues at a level adequate to provide two-station service to the Rodeo and Hercules communities.

1. Analysis and Evaluation of the District's Current Year Financial Condition—FY 2016-17

In evaluating the current year Budget, which concludes in July of 2017, we conducted research on the components of the proposed Budget, historical trends, debt, retirement and Post Employment obligations, and projected revenues and expenditures for future fiscal years. We paid particular attention to accurately identifying the District Fund Balances at the beginning of the 2016-17 Fiscal Year and the impact on those Fund Balances the 2016-17 Budget would have.

In summary, based on our research, meetings and discussions with staff and outside agencies, as well as a thorough examination of the Budget, we offer the following observations:

1. The historical practice of budget preparation has not been based on up-to-date or current expenditures, but the prior year's budgeted amounts, which leads to understatement of the annual expenses, leading to year-end Fund Balances at a lower level than projected.
2. The current budget preparation, review and adoption process is not conducted in a timeframe that allows for or supports strategic planning and fiscal dexterity, often necessitating retroactive review of expenditures.
3. The District's budgeting processes have not been placed in the context of a multi-year financial projection, which would reveal the longer-term impacts of fiscal decisions and ensure a more complete understanding of the impacts of current decisions on the District's financial future.
4. As currently configured, we believe that the 2016-17 Budget, if implemented for a full fiscal year, will exacerbate the reduction of the District's current Fund Balances, leading to a fiscal impasse during the 2017-18 Fiscal Year in the worst case scenario.

2. Statement of the District's Long-Term Financial Obligations and Liabilities

In evaluating the District's financial condition and identifying the potential threats to its fiscal stability, we identified the following areas of concern:

1. The District's current Retirement costs, comprised of the "normal" retirement rate of about 27% of salary is dwarfed by the Unfunded Accrued Actuarial Liability (UAAL) which, if considered in terms of a percentage of salary, would add approximately 83% of additional cost-per-employee dollar of salary to the total costs of retirement for the District.
2. The District's current post-employment benefits (OPEB) are substantial, and the unfunded liabilities continue to grow, with the District not currently addressing the unfunded portion of the costs for retiree medical.
3. The District currently has no designated reserves for its General Fund activities, or for equipment or capital equipment replacement.

Although these areas do not constitute an immediate threat to the District, they represent a growing set of obligations which, if left unchecked, will consume an ever-increasing percentage of the District's revenue. If fully funded, these obligations would consume over 50% of the District's current annual revenue.

Analysis and Projections—District's Mid-Term Financial Condition and Service Levels

As part of our analysis, we constructed two budget scenarios for the District's 2017-18 Fiscal Year and beyond. The first scenario is a one-station scenario with a four-person Truck Company, and the second is a Truck and one Engine, two-station scenario. The scenarios were projected over a four-year period at reasonable inflation rates, and did not include the District addressing its unfunded OPEB, equipment replacement or reserve liabilities. The scenarios demonstrated that:

1. The one-station scenario is not sustainable due to the projected depletion of reserves during the current fiscal year and the year-over-year expenditures exceeding the projected revenue. On a current condition basis, the District would deplete its reserves in the middle of the 2017-18 fiscal year.
2. The two-station scenario, while not costing twice as much as a one-station scenario, further exacerbates the revenue—expenditure imbalance and is therefore impractical.
3. The clear conclusion is that the District requires significant additional revenues to meet either a one- or two-station expenditure scenario. It will require significantly more revenue if it deals with or addresses its OPEB and equipment and reserve balance needs.

4. If the 2016-17 Budget is implemented as proposed, the Fund Balance will be depleted by July 2017. The impact on the Fund Balance of the one- and two-station configurations through FY 2020-21 is shown below:

One-Station Configuration General Fund Reserve/Fund Balance		Two-Station Configuration General Fund Reserve/Fund Balance	
July 2017	$0.00	July 2017	$0.00
July 2018	($368,845)	July 2018	($1,168,159)
July 2019	($1,473,090)	July 2019	($3,092,579)
July 2020	($2,653,273)	July 2020	($5,114,457)
July 2021	($3,912,696)	July 2021	($7,237,782)

3. Strategies for Fiscal Sustainability

Our recommended strategies include a mix of revenue enhancements and stability efforts, combined with a number of cost-reduction proposals. In summary, they include:

1. The District seeking a Tax Measure on the November Ballot;
2. The District effectively using the remaining SAFER (Staffing for Adequate Fire & Emergency Response) Grant funds and applying for an additional Grant in the 2017-18 Fiscal Year;
3. The District working with the City of Hercules to implement a Public Safety Fee for fire operations on all new development in the City; and
4. The District requesting Contra Costa County Employees' Retirement Association (CCCERA) approval of a "restart" on payments for the District's UAAL in order to reduce annual payments. This request would be based on implementation of a fiscally responsible and accountable budgeting and management system that would demonstrate the District's long-term financial stability.

These four measures will greatly assist the District in stabilizing its finances and moving toward sustainability.

Recommendations Regarding District Fiscal Processes, Procedures and Practices

We recommend the following actions for the District to improve its financial operations and fiscal situation:

1. Incrementally move to full funding of the District's OPEB obligations;
2. Continue to fully fund the UAAL, even if reduced by CCCERA;
3. Renegotiate the District's Post-Employment Benefits to reduce cost and liabilities;

4. Adopt financial and budgeting policies and practices;
5. Contract with a third party for fiscal, budget, accounting management and financial reporting to the Board; and
6. Establish and maintain fiscally responsible reserve levels—both in General Fund and in Equipment and Capital Replacement reserves.

Implementation of these recommendations will significantly improve the District's fiscal operations and long-term financial stability.

D. Report

1. Analysis and Evaluation of the Impacts of the District's Current Year and Mid-Term Financial Conditions On Service Levels

Fiscal Year 2016-17 Budget

The District adopted a preliminary budget in June 2016 for Fiscal Year 2016-17 (FY 2016-17). The District typically adopts a final budget by September each year, based on additional information received after the preparation of the preliminary budget, such as year-end expenditures, assessed value and property tax estimates and fire assessment information.

MRG reviewed the preliminary budget and the additional information received by the District, and has prepared an "MRG Recommended Budget." If the MRG Recommended Budget accurately reflects the service program that the District intends for FY 2016-17, the District and the Board of Directors may consider approval of this version for the purpose of a final budget for FY 2016-17.

Service Level and Staffing Assumptions

The District currently funds 19 sworn positions and one non-sworn position, supporting a two-stations and three-person engine companies. While the District's General Fund supports most of the District's expenses, this service level has been maintained in recent years in part by a SAFER Grant. The three-year SAFER Grant provides funding for six firefighters. FY 2016-17 is the final year of SAFER Grant funding. The grant as presently awarded provides funding for three firefighters through December 2016 and three firefighters through May 2017. Some of the firefighters funded by the SAFER Grant will not be available even through these dates, due to their having secured permanent positions with other agencies, or because of illness or injury. The MRG Recommended Budget assumes that the General Fund is the source of funds for continuing the existing service level through the end of FY 2016-17, primarily through overtime to backfill the SAFER Grant-funded positions as those firefighters leave service with the District.

Pension Assumptions

District employees are enrolled in the Contra Costa County Employees' Retirement Association system. Two tiers of pensions are provided to employees: a legacy tier and the Public Employees' Pension Reform Act of 2013 (PEPRA) tier, the latter of which offers a lesser pension benefit formula. The legacy tier includes an UAAL, which is a specific dollar amount each year, and a "normal" cost, which is based on a percentage of salary. In FY 2016-17, the UAAL is $1,582,068. The normal cost is 22.79% for the legacy tier and 16.53% for the PEPRA tier. UAAL and normal pension costs are included in the General Fund and SAFER Grant fund budgets.

Retirement Health Benefit Assumptions

The District pays for 100% of the cost of health care premiums for retired employees. A 2013 Study by Bartel Associates estimated the annual amounts that the District would need to set aside to fully fund the future cost of providing Other Post Retirement Benefits ("OPEB"). Known as the "Annual Retirement Contribution" (ARC), the FY 2016-17 obligation was estimated to be approximately $1,037,000.

The District has not been fully funding the ARC, and instead provides only the funding required to pay for the current year health care premiums (pay-as-you-go) for existing retirees. The MRG Recommended Budget, while noting the ARC, assumes funding for current, pay-as-you-go premiums for existing retirees only. The District is expecting an updated OPEB report and an updated ARC in the near future.

Appendix 1 presents the District's personnel expenditures, by line item, over the past five years. It also presents the preliminary budget adopted by the District and the MRG Recommended Budget for personnel in FY 2016-17.

Services and Supplies.

The District has historically estimated the budget year Service and Supplies line item expenditures based on the prior years' budgeted amounts. MRG and most public agencies estimate expenditures based on the trend of several prior years' *actual* expenditures (as opposed to budgeted amounts), adjusted by any known significant variances from that trend. MRG compiled actual expenditures by line item for the past five years. Expenditure estimates for FY 2016-17 are based on the average expenditures over the past three or five years, whichever is the most appropriate trend period, and with a two to five percent CPI factor for most line items. A few expenditure line items are estimated using other factors. The Services and Supplies budget line items were reviewed with District staff and determined to be reasonable estimates for FY 2016-17.

Revenue Assumptions

MRG compiled District revenues for the past five years, as well as data and documentation regarding past and current revenues. The District's revenue estimates for FY 2016-17 appear to be reasonable, with some minor adjustments made after the preliminary budget was prepared. Property tax revenue estimates are based on assessed values provided by Contra Costa County. Pass-through revenues from the former Rodeo redevelopment project area are expected to be received; pass-through revenues from the former Hercules redevelopment project area are not expected to be received, due to the former Hercules Redevelopment Agency's other outstanding obligations having a more senior call on tax increment revenue.

We note that some "Miscellaneous" revenues were received in prior years, and District staff is examining past records to determine if some additional Miscellaneous revenue will be received in the future; however, Miscellaneous revenues have ranged from approximately $10,000 to $80,000 and are not considered to be material amounts affecting the analysis of the District's overall financial condition.

Fire Assessment Revenue Assumptions

Revenues from the Fire Benefit Assessment District are recorded in the Fire Assessment Fund. Assessment revenue will be received in FY 2016-17, the final year for this assessment.

General Fund Summary

Table 1 below summarizes the District's FY 2016-17 revenue, expenditures and Fund Balance estimates, comparing the District's Preliminary Budget and the MRG Recommended Budget for FY 2016-17. It is the District's practice to transfer revenue from the Fire Assessment Fund to the General Fund each year, to cover qualifying expenses. MRG has assumed a transfer of $838,299 to the General Fund, which would eliminate any negative fund balance in the General Fund at the end of FY 2016-17. The Fire Assessment Fund would have a $635,845 fund balance at the end of FY 2016-17; this represents the total remaining fund balance available for the District's ongoing operations in the following years.

General Fund	District Preliminary Budget	MRG Recommended Budget
Fund Balance, Beginning of Year	$378,236	$416,918
Revenue	$4,783,021	$4,910,492
Expenditures	($5,709,766)	($6,165,709)
Transfer in from Fire Assessment Fund	$550,000	$838,299
Fund Balance, End of Year	$1,491	$ 0

Fire Assessment Fund	District Preliminary Budget	MRG Recommended Budget
Fund Balance, Beginning of Year	**$469,029**	**$469,029**
Revenue	**$1,005,115**	**$1,005,115**
Transfer out to General Fund	**($550,000)**	**($838,299)**
Fund Balance, End of Year	**$924,144**	**$635,845**

SAFER Grant Fund

As discussed above, the three-year SAFER grant provides funding for six firefighter positions. The grant as presently structured provides funding for three firefighters through December 2016 and three firefighters through May 2017. Because some firefighters funded by the grant will not be available through these dates, not all of the grant funds will be used in FY 2016-17. MRG estimates that nearly $400,000 in grant funding will be unused. The District should immediately petition for the filled firefighter positions to be able to remain employed and funded through June 2017. If approved, this would reduce the amount of General Fund overtime required to backfill the SAFER firefighter positions in FY 2016-17. **Appendix 2** presents the current SAFER Grant Budget for FY 2015-16, the preliminary budget and the MRG recommended budget for 2016-17.

Capital Fund

The District entered into a line of credit in 2012 to borrow $703,500 for the purchase of one rescue pumper and three command vehicles, and a second line of credit in 2013 to borrow $146,000 for the purchase of personal protection clothing, firefighting equipment and rescue equipment. Principal and interest payments on the lines of credit are required to be made annually through FY 2021-22.

The Capital Fund is used to pay for the annual principal and interest payments on the lines of credit. Phillips 66 agreed to make payments to the District to help cover some of the principal and interest payments. The final year of Phillips 66 payments of $65,000 is FY 2016-17. The FY 2016-17 payment due on the line of credit is approximately $111,210.

In addition, the District has budgeted $26,000 for the purchase of clothing and supplies and firefighter equipment. The Capital Fund has sufficient Fund Balance to pay the principal and interest on the lines of credit and to purchase the clothing and supplies and firefighter equipment.

At the end of FY 2016-17, the Capital Fund will have a balance of $26,760.

Fiscal Years 2017-18 – FY 2020-21

MRG prepared an analysis of the potential revenue available to the District in the four fiscal years following FY 2016-17, and the cost of providing services under two different scenarios.

The first scenario assumes that the District will close one station and operate one four-person engine company. This scenario assumes the District retains all of the current 13 sworn positions and one administrative assistant position. **Appendix 3** presents the projected line item expenditures for FY 2017-18 through FY 2020-21 in the One-Station Scenario

The second scenario assumes that the District will retain two stations and operate two three-person engine companies. Nineteen sworn positions are assumed, along with one administrative assistant position, similar to recent years in which 13 sworn positions and six SAFER Grant positions have operated two engine companies from two stations.

Salary and Benefit Assumptions

The Memorandum of Understanding between the District and the Firefighters Union is expiring. While there are no approved changes in salary or benefits agreed upon by the parties, our analysis assumes that personnel expenditures will increase by 2% per year, and health insurance premiums will increase by 5% per year.

Services and Supplies Assumptions

The analysis estimates future services and supplies costs based on the historical trends for each line item expenditure, and adjusts the anticipated expenditure by a two percent CPI factor in each of the subsequent four years. As an exception, communications expenditures are projected to increase by six percent per year, consistent with the historical cost trends.

The analysis includes the clothing, supplies and firefighter expenditures that are currently budgeted in the Capital Fund, as these are more appropriately characterized as General Fund expenses.

Appendix 4 presents the projected line item expenditures for FY 2017-18 through FY 2020-21.

Revenue Assumptions

Property tax revenue has increased by an average of one percent per year over the past five years, although it has increased by an average of six percent over the past two years. The analysis assumes a three percent annual increase in the future.

The analysis assumes that the Rodeo redevelopment pass through revenue will also increase by three percent per year.

The Special Fire Tax is assumed to continue to be received, but without any annual increase in future years.

Appendix 5 presents the projected revenue for FY 2017-18 through FY 2020-21.

Transfer to Capital Fund

The Capital Fund will be obligated to continue to pay the principal and interest on the outstanding lines of credit in future years. As mentioned above, the Capital Fund will have a fund balance of $26,760 at the end of FY 2016-17, but it has no independent revenue source to support future debt service payments in FY 2017-18 and beyond. The analysis assumes that the General Fund will transfer $53,641 to the Capital Fund in FY 2017-18, and $80,400 annually in FY 2018-19 through FY 2020-21, to pay principal and interest on the lines of credit.

Reserves and District Obligations

As discussed above, a 2013 analysis prepared by Bartel Associates indicated that the District is paying for the current retirees' health care premiums, but is not setting aside funds to meet the OPEB ARC. An additional $.7 million would be required annually to fully fund the ARC. As discussed above, the District expects to receive an updated OPEB actuarial report in August 2016, which may change the estimated ARC.

The District has been using the General Fund reserve to fund ongoing services in recent years, and has exhausted the reserve fund. While the appropriate level of reserve should be based on each agency's unique circumstances, risks, and capacity to fund a reserve, a minimum reserve of two months' expenditures should be established. This would require a reserve of approximately $1 million.

The District has made a significant investment in equipment and vehicles. Each asset has a useful life and will need to be replaced at some time in the future. While a full vehicle and equipment reserve study is beyond the scope of this Report, a review of the existing vehicle stock and vehicle ages indicates that the District should be setting aside $300,000 to $400,000 annually to replace the existing vehicles. This does not include the approximately $230,000 required to replace four emergency response staff vehicles that are already at or beyond their expected useful lives. The District does have approximately $87,000 in a line of credit escrow account that may be used for purchase of administrative vehicles.

Proforma Analysis – One Station, One Engine Company Scenario

The District has historically prepared a "proforma" statement as part of the budget process. The proforma statement includes the budget year beginning Fund Balance, revenue, expenditures, transfers in and out of the fund, and the ending fund balance. MRG has prepared a proforma statement for both scenarios – the one-station and two-station scenarios – for FY 2017-18 through FY 2020-21.

Appendix 6 presents the proforma for the one station, four-person engine company scenario. In summary, the proforma indicates that District expenditures of approximately $6 million in FY 2017-18 will exceed revenue by approximately $1 million, with the gap growing each year to nearly $1.3 million in FY 2020-21. This does not include the full contribution to the OPEB ARC, a

contribution to an equipment and vehicle replacement reserve, or a contribution toward a prudent General Fund reserve.

Proforma Analysis – Two Station, Two Engine Company Scenario

Appendix 7 presents the proforma for the two station, three-person engine company scenario. In summary, the proforma indicates that District expenditures of approximately $6.8 million in FY 2017-18 will exceed revenue by approximately $1.8 million, with the gap growing each year to over $2.1 million in FY 2020-21. As with the first scenario, this does not include the full contribution to the OPEB ARC, a contribution to an equipment and vehicle replacement reserve, or a contribution toward a prudent General Fund reserve.

Proforma Analysis Fund Balance Summary

The following chart summarizes the estimated (negative) General Fund balance at the end of each fiscal year through FY 2020-21, under both scenarios, based on the analysis in **Appendix 6** and **Appendix 7**, not including the full contribution to the OPEB ARC, a contribution to an equipment and vehicle replacement reserve, or a contribution toward a prudent General Fund reserve.

FISCAL YEAR	SCENARIO 1 – ONE STATION	SCENARIO 2 – TWO STATIONS
FY 2016-17 (MRG Recommended Budget)	$0	$0
FY 2017-18	($368,845)	($1,168,159)
FY 2018-19	($1,473,090)	($3,092,579)
FY 2019-20	($2,653,273)	($5,114,457)
FY 2020-21	($3,912,696)	($7,237,782)

2. Statement of the District's Long-Term Financial Obligations and Liabilities

Current Pension Liabilities

District employees are enrolled in the CCCERA system. Two tiers of pensions are provided to employees: a legacy tier and PEPRA tier, the latter of which offers a lesser pension benefit formula. The District makes two types of payments to CCCERA each year:

1. Normal Cost – The Normal Cost payments represent the annual cost of providing retirement benefits for services performed by today's members. The normal cost is estimated at 22.79% ($434,567) of payroll for the legacy tier and 16.53% ($50,910) for the PEPRA tier for FY 2016-17. As shown in the payment summary chart below, Normal Cost payments for FY 2016-17 are expected to total $485,477 between the two plans. This is a 30% increase from the FY 2015-16 estimated payment of $372,543.

2. Payment on Unfunded Liability – The UAAL is the difference between accrued liabilities and the accrued assets, and usually develops due to below-average investment performance by CCCERA, assumption changes, or plan benefit changes. Based upon the

most recent Segal Consulting report, the District's estimated UAAL as of June 30, 2016 is $15,206,974, with a FY 2016-17 payment of $1,491,679 for amortization of this total UAAL.

In total, the District's overall payments to CCCERA have grown 11%, from $1.78 million in FY 2015-16 to $1.98 million in FY 2016-17**,** and will continue to grow as discussed in the following section.

RHFD - ESTIMATED UAL AND ANNUAL PAYMENT BREAKDOWN
From 2014 Segal Consulting Report

	2015/16	2016/17
TOTAL UNFUNDED LIABILITY (UAL)	**$14,711,037**	**$15,026,974**

		2015/16		2016/17	
	ANNUAL PAYMENTS TO CCCERA	**$ Amount**	**% Payroll (1)**	**$ Amount**	**% of Payroll (2)**
	Cost Group A (Legacy)	$ 359,833	23.20%	$ 434,567	22.79%
	Cost Group D (PEPRA)	$ 12,710	18.76%	$ 50,910	16.53%
A	**Total Normal Cost Payments**	**$ 372,543**	**23.01%**	**$ 485,477**	**21.92%**
	Cost Group A (Legacy)	$ 1,352,787	87.22%	$ 1,284,250	67.35%
	Cost Group D (PEPRA)	$ 59,092	87.22%	$ 207,429	67.35%
B	**Total Payment to Amortize UAL**	**$ 1,411,879**	**87.22%**	**$ 1,491,679**	**67.35%**
A+B	**Overall Payment to CCCERA**	**$ 1,784,422**	**110.23%**	**$ 1,977,156**	**89.27%**

(1) Assumes payroll of $1,551,005 for Tier A and $67,750 for Tier B

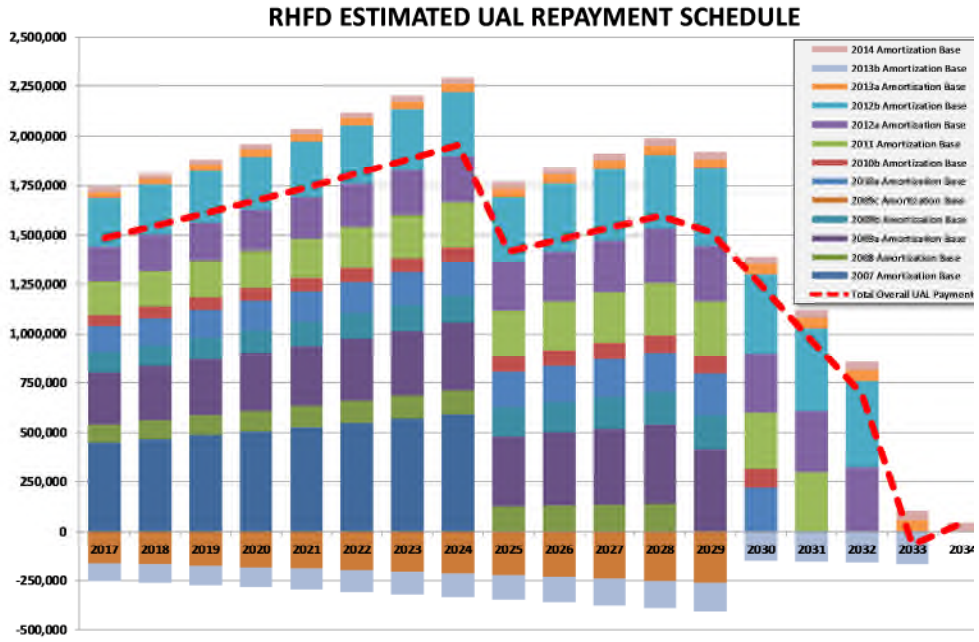
(2) Assumes payroll of $1,906,830 for Tier A and $307,987 for Tier B

UAAL Breakdown and Projected Payments

Based upon the 2014 Segal Report, the District's $15 million UAAL is broken down into 13 various components, called amortization bases. The table below outlines the amount of each of these bases and the amortization period associated with them.

Table of UAL Amortization Bases					
Date Established	**Source**	**Initial Amount**	**Outstanding Balance**	**Years Remaining**	**Annual Payment**
December 1, 2007	Restart of Amortization	$ 3,960,000	$ 3,129,342	8	$ 451,342
December 1, 2008	Actuarial Gain/(Loss)	$ 957,150	$ 891,220	12	$ 90,846
December 1, 2009	Actuarial Gain/(Loss)	$ 2,872,360	$ 2,736,403	13	$ 261,212
December 1, 2009	Assumption Change	$ 1,154,000	$ 1,099,378	13	$ 104,945
December 1, 2009	Depooling Implementation	$ (1,809,374)	$ (1,723,731)	13	$ (164,544)
December 1, 2010	Actuarial Gain/(Loss)	$ 1,502,503	$ 1,456,250	14	$ 130,944
December 1, 2010	Assumption Change	$ 662,085	$ 641,703	14	$ 57,701
December 1, 2011	Actuarial Gain/(Loss)	$ 2,067,217	$ 2,028,164	15	$ 172,654
December 1, 2012	Actuarial Gain/(Loss)	$ 2,246,131	$ 2,221,024	16	$ 179,784
December 1, 2012	Assumption Change	$ 3,018,796	$ 2,985,053	16	$ 241,629
December 1, 2013	Actuarial Gain/(Loss)	$ 413,088	$ 411,469	17	$ 31,793
December 1, 2013	Assumption Change	$ (1,169,821)	$ (1,165,237)	17	$ (90,033)
December 1, 2014	Actuarial Gain/(Loss)	$ 315,937	$ 315,937	18	$ 23,380
	TOTAL		**$ 15,026,975**		**$ 1,491,653**

NHA and MRG analyzed each of these bases to project out the estimated overall payments for the District for the next 18 years. As shown below, the required payments are rather "front-loaded," with payments expected to grow from $1.5 million to $2.0 million by 2024, before beginning to decrease significantly after 2030. Note that this chart does not include Normal Cost payments.



3. Strategies for Fiscal Sustainability

a. Analysis and Recommendations Regarding Existing and Potential District Revenues

Special Tax Measure

In 2014, the District approved a Benefit Assessment District, which was implemented and generates approximately $1 million per year for the District. The Benefit Assessment District was legally challenged, and as part of the settlement agreement, the District agreed to terminate the Benefit Assessment District in 2017, making 2016 the final year the District will receive revenue from the Benefit Assessment District.

One potential method to address the District's inability to finance its operations is for the District to propose, and the Voters in the District to approve, a Special Tax to fund the District's operations. Because the tax would be a Special Tax, it requires two-thirds (plus one) of the voters who participate to approve the Measure.

The revenue from the Special Tax would provide a reliable source of revenue for the District for the term of the Special Tax. Depending on the amount of revenue generated, the income could offset the operating shortfalls the District currently faces.

Extension of current SAFER Grant to use all of the available funding

The current SAFER Grant expires during the 2016-17 Fiscal year. The current SAFER Grant employees are categorized as "veterans" and "non-veterans." The non-veteran positions are required to be deleted and are no longer eligible for funding on January 1, 2017. The veteran-designated positions are eligible to continue service until May 31, 2017. Due to the current number of vacant positions in the SAFER Grant budget, and the projected loss of SAFER Grant non-veterans on January 1, 2017, significant SAFER Grant funds will not be utilized, forcing the District to pay overtime from its General Fund to backfill for these vacant positions. We recommend the District immediately contact the Federal Emergency Management Agency (FEMA) staff and request an exemption from these restrictions to allow use of the SAFER Grant funds until they are depleted. This would result in a significant savings in General Fund overtime costs if the extension were approved.

Application for a New SAFER Grant

The District was awarded a FEMA SAFER Grant in 2014. The Grant allowed the District to increase staffing to a level adequate to permit reopening the Rodeo Station which, had been shuttered in 2012. The approximately $2.5 million Grant expires during the 2016-17 fiscal year. A number of the positions staffed with Grant funds will be leaving in January 2017, with all positions expiring by May 31, 2017. The FEMA Program Management can advise the District regarding the potential for reapplication for an additional grant.

Explore and Develop a Request for the City of Hercules to Adopt a Fee to Support the District's Fire Operations

The District's inadequate property tax revenue fails to provide funding for its fire and emergency services operations. The City of Hercules represents the largest area of growth in the District, with residential (single family and multi-family) as well as commercial, light industrial and other business development permitted in the City. Much of this development is occurring in designated redevelopment areas that do not currently generate property tax revenue for the District. However, these uses generate calls for service and represent potential fire service demands.

The City of Hercules has land-use approval powers, and one potential source of offsetting revenue for new developments is the ability of the City to use its discretionary approval powers to require the new developments to pay funds for operations to the District. The District already receives "development fees" based on the size, complexity, etc. of the development, which are collected by the City as a matter of course. These revenues are collected solely for the purpose of generating revenue to allow the District to construct capital improvements and purchase equipment. These funds are not permitted to be used for operations.

The City does have the ability to require a new development to participate in a Special Tax for the District's Fire services. To establish the payments, the City Council adopts a fee schedule similar to the fees collected for "development impact fees," and requires the development to participate in the fees. The Council creates a special zone that includes the property seeking approval, and the City Clerk conducts an election of the eligible voters. A two-thirds majority is required for approval.

This Special Tax is authorized in section 53978 of the California Government Code.

These provisions are being utilized by Contra Costa County in its P-6 Law Enforcement tax, by the City of Oakley for Law Enforcement services, and by Contra Costa County in its approvals for development in the East County Fire Protection District.

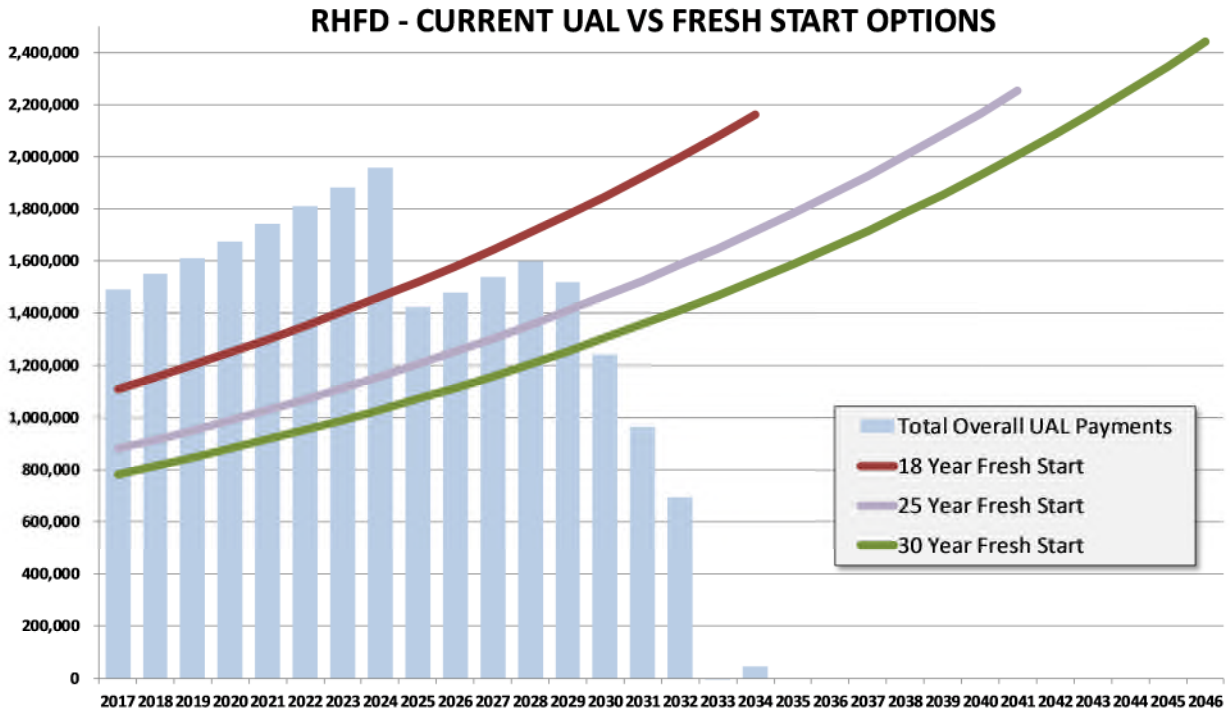
The revenues from these areas would be available to the District through collection of taxes by the County on the property tax bill.

Request a New Amortization Schedule ("Fresh Start") From CCCERA for the District's UAAL

Given the front loaded and uneven repayment structure of the UAAL, the District should consider requesting a re-amortization (known as a "Fresh Start") of its UAAL. We understand that the District requested a new 30-year re-amortization last year, but the process was halted after the District was unable to provide the requested financial information to CCCERA. MRG and NHA have had several calls with the District's actuary at CCCERA, as well as the CEO. While a Fresh Start option is not often provided to many member agencies, they do seem willing to go

through a formal approval process, and had a positive reaction to the fact that the City is going through a formal fiscal sustainability review.

Fresh Start Benefit: For preliminary purposes, we have analyzed three different amortization periods for the Fresh Start option: an 18-year, 25-year and 30-year period. As shown in the chart below, each of the options would provide significant cash flow relief over the next seven years. Under the 18-year scenario (maroon line below), payments would be lowered between $400,000 and $500,000 each year for the next seven years, totaling $3.1 million in savings. Under the longer, 30-year scenario (green line below), the District would save between $700,000 and $900,000 annually for the next eight years, and $7.5 million in total through 2029.



The District would obviously be paying more in UAAL costs over the long-term, since the amortization period would be extended. However, given the current financial situation of the District, this strategy should be given strong consideration considering the magnitude of the potential expense reductions in the near term.

Process: If the District is interested in pursuing a Fresh Start, it must go through a formal approval process with the CCCERA Board. While there are no hard and fast requirements to the request, the District should be prepared to present to CCCERA a longer-term fiscal sustainability plan, budget and projections, and any other policies or processes that will be adopted to ensure the long-term financial health of the District. It will also be important to quantify the benefits that the Fresh Start will provide to the District, and to work with them to determine an optimal amortization schedule that works for both parties.

The actual timing of engaging CCCERA is unknown at this time, and will be highly dependent on the results of this fiscal sustainability project and the strategies that the District decides to implement. Obviously, waiting until the District has a strong proposal to bring to CCCERA is desired, but we would envision engaging CCCERA along the way to "feel out" the most optimal time/method to submit the formal request. The sooner the UAAL can be re-amortized, the sooner the District will begin to realize savings. We estimate that if the District's request was successful prior to May 2017, the new amortization would begin in FY 2017-18.

Renegotiation of the Property Tax Sharing Agreement with Contra Costa County for the Phillips 66 Refinery

The Rodeo Hercules Board requested that MRG evaluate the terms of the tax sharing agreement between the District and Contra Costa County to determine whether the District should pursue renegotiation of that agreement. In October 1996, the Contra Costa County Local Agency Formation Commission (LAFCO) approved annexation of approximately 433 acres of land adjacent to the District's service area. At that time, the refinery on the property was owned by the Unocal Corporation. The purpose of the annexation was to improve the first responder services to the Unocal Refinery and to improve emergency services to the facility.

Included in the LAFCO approval was an executed Resolution by the Rodeo Hercules Board of Directors approving a Property Tax Transfer Agreement between the District and Contra Costa County. The Agreement contains a formula for the distribution of the proceeds of taxes from the facility that was developed by the County Auditor-Controller. The formula listed in the agreement in **Appendix 8** establishes the basis for the tax distributions between the applicable taxing agencies. The Property Tax Transfer Agreement was based on the Master Property Tax Agreement between the County and a number other special districts in the County beginning in 1981.

The formula provides the annexing district its proportionate share of the incremental property taxes, equivalent to that district's share in the surrounding tax rate areas. At that time, the District was receiving 14% of the property taxes for the areas it served, under the agreed-to formula, it would receive approximately 10% of the property taxes. It is important to recognize that the reallocation of the proportional share of the incremental property taxes to the District resulted in a reduction of the funds received by the other participating agencies.

If the District were to request a modification to the current Tax Sharing Agreement to increase its share of the property taxes from the annexed area, the County would not be required to agree to modify the agreement to expand the District's share of the property taxes. Given the long-standing nature of the formula contained in the Property Tax Sharing Agreement, the number of agencies receiving revenue from the property, and the County's history in the area of Property Tax sharing, we cannot conclude that the District would have a significant opportunity for improving its share of the increment. We believe that there are other revenue

opportunities that could be developed exclusively for the District and provide a much more substantial and reliable revenue stream to the District.

Review of Funding Sources from other Public Agencies

During the January through May 2016 period, Chief Hanley explored a number of potential opportunities for additional funding from outside agencies, including the City of Hercules and Contra Costa County. Although initial efforts to obtain a portion of the County's Proposition 172 funds were unsuccessful, additional conversations were held regarding the potential of a one-time funding allocation to assist the District. Both the County and City of Hercules expressed willingness to discuss potential assistance to the District.

Meetings were held involving the County Administrator, the City Manager of Hercules and Chief Hanley. Initial discussions focused on the assistance provided to the East Contra Costa Fire District by the Cities of Brentwood and Oakley and the County, and the potential to match those funding allocations at a meeting held on April 13, 2016. Following that initial meeting, Chief Hanley left the District.

MRG has had conversations with both the City Manager of Hercules and the County Administrator on the content of the meeting and the current status of the funding opportunity. It is reported by both the County Administrator and the City Manager that the County Administrator offered to take a proposal to the Board of Supervisors' Finance Committee that the County provide $311,000 on a one-time basis, provided that the City of Hercules would also provide funding similar to what the Cities of Oakley and Brentwood provided for East County Fire. At that time, the City Manager indicated that the City did not have funds available and would not participate. The County Administrator has further confirmed that the County budget is set for 2016-17 and that he believes there would likely not be support to provide funding unless the City of Hercules also provides funding.

Based on this information, we do not foresee one-time funding forthcoming from either Contra Costa County or the City of Hercules.

Evaluation of Availability of Redevelopment Pass-Through Funding from the Hercules Successor Agency

State Law historically permitted cities to create Redevelopment Agencies to combat blight in their communities. The Redevelopment Agency was permitted to utilize a significant portion of the property taxes generated in the redevelopment area to fund improvements and development in the designated area. The redistribution of these revenues to the redevelopment agency would often be mitigated for the other affected taxing agencies through the use of pass-through agreements between the redevelopment agency and the taxing entities. State law further defined the pass-through amounts prior to the demise of redevelopment agencies.

The City of Hercules designated a significant amount of its area as a redevelopment area and pursued aggressive redevelopment activities, largely through the sale of bonds to finance improvements, projects and other activities. When the State Supreme Court confirmed the State Legislature's ability to dissolve redevelopment agencies, legislation was in place to "unwind" the agencies, satisfy their debt obligations and, ultimately extinguish their share of the property taxes. In 2011, the pass-through due the City of Hercules, approximately $841,000 for 2011, was frozen and redirected to assist the Agency in addressing its obligations. Those funds continue to be redirected and are estimated to total $1,163,774.58 for the 2015-16 fiscal year.

The Fire District has requested MRG evaluate the status of the pass-through funding and the potential of the District recovering those funds. In dissolving the redevelopment agencies, the State prescribed the method of the "wind down" to ensure that bona fide debt holders and other designated creditors would be paid before the agency could be extinguished. State law created successor agencies to replace each redevelopment agency—and the successor agency's purpose was to develop a list of "Enforceable Obligations" (debt, etc.) that the agency is responsible for, obtaining State Department of Finance approval of the list, and then preparing a Recognized Obligation Payment Schedule (ROPS), which contains a list of the obligations, their amount, etc.

The Successor Agency for the Hercules Redevelopment Agency has an approved ROPS schedule, which it must update every six months and seek approval from the State. The County Auditor-Controller also reviews the ROPS. The Hercules ROPS (**Appendix 9)** lists 17 recognized obligations of the 29 listed by the Successor Agency. The obligations to those listed entities must be satisfied before funds can be directed to other entities or taxing agencies.

The State of California has not recognized the outstanding pass through funds as a part of the approved ROPS; the existing pass through obligations are listed on the ROPS as a footnote under Notes/Comments. We have confirmed that the County Auditor-Controller is aware of the pass through listing. At this time; however, there is not a mechanism or timeline for payment of the pass through obligations. It is anticipated that when the ROPS obligations are satisfied, a schedule for payment of the deferred pass through obligations will be established.

Due to the extremely high debt and obligation load held by the Hercules Successor Agency, it is unlikely that the ROPS obligations will be satisfied in the foreseeable future. The total revenues are not currently adequate to satisfy the scheduled debt payments, so the unsatisfied payments are accruing interest annually, which extends the term of the payment. Therefore, we do not believe that the Rodeo Hercules Fire District or the other affected taxing agencies should anticipate payment in any form for many years.

Chief Hanley Compensation

The Rodeo Hercules Fire District Board requested that MRG review the employment agreements between the District and Chief Hanley and provide summaries of the various benefits contained in those employment agreements. In addition, the Board requested that MRG develop a summary of the Total Compensation costs borne by the District for the Chief's employment and his separation compensation (**Appendix 10**). We reviewed the employment agreements and amendments between the Chief and the District to develop those summaries. Our summaries include the basic economic and employment elements of the original October 2010 agreement, the amendments in 2011 and 2012, and the replacement employment agreement approved in October 2014.

Employment Agreements

The agreements are summarized below:

- The 2010 Agreement established basic compensation, benefits and employment terms;
- The 2011 Amendment clarified several employment terms;
- The 2012 Amendment expanded several benefits in the areas of Administrative Leave, Vacation Benefits, and the "retroactive deferral" of 10% of base pay.
- The 2014 Agreement replaced the 2010 Agreement and added language in the areas of the Termination of the Agreement; expanded compensation in the event of Termination of the Agreement; added language in the event that the District contracted with another agency for Chief services; language regarding the Working Environment; expanded Administrative Leave, and modified the Chief's work hours

Chief Hanley Employment Agreement History

<u>2010 Initial Agreement: October 25, 2010</u>

- Term: 3 years
- Salary: $161,000.00 annually
- Uniform Allowance: $55.00/month
- 40 Hours Administrative Leave
- Deferred Compensation of $300.00/month
- Holiday/Vacation: 13 holidays/80 hours vacation
- Sick Leave of 40 hours/12 hours per month
- Management Benefits
- District Pays 50% of employee's basic retirement/employee pays the rest

<u>Amendment: January 12, 2011</u>

- Modifies Vehicle language—deletes "….related to District business during the work week." Reads, "The district shall pay all fuel, insurance and maintenance costs for the vehicle."
- Modifies Residency language requiring employee to "be capable of responding to fire and life safety situations within the District except during scheduled vacation time." New

language states, "Employee shall be available or in communication with District personnel or fire dispatch in the event of a fire and life safety or urgent situation, unless prior notification is given."

Amendment: March 14, 2012

- Modifies Administrative Leave from 40 hours to 80 hours per year. Allows continuous accrual and allows for reimbursement for 50% of annual accrual
- Modifies Vacation Benefits by establishing a bank of 160 hours and increases accrual rate to 28 hours per month with a 688 hour maximum
- Continues "retroactive deferral" of 10% over base pay increase approved by the Board on January 26, 2011 through July 1, 2012, as approved by the Board of Directors on January 26, 2011.

2014 Replacement Agreement: October 8, 2014

- Term: 15 months—expires January 1, 2016
- Salary: $185,952.00 annually
- Modifies Termination Section to replace "Grave Misconduct" definition with "Criminal Gross Misconduct," which includes conviction of a felony or a crime of moral turpitude
- Termination shall not occur within 14 months of the November 4, 2012 election except for Criminal Gross Misconduct
- Modifies "Severance Pay for Termination Without Cause" language to increase severance pay from six months to one year, and adds family health insurance for the one-year term if the severance occurs during the initial 15 months of the agreement. It further increases the severance pay from four to six months, and includes health insurance for the six-month period if termination occurs after the 15-month period. Severance Pay for termination without cause will be paid unless the Gross Criminal Misconduct language applies.
- Adds language regarding Contract for Service, allowing the employee to continue service with the contracting agency should the RHFD contract for Chief services. Also maintains current salary and benefits if the Chief continues service. Additional new language requires that the District provide the employee 90 days' notice if the employee agrees to separate from service at the time of contracting with another agency, and 12 months' severance with benefits as described in the Severance Pay section.
- Adds language regarding Working Environment—requiring Board to meet certain standards of behavior and operational activities. Failure to meet those standards constitutes a termination without cause and triggers the termination benefits described above.
- Uniform Allowance of $55.00/month
- Increases Administrative Leave from 80 to 120 hours per year
- District to continue to furnish a vehicle for the Chief's use, including rent, lease, fuel, insurance and maintenance costs.
- Deferred Compensation at $500.00/month is continued
- Holiday/Vacation: 13 holidays/80 hours vacation—accrue @28⅔ hours per month

- Sick Leave of 40 hours/week; 12 hours per month
- Modifies work hours from Monday through Friday from 8:00 a.m. to 4:00 p.m., to Monday through Thursday from 6:00 a.m. through 3:00 p.m.
- Management Benefits per District policies
- Retirement: Employee pays employee side

In our review, we did not find any irregularities in the implementation of the Employment Agreements during the Chief's tenure. In addition, we did not find any irregularities in the final compensation when the Chief left the Agency.

b. Recommendations Regarding District Fiscal Processes, Procedures and Practices

Fund OPEB ARC and renegotiate Post-Employment Medical Benefit Provisions

The District's employment agreements include Post-Retirement Medical payments for retirees at a specified level. The Governmental Accounting Standards Board (GASB) requires public agencies have regular actuarial studies conducted to calculate the obligations being incurred by the agency. GASB does not require payment of the full costs being incurred, but permits payment of only the currently incurred costs and not the UAAL. If the District continues to pay only the current year costs, the UAAL will continue to grow and the annual contribution for incurred costs will grow to assume a larger and larger portion of the operating budget, forcing the District to reduce its operating expenditures. This obligation grows every year due to inflation and an increasing number of retirees becoming eligible for retirement and claiming the benefit.

We recommend that the District seek to modify this benefit for new and current employees to significantly reduce the future liabilities faced by the District. Left unaddressed, the long-term impacts of this benefit will significantly impair the District's financial stability in future years. These modifications could include a cap on costs, funding only until the retiree qualifies for Medicare, and other variations.

The current obligations faced by the District, the retirement system (CCCERA), pension UAAL, and the OPEB post-retirement medical costs (current costs and UAAL), if paid on an ongoing basis, would require the District to pay approximately $2.6 Million per year for these two items.

Adopt Financial and Budget Policies and Practices

The District's reliance on one administrative level person and the Fire Chief to manage the District's finances, prepare its budget and ensure compliance with applicable governmental regulations and law places an unreasonable burden on those two staff positions. As a result, the District currently lacks adequate financial and budget policies and controls to ensure its operations comply with applicable accounting and operational standards. Both the State

Controller and Government Finance Officers Association recommend a significantly more rigorous set of financial policies and procedures than are now in place.

For reference, the State Controller's Office has published Internal Control Guidelines for Local Agencies (**see Appendix 11**), and the Government Finance Officers Association (GFOA) has extensive guidelines and examples of best practices for local governments on its website.

The initial preparation of the Preliminary 2016-17 Budget is an example of the consequences of the Agency not having in place a set of standardized policies and procedures based on best practices of comparable agencies.

The Rodeo Hercules Fire District operates on a July 1 to June 30 Fiscal Year, but its budget process is not typically completed until the end of September, three months into the next fiscal year. The reason given for the District's waiting until September to approve the final budget was that the final property tax revenue estimates are not generally available until mid-July, and variances in those revenues can have a significant impact on the Budget if the estimates are lower than anticipated.

The 2016-17 Budget process involved preparation of a Preliminary Budget for review by the Board Finance Committee—which didn't occur due to the Interim Chief's appointment. The 2016-17 Budget was presented to the Board for review at the June 8, 2016 meeting by the Interim Chief. At that meeting, a public hearing was held and the Board approved the Preliminary Budget.

MRG has reviewed the Preliminary Budget in detail with District staff and conducted a detailed review of the revenue and expenditure estimates and the projected fund balances for the Fiscal 2016-17 year end. As a result of this review, significant increases have been made by the staff in the projected expenditures for the 2016-17 Budget. These increases, combined with a detailed review of the current year (2015-16 Fiscal Year) actual expenditures, have significantly reduced the projected fund balances for both the 2015-16 Fiscal Year and the 2016-17 Fiscal Year, based on the Preliminary Budget presented to the Board in June.

The reason for the large variance is that the Preliminary Budget is typically prepared based on the Adopted Budget for the current year—and not the estimated actual expenditures for the current year Budget. This often results in underestimation of expenditures in the Proposed Budget and can have a significant impact on the year-end fund balances for the current and proposed budgets.

A typical Budget Cycle involves the staff, working with the Board Subcommittee and the full Board to accomplish the following:

1. Conduct a mid-year review (typically in January) of the first six months of Budget experience for the fiscal year, and preparation of Projected Revenues and Expenditures for the full fiscal year.

2. Conduct a discussion of the Agency's fiscal condition (typically in early Spring), projected revenues and expenditures, proposed programs, capital expenditures and anticipated revenues for the upcoming fiscal year. At that time the Board gives direction to the staff on what to include in the upcoming Budget.
3. Based on those discussions, the Agency staff prepares a preliminary Budget (generally in May) that is reviewed by Board—following an Ad Hoc Finance Committee review in late May/early June.
4. The Board then completes its review, public hearings are held, final changes are made and the Budget is adopted prior to the end of June.
5. To augment the Budget Cycle, typically the Board is presented with quarterly updates by the staff on the financial conditions the Agency is encountering. These can include unanticipated expenditures, increases or decreases in revenues or expenditures, capital costs that exceed estimates, etc. This ensures that the Board is fully informed of their financial status throughout the year.

We recommend that the Board have policies and procedures developed for its review that will establish an adequate framework for its financial activities. These policies and procedures will govern the Agency's budget, accounting, internal controls, accountability, third party review and Board role in the Agency's financial activities. When implemented, these policies and procedures ensure the Board has adequate information, control and transparency of its financial matters.

Contract with a Third Party for Fiscal, Budget, Accounting Management and Financial Reporting

The District's financial activities are completed by the District's Administrative Assistant and Fire Chief. The County provides access to its accounting system to track payroll, the District's expenditures and other related activities. There are currently no financial professionals involved it these activities.

In adequately managed organizations, such as cities or larger districts, administrative-level personnel normally enter, confirm and manage payroll data input, confirm expenditures, approve invoices, develop spreadsheet-based summaries and provide data for budget development to senior staff. The next level of financial activities is conducted by accounting personnel, experienced finance officers and bookkeeping personnel. More complex activities, such as calculating equipment reserve funds, grant administration, fiscal forecasting, budget development and expenditure management are completed by these professionals also.

Due to the economic constraints the District faces, it is impractical to expect the District to hire full-time staff to manage its finances. It is imperative that the District put in place the policies, procedures and controls outlined above to achieve fiscal integrity. It is our recommendation

that the District contract with a competent third party for these services, including development of policies and procedures governing the District's financial operations; preparation and review of the annual budget; preparation of quarterly financial reports; grant administration; preparation of depreciation schedules; supervision of the payroll and data entry activities; and providing impartial third-party reporting and recommendations to the Board. Additionally, this third party could work with the District to manage the District's annual audits and prepare request for proposals when the audit firm providing has exceeded its recommended term of service (normally 5-7 years).

The third party entity could be another Special District, a public agency or a private service provider. We also believe that these services could be obtained for a fraction of the cost of a full-time employee and provide a higher level of expertise and third party objectivity not available with an in-house employee.

Establish and Maintain Fiscally Responsible Reserve Levels – General Fund and Equipment Replacement Reserves

The District does not currently have policies in place regarding reserves for its General Fund or for replacement of equipment. We recommend the General Fund reserve equal two months' expenditures—approximately $1.0 million, based on the current Budget. In addition, the District does not have an equipment replacement reserve schedule, which is integrated into the budgeting process. Although a schedule for replacement of key equipment exists, the costs of replacement, depreciation schedules and designated reserve contributions have not been established. Once complete, the District can determine how much should be contributed to the fund to ensure adequate funds are available to replace equipment in a timely manner.

These two reserves could be established and contributions to the reserves incrementally increased over time. In addition, any "one time'" funds received could be placed in these reserves to avoid the District becoming reliant on infrequent, unreliable funds.

E. Conclusion

It is important to stress that a significant number of the District's financial problems stem from situations largely out of control by the District. The historical actions by the State of California over the past 40 years have degraded the District's share of the property taxes. This has been severely exacerbated by the impacts of the City of Hercules' designation of a broad area of the City as a redevelopment area The situation was compounded by the Redevelopment Agency incurring unprecedented debt loads and the demise of redevelopment on a State-wide basis. It is interesting to note that the relatively small Rodeo Redevelopment Agency had little debt, and the District is currently receiving revenue from that agency.

The net effect of the City of Hercules Redevelopment situation is that the District receives no property taxes to support its services from a significant portion of the City. In addition, new

development that occurs in the redevelopment areas in Hercules generates no property taxes to support the new service demands created by development.

It is clear that a mix of revenue enhancements and stability efforts, combined with reductions in expenditures, could lead to a more stable financial positon for the District. We recommend the District explore the following measures and undertake those it determines feasible:

1. Seek a Tax Measure on the November Ballot to support District operations;
2. Make effective use of the remaining SAFER Grant funds and apply for an additional Grant in the 2017-18 Fiscal Year.
3. Work with the City of Hercules to assist it in implementing a Public Safety Fee for fire operations on all new development in the City; and
4. Develop a fiscally responsible and accountable budgeting and management system and request CCCERA approval of a "restart" on payments for the District's Unfunded Accrued Actuarial Liabilities to reduce annual payments.

We also recommend the following actions for the District to improve its financial operations and fiscal situation:

1. Incrementally move to full funding of the District's OPEB obligations;
2. Continue to fully fund the UAAL, even if reduced by CCCERA;
3. Renegotiate the District's Post-Employment Benefits to reduce cost and liabilities;
4. Adopt financial and budgeting policies and practices; and
5. Contract with a third party for fiscal, budget, accounting management and financial reporting to the Board.

Municipal Resource Group, LLC
NHA Advisors, LLC

F. Appendices

Appendix 1	FY 2016-17 General Fund Budget Analysis
Appendix 2	FY 2016-17 SAFER Budget Analysis
Appendix 3	One Station 4-Person Engine Company Scenario FY 2107-18 through FY 2020-21
Appendix 4	Two Station 3 Person Engine Company Scenario FY 2017-18 through FY 2020-21
Appendix 5	District Revenue Analysis
Appendix 6	District Proforma for One Station 4 Person Scenario
Appendix 7	District Proforma for Two Station 3 Person Company Scenario
Appendix 8	Property Tax Sharing Agreement with Contra Costa County for the Conco Property Annexation
Appendix 9	City of Hercules Redevelopment Successor Agency ROPS
Appendix 10	RHFD Compensation Summary for Chief Hanley
Appendix 11	State Controller's Office Internal Control Guidelines for Local Agencies

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 1

FY 2016-17 General Fund Budget Analysis

Expenditure Category	Actual FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	Preliminary Budget FY 2016-17	MRG Recommended Budget FY 2016-17	MRG Assumptions
Holiday Pay	113,764	98,119	105,803	111,863	114,877	115,561	116,670	156 hours at OT rate
Permanent Salaries	1,813,844	1,545,775	1,743,883	1,734,223	1,849,324	1,674,894	1,674,895	Staff estimate, actual staffing
Drill/Temporary Salaries	6,180	3,512	2,186	63,536	8,904	2,500	2,500	Staff estimate
Overtime	1,137,652	627,482	259,249	330,856	304,624	345,522		
Backfill							221,802	330 hours for 13 sworn, minus CTO
SAFER Backfill							54,230	34 shift months at 27.5 hours/month x $58 OT rate
Post-SAFER Coverage							534,845	242.67 x 38 shift months at $58 OT hour rate
Deferred Compensation	7,200	10,800	10,800	13,200				
FLSA			=			37,259	40,505	
FICA	34,992	30,924	31,764	38,012	33,131	32,619	23,819	1.45% of salary
Retirement	942,672	994,185	1,279,314	1,576,624	1,554,845	1,780,338		
Retirement - Normal							430,329	
Retirement - UAAL							1,358,110	$1,582,068 minus $223,958 charged to SAFER grant
Group Insurance	295,393	294,779	342,749	347,272	356,291	361,833	361,001	$23,086 per employee
Group Insurance - Retiree	221,283	249,796	289,266	311,167	304,622	294,000	294,000	Pay as you go only
Group Insurance - OPEB ARC								Not included
Unemployment		133			537	1,000	1,000	Staff estimate
Workers Compensation Insurance	185,020	196,521	252,420	56,067	212,483	104,733	175,864	10.5% of salary
Total - Personnel	4,758,000	4,052,026	4,317,434	4,582,820	4,739,638	4,750,259	5,289,570	
Office Expenses	8,344	9,400	10,544	7,091	9,036	13,515	9,100	3 year average + 2%
Books/Periodicals/Subscriptions	200	1,538	2,040	146	1,547	1,872	1,300	3 year average + 2%
Communications	131,746	135,275	144,195	152,436	162,870	156,549	165,500	p/y + 9,000
Utilities	21,551	8,450	15,083	17,497	22,765	23,540	23,540	Staff estimate
Small Tools & Instruments				24	233	3,180	100	2 year average
Medical Supplies	8,162	7,403	7,947	7,483	6,793	8,650	7,600	3 year average + 2%
Food	1,264	362	41	1,754	1,349	2,000	1,100	3 year average + 2%
Clothing & Personal Supplies	10,615	9,474	9,900	9,295	8,970	8,580	8,580	Staff estimate
Household Expense	5,669	6,152	4,407	8,405	5,785	12,125	6,300	3 year average + 2%
Publications & Legal Notices	893	233	623	890	1,832	1,200	1,100	3 year average + 2%
Memberships	4,342	3,424	2,964	4,204	4,006	4,939	3,800	3 year average + 2%
Rents & Leases - Equipment	7,561	7,560	8,279	8,588	7,924	10,050	8,400	3 year average + 2%
Repairs & Service Equipment	7,089	10,293	3,386	10,253	12,940	15,097	9,000	3 year average + 2%
Central Garage Repairs	30,852	38,068	2,458	22,854	22,109	81,172	37,000	5 year average + 5%; not including strike team reimbursement
Central Garage Gasoline/Oil	5,997	4,251	5,180	4,376	2,010	12,250	4,600	5 year average + 5%
Central Garage Tires	10,555	5,987	6,307	12,134	978	10,111	7,600	5 year average + 5%
Maintenance Radio - Electronic Equip	8,251	3,497	1,007	45,761	18,689	20,910	20,910	Staff estimate
Maintenance of Buildings	5,044	4,179	781	6,010	1,226	5,250	3,600	5 year average + 5%
Other Travel Expenses	3,137	2,782	4,600	2,163	2,203	4,200	3,000	3 year average + 2%
Professional/Specialized Services	250,933	252,338	282,526	405,914	631,645	469,755	469,755	Staff estimate; includes ConFire Chief
Data Processing Service	810	281	210	323	250	2,210	300	3 year average + 2%
Data Processing Supplies						200		
Information Security	460	554	660	822	1,042	1,518	900	3 year average + 2%
Other Departmental			26					
Insurance	21,457	19,030	28,111	28,505	38,829	37,554	37,554	Staff estimate
Fire Fighting Supplies	3,530	4,920	9,264	34,716	6,806	5,700	5,700	Staff estimate
Recreation/Physical Fitness Equipment	721	694	180			1,350		
Education Supplies & Courses	-7,671	5,229	7,817	39,141	6,412	10,030	14,700	Staff estimate
Other Special Departmental Expenses	15,563	12,654	13,548	18,293	2,815	20,000	13,200	5 year average + 5%
Interest on Notes & Warrants	1,905	667	504	113	901	14,000	900	5 year average + 5%
Taxes & Assessments	10,719	10,734	10,837	11,038	10,395	2,000	11,000	3 year average + 2%
Total Service & Supplies	569,699	565,429	583,425	860,229	992,360	959,507	876,139	
Total	$5,327,699	$4,617,455	$4,900,859	$5,443,049	$5,731,998	$5,709,766	$6,165,709	Note (1)

Notes:
(1) MRG Recommended Budget does not include contributions to OPEB ARC, Equipment Replacement Reserve or General Fund Reserve, pending final analysis of financial condition.

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 2

FY 2016-17 SAFER Budget Analysis

Expenditure Category	Actual FY 2015-16	Preliminary Budget FY 2016-17	MRG Recommended Budget FY 2016-17	MRG Assumptions
Holiday Pay	33,385	29,217	14,609	34 actual shift months, as SAFER employees leave
Salary	441,124	276,145	180,223	34 actual shift months, as SAFER employees leave
FLSA		8,399	4,707	34 actual shift months, as SAFER employees leave
FLSA + OT	125,911			
Overtime charged to 7800	-117,164			
FICA	8,781	5,151	2,893	1.45% of salary
Retirement	481,340			
Retirement - Normal		54,406	32,984	16.53% PEPRA pension rate
Retirement - UAAL		474,264	223,958	34 actual shift months, as SAFER employees leave
Retirement - UAAL to 7800				
Group Insurance	128,401	114,400	75,037	34 actual shift months, as SAFER employees leave
Unemployment	1,801			
Workers Compensation Insurance	16,845	44,880	18,923	10.5% of salary
Uniform Allowance	4,840	3,960	1,870	34 actual shift months, as SAFER employees leave
Other expenses	785			
Total	$1,126,049	$1,010,823	$555,204	$398,164 may remain in SAFER budget as of May 31, 2017 (1)

Note (1) : RHFD indicates that $953,368 is available in SAFER grant funding as of July 1, 2016. MRG did not analyze amounts charged to or remaining available in SAFER grant budget categories (such as veterans, personnel and non-personnel budgets).

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 3

One Station 4-Person Engine Company Scenario FY 2107/18 through FY 2020/21

Expenditure Category	MRG Recommended Budget FY 2016-17 (Note 1)	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	MRG Assumptions FY 2017-18 - FY 2020-21
Holiday Pay	116,670	119,003	121,384	123,811	126,287	2% CPI per year
Permanent Salaries	1,674,895	1,708,393	1,742,561	1,777,412	1,812,960	13 sworn, 1 AA; 2% CPI per year
Drill/Temporary Salaries	2,500	2,550	2,601	2,653	2,706	2% CPI per year
Overtime						
Backfill	221,802	226,238	230,763	235,378	240,086	330 hours for 13 sworn, minus CTO
SAFER Backfill	54,230					
Post-SAFER Coverage	534,845					
Deferred Compensation						
FLSA	40,505	41,315	42,141	42,984	43,844	2% CPI per year
FICA	23,819	24,295	24,781	25,277	25,783	1.45% of salary
Retirement						
Retirement - Normal	430,329	438,936	447,715	456,669	465,802	22.79% Legacy rate
Retirement - UAAL	1,358,110	1,613,369	1,677,904	1,745,020	1,814,821	Per Segal Report to CCCERA
Group Insurance	361,001	379,051	398,004	417,904	438,799	5% increase per year
Group Insurance - Retiree	294,000	308,700	324,135	340,342	357,359	5% increase per year; pay as you go only
Group Insurance - OPEB ARC						Not included
Unemployment	1,000	1,000	1,000	1,000	1,000	
Workers Compensation Insurance	175,864	179,381	182,969	186,628	190,361	10.5% of salary
Total - Personnel	5,289,570	5,042,232	5,195,957	5,355,078	5,519,808	
Office Expenses	9,100	9,282	9,468	9,657	9,850	2% CPI per year
Books/Periodicals/Subscriptions	1,300	1,326	1,353	1,380	1,407	2% CPI per year
Communications	165,500	175,430	185,956	197,113	208,940	6 % increase per year, based on historical costs
Utilities	23,540	24,011	24,491	24,981	25,480	2% CPI per year
Small Tools & Instruments	100	102	104	106	108	2% CPI per year
Medical Supplies	7,600	7,752	7,907	8,065	8,226	2% CPI per year
Food	1,100	1,122	1,144	1,167	1,191	2% CPI per year
Clothing, Personal Supplies and FF Equipment		22,333	22,779	23,235	23,700	Formerly in Capital Budget; 2% CPI per year
Uniforms	8,580	8,752	8,927	9,105	9,287	2% CPI per year
Household Expense	6,300	6,426	6,555	6,686	6,819	2% CPI per year
Publications & Legal Notices	1,100	1,122	1,144	1,167	1,191	2% CPI per year
Memberships	3,800	3,876	3,954	4,033	4,113	2% CPI per year
Rents & Leases - Equipment	8,400	8,568	8,739	8,914	9,092	2% CPI per year
Repairs & Service Equipment	9,000	9,180	9,364	9,551	9,742	2% CPI per year
Central Garage Repairs	37,000	37,740	38,495	39,265	40,050	2% CPI per year
Central Garage Gasoline/Oil	4,600	4,692	4,786	4,882	4,979	2% CPI per year
Central Garage Tires	7,600	7,752	7,907	8,065	8,226	2% CPI per year
Maintenance Radio - Electronic Equip	20,910	21,328	21,755	22,190	22,634	2% CPI per year
Maintenance of Buildings	3,600	3,672	3,745	3,820	3,897	2% CPI per year
Other Travel Expenses	3,000	3,060	3,121	3,184	3,247	2% CPI per year
Professional/Specialized Services	469,755	479,150	488,733	498,508	508,478	2% CPI per year; includes contract Fire Chief
Data Processing Service	300	306	312	318	325	2% CPI per year
Data Processing Supplies						
Information Security	900	918	936	955	974	2% CPI per year
Other Departmental						
Insurance	37,554	38,305	39,071	39,853	40,650	2% CPI per year
Fire Fighting Supplies	5,700	5,814	5,930	6,049	6,170	2% CPI per year
Recreation/Physical Fitness Equipment						
Education Supplies & Courses	14,700	14,994	15,294	15,600	15,912	2% CPI per year
Other Special Departmental Expenses	13,200	13,464	13,733	14,008	14,288	2% CPI per year
Interest on Notes & Warrants	900	918	936	955	974	2% CPI per year
Taxes & Assessments	11,000	11,220	11,444	11,673	11,907	2% CPI per year
Total Service & Supplies	876,139	922,614	948,084	974,484	1,001,858	
Total	$6,165,709	$5,964,846	$6,144,041	$6,329,562	$6,521,666	Note 2

Notes:
(1) FY 2016/17 does not include SAFER Budget, which supplements the General Fnd Budget to provide staffing for two stations.
(2) Budgets do not include contributions to OPEB ARC, Equipment Replacement Reserve, General Fund Reserve or Capital Fund.

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 4

Two Station 3 Person Engine Company Scenario FY 2017/18 through 2020/21

Expenditure Category	MRG Recommended Budget FY 2016-17 (Note 1)	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	MRG Assumptions FY 2017-18 - FY 2020-21
Holiday Pay	116,670	150,319	153,325	156,392	159,519	2% CPI per year
Permanent Salaries	1,674,895	2,105,270	2,147,375	2,190,322	2,234,129	19 sworn, 1 AA; 2% CPI per year
Drill/Temporary Salaries	2,500	2,550	2,601	2,653	2,706	2% CPI per year
Overtime						
Backfill	221,802	285,305	291,011	296,831	302,768	330 hours for 19 sworn, minus CTO
SAFER Backfill	54,230					
Post-SAFER Coverage	534,845					
Deferred Compensation						
FLSA	40,505	59,713	60,907	62,125	63,368	2% CPI per year
FICA	23,819	29,360	29,947	30,546	31,157	1.45% of salary
Retirement						
Retirement - Normal	430,329	515,180	525,484	535,994	546,714	22.79% Legacy rate; 16.53% PEPRA rate
Retirement - UAAL	1,358,110	1,613,369	1,677,904	1,745,020	1,814,821	Per Segal Report to CCCERA
Group Insurance	361,001	541,501	568,576	597,005	626,856	5% increase per year
Group Insurance - Retiree	294,000	308,700	324,135	340,342	357,359	5% increase per year; pay as you go only
Group Insurance - OPEB ARC						Not included
Unemployment	1,000	1,000	1,000	1,000	1,000	
Workers Compensation Insurance	175,864	221,053	225,474	229,984	234,584	10.5% of salary
Total - Personnel	5,289,570	5,833,320	6,007,740	6,188,214	6,374,979	
Office Expenses	9,100	9,282	9,468	9,657	9,850	2% CPI per year
Books/Periodicals/Subscriptions	1,300	1,326	1,353	1,380	1,407	2% CPI per year
Communications	165,500	175,430	185,956	197,113	208,940	6 % increase per year, based on historical costs
Utilities	23,540	24,011	24,491	24,981	25,480	2% CPI per year
Small Tools & Instruments	100	102	104	106	108	2% CPI per year
Medical Supplies	7,600	7,752	7,907	8,065	8,226	2% CPI per year
Food	1,100	1,122	1,144	1,167	1,191	2% CPI per year
Clothing, Prersonal Supplies & FF Equipment		26,520	27,050	27,591	28,143	Formerly in Capital Budget; 2% CPI per year
Uniforms	8,580	12,791	13,047	13,308	13,574	2% CPI per year
Household Expense	6,300	6,426	6,555	6,686	6,819	2% CPI per year
Publications & Legal Notices	1,100	1,122	1,144	1,167	1,191	2% CPI per year
Memberships	3,800	3,876	3,954	4,033	4,113	2% CPI per year
Rents & Leases - Equipment	8,400	8,568	8,739	8,914	9,092	2% CPI per year
Repairs & Service Equipment	9,000	9,180	9,364	9,551	9,742	2% CPI per year
Central Garage Repairs	37,000	37,740	38,495	39,265	40,050	2% CPI per year
Central Garage Gasoline/Oil	4,600	4,692	4,786	4,882	4,979	2% CPI per year
Central Garage Tires	7,600	7,752	7,907	8,065	8,226	2% CPI per year
Maintenance Radio - Electronic Equip	20,910	21,328	21,755	22,190	22,634	2% CPI per year
Maintenance of Buildings	3,600	3,672	3,745	3,820	3,897	2% CPI per year
Other Travel Expenses	3,000	3,060	3,121	3,184	3,247	2% CPI per year
Professional/Specialized Services	469,755	479,150	488,733	498,508	508,478	2% CPI per year; includes contract Fire Chief
Data Processing Service	300	306	312	318	325	2% CPI per year
Data Processing Supplies						
Information Security	900	918	936	955	974	2% CPI per year
Other Departmental						
Insurance	37,554	38,305	39,071	39,853	40,650	2% CPI per year
Fire Fighting Supplies	5,700	5,814	5,930	6,049	6,170	2% CPI per year
Recreation/Physical Fitness Equipment						
Education Supplies & Courses	14,700	14,994	15,294	15,600	15,912	2% CPI per year
Other Special Departmental Expenses	13,200	13,464	13,733	14,008	14,288	2% CPI per year
Interest on Notes & Warrants	900	918	936	955	974	2% CPI per year
Taxes & Assessments	11,000	11,220	11,444	11,673	11,907	2% CPI per year
Total Service & Supplies	876,139	930,841	956,475	983,043	1,010,588	
Total	$6,165,709	$6,764,161	$6,964,215	$7,171,257	$7,385,567	Note 2

Notes:
(1) FY 2016/17 does not include SAFER Budget, which supplements the General Fnd Budget to provide staffing for two stations.
(2) Budgets do not include contributions to OPEB ARC, Equipment Replacement Reserve, General Fund Reserve or Capital Fund.

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 5

District Revenue Analysis

	Actual					Budget					
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	MRG Assumptions
Property taxes	3,001,059	3,021,247	2,992,733	2,743,230	2,987,549	3,105,453	3,198,617	3,294,575	3,393,412	3,495,215	3% annual increase (2 year avg. is 6%; 5 year avg. is 1%)
Intergovernmental (Rodeo Pass-Thru)	228,493	213,749	218,367	261,295	305,354	316,063	325,545	335,311	345,371	355,732	3% annual increase (5 year avg. is 7%)
Homeowners Tax Relief	41,989	40,057	36,448	31,475	31,031	31,031	31,031	31,031	31,031	31,031	Stable
Miscellaneous Government Agencies	177,099	172,560	242,252								
Charges for Services	5,329	10,737	5,321	22,229	33,183	33,000	33,660	34,333	35,020	35,720	2% CPI
Measure H EMS	69,709	83,172	77,491	77,491	85,952	85,952	85,952	85,952	85,952	85,952	Stable
Miscellaneous	9,842	16,378	44,216	83,878							
Special Tax/Fire (Benefit Assessment)	1,336,551	1,336,773	1,336,107	1,331,556	1,338,993	1,338,993	1,338,993	1,338,993	1,338,993	1,338,993	Stable
Total General Fund Revenue	$4,870,071	$4,894,673	$4,952,935	$4,551,154	$4,782,062	$4,910,492	$5,013,797	$5,120,196	$5,229,779	$5,342,643	

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 6

District Proforma for One Station 4 Person Scenario

General Fund	MRG Recommended Budget FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Fund Balance, Beginning of Fiscal Year	$416,918	$0	-$368,845	-$1,473,090	-$2,653,273
Revenue	$4,910,492	$5,013,797	$5,120,196	$5,229,779	$5,342,643
Expenditures	($6,165,709)	($5,964,846)	($6,144,041)	($6,329,562)	($6,521,666)
Transfer Out to Capital Fund		($53,641)	($80,400)	($80,400)	($80,400)
Annual Deficit (Revenue - Expenditure - Transfers Out)	($1,255,217)	($1,004,690)	($1,104,245)	($1,180,183)	($1,259,423)
Transfer In from Fire Assessment District Fund	$838,299	$635,845			
Fund Balance, End of Fiscal Year	$0	($368,845)	($1,473,090)	($2,653,273)	($3,912,696)

Fire Assessment District Fund	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Fund Balance, Beginning Fund Balance	$469,029	$635,845			
Revenue	$1,005,115	$0			
Transfer Out to General Fund	($838,299)	($635,845)			
Fund Balance, End of Fiscal Year	$635,845	$0			

General Fund Balance Analysis Does Not Include:	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Contribution to OPEB ARC	$743,000	$728,300	$712,865	$696,658	$679,641
Contribution to General Fund 15% Reserve	$894,727	$0	$26,879	$27,828	$28,816
Contribution to Equipment Replacement Reserve	tbd	tbd	tbd	tbd	tbd

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 7

District Proforma for Two Station 3 Person Company Scenario

General Fund	MRG Recommended Budget FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Fund Balance, Beginning of Fiscal Year	$416,918	$0	-$1,168,159	-$3,092,579	-$5,114,457
Revenue	$4,910,492	$5,013,797	$5,120,196	$5,229,779	$5,342,643
Expenditures	($6,165,709)	($6,764,161)	($6,964,215)	($7,171,257)	($7,385,567)
Transfer Out to Capital Fund		($53,641)	($80,400)	($80,400)	($80,400)
Annual Deficit (Revenue - Expenditure - Transfers Out)	($1,255,217)	($1,804,004)	($1,924,419)	($2,021,878)	($2,123,325)
Transfer In from Fire Assessment District Fund	$838,299	$635,845			
Fund Balance, End of Fiscal Year	$0	-$1,168,159	-$3,092,579	-$5,114,457	-$7,237,782

Fire Assessment District Fund	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Fund Balance, Beginning Fund Balance	$469,029	$635,845			
Revenue	$1,005,115	$0			
Transfer Out to General Fund	($838,299)	($635,845)			
Fund Balance, End of Fiscal Year	$635,845	$0			

General Fund Balance Analysis Does Not Include	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Contribution to OPEB ARC	$743,000	$728,300	$712,865	$696,658	$679,641
Contribution to General Fund 15% Reserve	$924,856	$89,768	$30,008	$31,056	$32,147
Contribution to Equipment Replacement Reserve	tbd	tbd	tbd	tbd	tbd

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 8

Property Tax Sharing Agreement with

Contra Costa County for the Conco Property

Annexation

CONTRA COSTA COUNTY LOCAL AGENCY FORMATION COMMISSION
651 Pine Street, Eighth Floor • Martinez, CA 94553-1229
(510) 646-4090 • FAX (510) 646-2240

DATE: October 2, 1996

TO: LAFC Commissioners
Annamaria Perrella

FROM: Annamaria Perrella, Executive Officer

SUBJECT: Agenda Item 8c; October 9, 1996
Executive Officer's Report

UNOCAL ANNEXATION TO THE RODEO-HERCULES FIRE PROTECTION DISTRICT (RHFPD) -- (LAFC 96-23)

This proposal, submitted via RHFPD Resolution No. 4-96, is for the annexation of the Unocal San Francisco Refinery areas currently within the RHFPD sphere of influence (SOI) boundary but outside the service boundaries of the District. The area to be annexed is uninhabited and is not currently within any fire district. A map of affected territory is enclosed.

Background: On October 26, 1995, the RHFPD and the Unocal San Francisco Refinery at Rodeo, California, entered into an Agreement for the purpose of the District to provide emergency and fire response services within those areas (+/- 443 acres) of the Unocal Refinery not currently within the District's jurisdictional boundaries. Subsequent to the Agreement, RHFPD requested written approval from LAFCO for the District to provide extended services outside its present jurisdictional boundaries. At the March 13, 1996 LAFCO meeting, your Commission approved RHFPD's request for an out-of-agency contract with the Unocal Refinery. Furthermore, your Commission determined that RHFPD is the logical provider of fire protection services, and the area should also be placed within the District's SOI boundary pursuant to Government Code Section 56133, which states that "*the commission may authorize a city or district to provide new or extended services outside its jurisdictional boundaries but within its sphere of influence (SOI) boundaries in anticipation of a later change of organization*". At the time of the hearing on the matter, District representatives advised your Commission that an annexation proposal would be forthcoming in the next several months based on the conclusions of a Fire Service Delivery Plan that was nearing completion. A copy of the Plan (completed in April 1996) fulfills LAFCO's requirement for a Plan for Providing Services and will be available at the LAFCO office prior to the hearing as well as at the hearing.

Discussion: The April 30, 1996 Fire Service Delivery Plan recommends that the District and Unocal consider annexation of the Unocal Refinery areas currently within the District's SOI but outside the boundaries of the District. The District already provides service to a large portion of the Refinery area (+/- 604 acres). RHFPD provides first-line emergency response to the Refinery, and both the District and the Refinery have established joint command under emergency conditions to address emergency situations. One of the main thrusts of the Plan was to address ways to improve emergency response capacity through "integration" of the Refinery's resources and those of the District. Other public emergency response agencies in Western Contra Costa County were also included in the Study's integration plan.

Under Policy Actions (p. 10), the Plan recommends that the District and Unocal consider annexation to the District and that "due to its geographical proximity to the Unocal property, the District is clearly the most appropriate provider of first responder services to Unocal." LAFCO's March 13 action - placing the remaining Refinery area within the District's SOI boundary - provided needed impetus for the District and Unocal to begin working more closely together in emergency response planning as well as planning for subsequent annexation of the remaining Unocal area to RHFPD.

Notwithstanding the above-noted Policy Actions, Condition 83 of the County Land Use Permit for Unocal states that:

> Unocal will work with RHFPD and the Contra Costa County Fire Protection District (CCCFPD) to develop a fire services delivery plan that addresses fire service needs in the region, particularly the area involving the Refinery. If such a study suggests that fire services could be improved by annexation of Unocal to a fire district, Unocal agrees, at the discretion of the Board of Supervisors, to annex its facility to either RHFPD or CCCFPD, or a substitute district.

Since the Fire Services Study Plan does suggest that fire services can be improved by annexation, it is at the discretion of LAFCO, not the Board of Supervisors, to determine which provider of fire protection services, RHFPD, CCCFPD or a substitute district, can best serve Unocal.

In evaluating the capability of which agency can provide the required service, LAFCO utilizes required service plans, current service providers (RHFPD) and potential alternative service providers (CCCFPD, substitute district). LAFCO also takes into account the physical accessibility of the territory to the agency's service provision resources. For example, is the annexing agency the provider of services which is located closest to the subject territory?

For years, RHFPD has been providing fire protection service to 604 out of the approximately 1,047 acres encompassing the Refinery area. Also, the Refinery area is virtually surrounded by RHFPD's present boundaries. By placing the remaining 433 acres of the Unocal area within RHFPD's SOI boundary last March, LAFCO clearly felt that the District was the logical provider of service to the ***entire*** area. Furthermore, the Fire Service Delivery Plan indicates that fire services can be improved by annexing to the RHFPD. Annexing to another fire district (CCCFPD, for instance) would divide or split an existing identifiable service area. LAFCO will not approve boundaries that split or divide such areas unless it results in improved quality or a lower cost of service or if there is no feasible or logical alternative. LAFCO has received no comments or materials from CCCFPD on its capacity to provide service to Unocal or to advise if there is a feasible or logical alternative other than annexation to RHFPD.

Another question the Commission might ask is: Does the annexing agency possess or have the ability to acquire resources necessary to provide the needed service? In a July 26, 1996 letter to LAFCO staff (copy enclosed), Jeffrey C. Wilkes, General Manager of the San Francisco Refinery, states that the Fire Services Delivery Plan demonstrates that Unocal and RHFPD "have executed an annexation agreement that will ensure continued excellence in mutual emergency response at the Refinery and will provide additional opportunities for enhanced training and response. A copy of the Annexation Agreement between Unocal and RHFPD is enclosed.

An important function, assigned to LAFCO by 1971 legislation, is the determination of spheres of influence. SOIs specify an existing city's or district's plan of intent and capability to provide public services to a delineated area in the immediate future or over a long-range time span. At the time of placing the subject area within RHFPD's SOI, your Commission encouraged the District to complete its Plan for Services in order to justify the feasibility of an annexation proposal. The Executive Officer is confident that Unocal and the Rodeo-Hercules Fire Protection District have considered the Commission's directive and have carefully thought through this proposal. Therefore, the following recommendation is offered:

Recommendation: Find the proposed annexation to be Categorically Exempt (Class 19) pursuant to the provisions of the California Environmental Quality Act; designate the proposal as "Unocal Annexation to the Rodeo-Hercules Fire Protection District (LAFC 96-23); find affected territory to be legally uninhabited; approve the proposal subject to the conditions that 1) the boundaries of affected territory shall be as shown on the proposal map and 2) affected territory shall be subject to the rules, regulations, ordinances, and bonded indebtedness and contractual obligations of the annexing agency; designate the RHFPD Board of Directors as Conducting Authority and authorize said Board to conduct subsequent proceedings without notice and hearing.

Enclosures:
- RHFPD Resolution of Application No.4-96 (includes Plan for Services)
- 7/26/96 letter from Unocal Manager Jeffrey Wilkes
- Annexation Agreement
- Proposal map No. 96-23

Distribution without enclosures:

Chief Pedro Jiminez; RHFPD
Asst. Chief Dennis Salmi; RHFPD
Jeffrey C. Wilkes, General Manager; Unocal San Francisco Refinery
Scott W. Gordon; Counsel for RHFPD

RESOLUTION

BEFORE THE BOARD OF DIRECTORS
RODEO-HERCULES FIRE PROTECTION DISTRICT

In the matter of	)	
	)	
	)	Resolution 8-96
THE PROPERTY TAX TRANSFER	)	(Section 99.01, Revenue and
AGREEMENT BY AND BETWEEN	)	Taxation Code)
THE DISTRICT AND THE COUNTY	)	
OF CONTRA COSTA	)	
	)	

WHEREAS, the District has caused to be filed a Petition for Annexation of the Unocal Refinery Process Unit areas not currently within the District's boundaries; and

WHEREAS, the rules and regulations of the Local Agency Formation Commission (LAFCO) require that the District and the County of Contra Costa have completed a Property Tax Transfer Agreement to provide for an exchange of property tax revenues between the County and the District as a result of the annexation; and

WHEREAS, section 99.01 of the Revenue and Taxation Code provides for an exchange of property tax revenue between local agencies exclusive of school districts when a special district extends services into an area where no local agency is providing that service; and

WHEREAS, representatives of the District and representatives of the County Administrator's Office and the County Auditor-Controller have met and conferred on the property tax exchange matter; and

WHEREAS, in order to implement the tax transfer as provided for in Revenue and Taxation Code section 99.01, the County Auditor-Controller has developed a specific formula which is attached as Exhibit A hereto; and

WHEREAS, for purposes of implementing the provisions of section 99.01 of the Revenue and Taxation Code, the District, the County and the County Auditor-Controller will utilize the formula set forth in Exhibit A to calculate tax increment exchanges;

NOW, THEREFORE, BE IT RESOLVED the Rodeo-Hercules Fire Protection District does hereby approve the use of the formula set forth in Exhibit A in order to implement the provisions of section 99.01 of the Revenue and Taxation Code as that section read on September 17, 1996; and that District staff be authorized to immediately notify the Executive Officer of LAFCO that this resolution has been adopted by the Board at its regularly scheduled

meeting of September 17, 1996, by certified copy of this resolution presented to the Executive Officer; and (3) that the District's approval of this resolution is subject to all applicable laws and regulations, including the provisions of Revenue and Taxation Code section 99.01 as that section may be amended from time to time by any successor or subsequent legislation, and that further the Tax Transfer Agreement may be modified, in whole or in part, by a written agreement by and between the parties setting forth the terms of any modified or revised tax transfer agreement.

Passed by the Board on September 17, 1996 by the following vote:

Ayes: Directors Beck, Johnson, Prather, ~~Leed~~s, Kramer

Nays: None

Absent: ~~None~~ Leeds

Joseph H. Beck
~~Swede Johnson, Secretary of the Board~~
JOE BECK

ATTEST:

I hereby certify that this resolution was duly adopted by the Board of Directors of the Rodeo-Hercules Fire Protection District on September 17, 1996.

Swede Johnson
Swede Johnson, Secretary to the Board

EXHIBIT A

FORMULAS FOR PROPERTY TAX EXCHANGES
Section 99.1, Revenue and Taxation Code

NOTE: "ATIAF" stands for Annual Tax Increment Allocation Factor
(Revenue and Taxation Code sec. 98e)

FACTORS:

A = The annexing agency's ATIAF in the newly annexed territory.

B = The factor by which each affected local agency's ATIAF is multiplied to determine the portion of each local agency's ATIAF to be transferred to the annexing agency.

C = The annexing agency's ATIAF in a tax rate area presently served by that agency having a similar combination of agencies to that in the proposed annexation ("representative tax rate area").

L_1, L_2, L_3 etc. = The ATIAF's of the local agencies in the tax rate area being annexed whose ATIAF's are subject to transfer to the annexing agency.

L_T = The combined ATIAF's of those local agencies.

S_1, S_2, S_3 etc. = The ATIAF's of the jurisdictions whose ATIAF's are not subject to transfer (i.e. Schools) per R & T 99.1.

S_T = The combined ATIAF's of those agencies not subject to transfer.

NL_1, NL_2, NL_3 etc. = The ATIAF of each local agency in the new tax rate area created by the annexation.

FORMULAS:

First, determine the annexing agency's ATIAF for the new tax rate area:

$A = C \times (L_T + .5 \times S_T)$

Second, calculate the factor for reducing each local agency (excluding schools):

$B = A \div L_T$

Third, determine each local agency's ATIAF for the new tax rate area:

$NL_1 = L_1 - (B \times L_1)$

$NL_2 = L_2 - (B \times L_2)$

etc.

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 9

City of Hercules Redevelopment Successor Agency ROPS

Recognized Obligation Payment Schedule (ROPS 16-17) - Summary

Filed for the July 1, 2016 through June 30, 2017 Period

Successor Agency: **Hercules**

County: Contra Costa

	Current Period Requested Funding for Enforceable Obligations (ROPS Detail)	16-17A Total	16-17B Total	ROPS 16-17 Total
A	**Enforceable Obligations Funded with Non-Redevelopment Property Tax Trust Fund (RPTTF) Funding Sources (B+C+D):**	$ -	$ -	$ -
B	Bond Proceeds Funding	-	-	-
C	Reserve Balance Funding	-	-	-
D	Other Funding	-	-	-
E	**Enforceable Obligations Funded with RPTTF Funding (F+G):**	$ 20,543,166	$ 17,517,424	$ 38,060,590
F	Non-Administrative Costs	20,410,488	17,384,746	37,795,234
G	Administrative Costs	132,678	132,678	265,356
H	**Current Period Enforceable Obligations (A+E):**	$ 20,543,166	$ 17,517,424	$ 38,060,590

Certification of Oversight Board Chairman:
Pursuant to Section 34177 (o) of the Health and Safety code, I hereby certify that the above is a true and accurate Recognized Obligation Payment Schedule for the above named successor agency.

Dan Romero — Name

Chair — Title

/s/ Dan Romero — Signature

1-28-2016 — Date

Hercules Recognized Obligation Payment Schedule (ROPS 16-17) - ROPS Detail

July 1, 2016 through June 30, 2017

(Report Amounts in Whole Dollars)

A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W
											16-17A						16-17B					
											Non-Redevelopment Property Tax Trust Fund (Non-RPTTF)			RPTTF			Non-Redevelopment Property Tax Trust Fund (Non-RPTTF)			RPTTF		
Item #	Project Name/Debt Obligation	Obligation Type	Contract/Agreement Execution Date	Contract/Agreement Termination Date	Payee	Description/Project Scope	Project Area	Total Outstanding Debt or Obligation	Retired	ROPS 16-17 Total	Bond Proceeds	Reserve Balance	Other Funds	Non-Admin	Admin	16-17A Total	Bond Proceeds	Reserve Balance	Other Funds	Non-Admin	Admin	16-17B Total
								$ 391,468,011		$ 38,560,550	$ -	$ -	$ -	$ 20,410,468	$ 132,678	$ 20,543,146	$ -	$ -	$ -	$ 17,394,746	$ 132,678	$ 17,527,424
1	2005 Tax Allocation Bonds	Bonds Issued On or Before 12/31/10	8/5/2005	8/5/2036	Bank of New York	Bonds issued to fund non-housing projects	All	63,425,510	N	$ 3,947,371				3,005,793		$ 3,005,793				941,578		$ 941,578
2	2007 Tax Allocation Bonds	Bonds Issued On or Before 12/31/10	12/20/2007	12/20/2044	Bank of New York	Bonds issued to fund non-housing projects	All	85,896,271	N	$ 2,620,863				1,443,704		$ 1,443,704				1,177,159		$ 1,177,159
3	2007 Tax Allocation Bonds Housing(A)	Bonds Issued On or Before 12/31/10	7/26/2007	7/26/2034	Bank of New York	Affordable Housing Bonds	All	18,206,772	N	$ 1,002,393				681,184		$ 681,184				321,209		$ 321,209
4	2007 Tax Allocation Bonds Housing(B)	Bonds Issued On or Before 12/31/10	7/26/2007	7/26/2034	Bank of New York	Affordable Housing Bonds	All	13,844,652	N	$ 745,719				541,263		$ 541,263				204,456		$ 204,456
5	Camino/Hercules LLC	OPA/DDA/Construction	1/1/2009	2/15/2044	Catellus	Settlement Agreement	All	43,608,455	N	$ 1,695,702				847,851		$ 847,851				847,851		$ 847,851
6	AMBAC Settlement	Litigation	3/25/2013	12/31/2039	AMBAC	Settlement Obligation	All	5,719,354	N	$ 5,719,354				2,859,677		$ 2,859,677				2,859,677		$ 2,859,677
7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]												
8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]												
9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]												
10	OPA (Owner Participation Agreement)	OPA/DDA/Construction	11/15/1990	11/15/2041	Hercules Senior Housing/Bridge	OPA for Senior Housing	All	130,000	N	$ 130,000				65,000		$ 65,000				65,000		$ 65,000
11	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]												
12	Lease of Commercial Space	Business Incentive Agreements	4/5/2002	7/1/2017	Tenderloin	Rent for commercial space	All	1,421,208	N	$ 1,421,208				710,604		$ 710,604				710,604		$ 710,604
13	Lease of Commercial Space	Business Incentive Agreements	10/1/2007	10/30/2012	Montoya	Rent for commercial space	All	26,352	N	$ 26,352				13,176		$ 13,176				13,176		$ 13,176
14	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]												
15	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]												
16	Contract for Construction Sycamore North	OPA/DDA/Construction	1/1/2009	2/1/2011	See Attached Spreadsheet	NONE	All	4,153,286	N	$ 4,153,286				2,076,643		$ 2,076,643				2,076,643		$ 2,076,643
20	Bank and Trustee Fees	Fees	8/1/2005	12/31/2044	Various	Bank and trustee fees for Redevelopment bond and bank accounts	All	13,750	N	$ 13,750				6,875		$ 6,875				6,875		$ 6,875
21	SERAF	SERAF/ERAF	7/1/2009	6/30/2011	State of California	NONE	All	8,020,951	N	$ -						$ -						$ -
22	Administrative Costs	Admin Costs	7/1/2010	6/30/2099	Various	NONE	All	1,525,970	N	$ 265,356					132,678	$ 132,678					132,678	$ 132,678
23	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]												
24	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]												
25	2005 Tax Allocation Bonds	Bonds Issued On or Before 12/31/10	8/5/2005	8/5/2036	AMBAC Surety Bond	Bonds issued to fund non-housing projects	All	7,554,204	N	$ 7,554,204				3,777,102		$ 3,777,102				3,777,102		$ 3,777,102
26	2007 Tax Allocation Bonds	Bonds Issued On or Before 12/31/10	12/20/2007	12/20/2044	AMBAC Surety Bond	Bonds issued to fund non-housing projects	All	7,876,411	N	$ 7,876,400				3,938,200		$ 3,938,200				3,938,200		$ 3,938,200
27	2007 Tax Allocation Bonds Housing (A)	Bonds Issued On or Before 12/31/10	7/26/2007	7/26/2034	Assured Guaranty	Affordable Housing Bonds	All	520,288	N	$ 520,288				260,144		$ 260,144				260,144		$ 260,144
28	2007 Tax Allocation Bonds Housing (B)	Bonds Issued On or Before 12/31/10	7/26/2007	7/26/2034	Assured Guaranty	Affordable Housing Bonds	All	368,544	N	$ 368,544				184,272		$ 184,272				184,272		$ 184,272
29	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]												
30									N	$ -						$ -						$ -
31									N	$ -						$ -						$ -
32									N	$ -						$ -						$ -
33									N	$ -						$ -						$ -
34									N	$ -						$ -						$ -
35									N	$ -						$ -						$ -
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38									N	$ -						$ -						$ -
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66									N	$ -						$ -						$ -

Hercules Recognized Obligation Payment Schedule (ROPS 16-17) - Notes July 1, 2016 through June 30, 2017

Item #	Notes/Comments
	The following taxing entities have subordinated their payments for 6 fiscal years (FY2010/11 through FY2016/17). This is an estimate of what is owed to the taxing entities based on what was owed for FY2010/11.
	1003 Contra Costa County General $882,300.09
	1206 Library $95,342.17
	2505 Contra Costa Flood Control $19,637.80
	2530 Flood Control Zone Z8 $2,314.69
	2531 Flood Control Zone Z8A $3,744.30
	2825 Contra Costa Water Agency $4,001.34
	3011 Rodeo-Hercules Fire District $841,418.83
	3301 Mosquito Abatement $17,485.44
	3525 West Contra Costa Hospital $171,473.12
	4001 East Bay Municipal Utility District $160,642.30
	4009 Bay Area Rapid Transt District $70,823.27
	4010 Bay Area Air Quality Management District $20,644.47
	4026 East Bay Regional Parks $336,603.82
	4211 Hercules $540,936.69
	6901 Contra Costa County Superintendent of Schools $154,852.46
	6999 K-12 ERAF $1,581,099.94
	7701 West Contra Costa Unified School District $3,480,652.21
	7901 Communit College District $517,182.75
	7999 Community College ERAF $235,421.62

Hercules Recognized Obligation Payment Schedule (ROPS 16-17) - Notes July 1, 2016 through June 30, 2017

Item #	Notes/Comments
1	Comprised of principal $2,015,000 and interest $990,792; interest $941,577
2	Comprised of principal $260,000 and interest $1,182,704; interest $1,177,959
3	Comprised of principal $350,000 and interest $331,184; interest $321,209
4	Comprised of principal $330,000 and interest $211,263; interest $204,456
5	
6	
7	Owner Participation Agreement-Promedia. This is a senior obligation listed on the official statements of the Agencies 2005 and 2007 bonds. This is an enforceable obligation.
8	Owner Participation Agreement-Biorad. This is a senior obligation listed on the official statements of the Agencies 2005 and 2007 bonds. This is an enforceable obligation.
9	Owner Participation Agreement-EastGroup (Easthill). This is a senior obligation listed on the official statements of the Agencies 2005 and 2007 bonds. This is an enforceable obligation.
10	
11	Lewis Development Agreement. Since the property is owned by the Agency, the payment of special taxes and assessments is an enforceable obligation.
12	
13	
14	City loan entered into on 3/8/11. The loan document states the source of funds are from Development Impact Fees. These sources are highly restricted and are only to be used for their intended purposes. This is an enforceable obligation.
15	
16	Co-Operation Agreement: Repayment agreement for Cash Advances. Resolution 83-18 adopted February 9, 1983 within 2 yrs of creation of the redevelopment agency. Per HSC 34171(d)(2) thi is an enforceable obligation. Total Obligation is $50,496,029. Upon receipt of Finding of Completion by the State Dept. of Finance.
17	
18	
20	
21	
22	
24	Property Taxes. These are delinquent taxes for former redevelopment agency owned properties. The property is known as Sycamore Crossing. This is an enforceable obligation.
25	
26	
27	
28	
29	Review of RDA performed by State Controllers Office. August 2011 the State Controllers Office performed an on site review of the former Redevelopment Agency. The amount represents the invoice received from the State Controllers Office.

2015-16 AB8 APPORTIONMENT FACTORS

Fund	Org	Name	AB8 Factors	Gross Revenue	RDA Increment	Net Revenue
202000	007300	CCC Fire Protection	0.0649301693116	111,916,963.41	(16,770,480.91)	95,146,482.50
202800	007028	Crockett Carquinez Fire	0.0002655195166	457,663.03	0.00	457,663.03
300500	007830	San Ramon Valley Fire	0.0358204457975	61,741,953.92	(1,787,116.06)	59,954,837.86
300700	007840	Kensington Fire	0.0019735610171	3,401,730.79	0.00	3,401,730.79
301100	007800	Rodeo-Hercules Fire	0.0023042667622	3,971,752.14	(1,163,774.58)	2,807,977.56
306000	007160	East Contra Costa Fire	0.0067030955083	11,553,798.53	(622,700.12)	10,931,098.41
307400	007250	Moraga-Orinda Fire	0.0117665542322	20,281,435.17	0.00	20,281,435.17
					(20,344,071.67)	

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 10

RHFD Compensation Summary for Chief Hanley

RODEO HERCULES FIRE DISTRICT

CHIEF HANLEY COMPENSATION AND FINAL PAYOUT

	Compensation
SALARY	
Salary Compensation: $15,496/mo; $185,952/yr.	$ 185,952.00
Total Salary	$ 185,952.00
BENEFITS	
CTO Buyout (24 hr/yr) Vacation Buyout (48 hr/yr)	$ 6,436.80
Retirement 27% of $192,388.80 ($185,952+$6,436.80)	$ 51,944.98
Medical Insurance CalPers	$ 23,100.00
Delta Dental	$ 2,000.00
Life Insurance	$ 360.00
Disability Insurance	$ 240.00
FICA	$ 3,719.04
Worker's Compensation (12% Salary)	$ 22,314.24
Total Cost of Benefits	$ 110,115.06
Total Compensation*	$ 296,067.06
FINAL PAYOUT	
Final Payout of $68,628.00 was based on RHFD policies	

*Total Compensation represents the total cost to the Rodeo Hercules Fire District for the Chief position on an annual basis

Rodeo Hercules Fire District
Fiscal Analysis and Stabilization Report

APPENDIX 11

State Controller's Office Internal Control Guidelines for Local Agencies

2015

Internal Control Guidelines

California
Local
Agencies

California State Controller's Office Controller Betty T. Yee

FOREWORD

California Government Code (GC) section 12422.5[1] requires the State Controller to develop internal control guidelines applicable to each local agency. The intent of the legislation is to assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud. However, there is no requirement that the tools developed must be used in the form provided.

A local agency includes a city, county, city and county, special district or any other local government entity, except a school district. In this document, these entities are referred to as local governments.

The California Society of Certified Public Accountants took a lead role in developing the internal control guidelines based on standards adopted by the American Institute of Certified Public Accountants (AICPA). The State Controller's Office worked closely with the California Society of Certified Public Accountants and received valuable input from organizations representing the interests of local governments, (i.e. League of California Cities, California State Association of Counties, California Special Districts Association, California State Association of County Auditors, and California Common Sense to complete the internal control guidelines.

Although GC section 12422.5 specifically cites the AICPA standards, the internal control guidelines incorporate or reference other internal control standards and practical guidance (i.e. U.S. Government Accountability Office [GAO], Office of Management and Budget [OMB], Committee of Sponsoring Organizations of the Treadway Commission [COSO] Internal Control Standards, Institute of Internal Auditors [IIA], Government Finance Officers Association Best Practices, etc.). For additional information on Internal Controls please refer to the following:

GAO - http://www.gao.gov/greenbook/overview

GAO - http://www.gao.gov/products/GAO-01-1008G

GAO - http://www.gao.gov/yellowbook/overview

OMB - http://www.whitehouse.gov/omb

COSO - http://www.coso.org/IC.htm

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[1] (a) On or before January 1, 2015, the Controller shall develop internal control guidelines applicable to each local agency to prevent and detect financial errors and fraud.

(b) The Controller shall develop the internal control guidelines based on standards adopted by the American Institute of Certified Public Accountants and with input from any local agency and organizations representing the interests of local agencies, including, but not limited to, the League of California Cities, the California State Association of Counties, the California Special Districts Association, and the California State Association of County Auditors.

(c) On or before January 1, 2015, the Controller shall post the completed internal control guidelines on the Controller's Internet Web site to assist a local agency, as defined in subdivision (e), in establishing a system of internal controls to safeguard assets and prevent and detect financial errors and fraud.

(d) The Controller shall, with input from the agencies listed in subdivision (b), update the internal control guidelines, as he or she deems necessary, and maintain a current version on the Internet Web site.

(e) For purposes of this section, "local agency" means a city, county, city and county, special district, or any other local governmental entity, except a school district.

IIA - https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx

GFOA - http://www.gfoa.org/best-practices

These guidelines do not include an "Internal Control Questionnaire" or an "Internal Control Checklist"; however, we recommend using the GAO's Internal Control Standards, Internal Control Management and Evaluation Tool (http://www.gao.gov/products/GAO-01-1008G). The tool provides useful guidance for evaluating an agency's internal control and is intended to help management determine how well an agency's internal control is designed and functioning and how improvements can be implemented. We also recommend using COSO's Internal Control – Integrated Framework 2013. The framework defines internal control, describes requirements for effective internal control including components and relevant principles, and provides direction for all levels of management to use in designing, implementing, and assessing its effectiveness. The Executive Summary can be downloaded from COSO's website http://www.coso.org/IC.htm, however the Framework and Appendices, and Illustrative Tools for Assessing Effectiveness of a System of Internal Control (three-volume set) can be purchased.

The internal control guidelines are posted on the State Controller's Office website and will be updated periodically, as he or she deems necessary.

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Introduction

The American Institute of Certified Public Accountants' (AICPA's) Auditing Standard AU-C §315.04 defines internal control based on the definition and description contained in *Internal Control – Integrated Framework,* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as follows:

> *A process effected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over safeguarding of assets against unauthorized acquisition, use or disposition may include controls relating to financial reporting and operations objectives.*

Internal control is comprised of five components that work together in an integrated framework:

- Control Environment;
- Risk Assessment;
- Control Activities;
- Information and Communication; and
- Monitoring Activities.

The objectives of the five components are defined below along with examples of methods that may be used by a local government to address each component. However, these are guidelines and it is important to note that the actual methods implemented to address the components of internal control need to be scaled to each particular local government and expanded or contracted based on the local government's organizational structure, staffing levels, programs, and resources. It is not expected that all local governments will use all of the example methods of implementation that have been identified for each component. In addition, some local governments may use other policies or procedures in their system of internal control in lieu of the examples provided in these guidelines.

Control Environment

The Objectives of Control Environment:

The AICPA's Auditing Standard AU-C §315.A71 defines control environment as:

> *The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in the entity. The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.*

The control environment is the set of standards, processes, and structures that provide the basis for carrying out internal control across the entity. The governing board and management establish the "tone at the top" regarding the importance of internal control, including expected standards of conduct, which then cascade down throughout the various levels of the organization and have a pervasive effect on the overall system of internal control. The control environment extends beyond the idea of culture and comprises the following:

- The organization's integrity and ethical values;

- The governing board's oversight responsibilities;
- The assignment of authority and responsibility;
- The process for attracting, developing, and retaining employees; and
- The measures, incentives, and rewards to drive accountability for performance.

A local government's control environment is influenced by a variety of factors including its history, values, market, and the competitive and regulatory landscape. Also, a local government that establishes and maintains a strong control environment positions itself to be more resilient in the face of internal and external pressures.

Examples of Methods That May be Used by a Local Government to Address Control Environment:

Below are examples of how a local government might establish its control environment process. These are only examples and some local governments might use other methods to meet the objectives of control environment:

Local governments may use policies and procedures to promote and maintain a proper control environment. In some cases these policies and procedures are established as a matter of practice. In other cases, these policies and procedures are in writing, perhaps in the form of a policy manual or an electronic library of documents to aid the local government in providing a basis for training personnel, communicating and providing a source of reference to approved policies, and maintaining consistency of recording financial transactions.

A local government's policies and procedures should include some or all of the following elements:

Organization's Integrity and Ethical Values

1. Develop, widely distribute, and practice a code of conduct.
2. Establish the values and operating style for the organization and communicate to all employees through various methods, such as by example, the code of conduct, policies, and procedures.
3. Consistently communicate to management personnel the importance of integrity and ethical values.
4. Ensure that the board and management receive and update their ethics training as required by AB 1234

Governing Board's Oversight Responsibilities

1. Identifies and accepts its oversight responsibilities.
2. Ensures that management has the skills, knowledge, and experience necessary for their job duties.
3. Applies skepticism and is objective in evaluating management and when making decisions.
4. Ensures the completion of periodic risk assessments.
5. Follows up on the status of audit findings.
6. Establishes an audit committee.

Assignment of Authority and Responsibility

1. Consider the structure of the organization in terms of its size and the nature of its operation.

2. Establish reporting lines to enable execution of authorities, responsibilities, and flow of information to manage the activities of the organization.

3. Use appropriate processes and technology to assign responsibility and segregate duties as necessary at all levels of the organization.

    a. The governing board should retain authority over significant decisions and review management assignments and any limitations of management's authority and responsibilities.

    b. Management should establish directives, guidance, and control to enable management and other personnel to understand and carry out their internal control responsibilities.

    c. Personnel should understand the organization's operational style and the code of conduct and carry out management's plan of action to achieve the objectives.

Process for Attracting, Developing, and Retaining Employees

1. Establish policies and practices reflecting expectations of competence.

2. Evaluate competence across the organization.

3. Provide the mentoring and training needed to attract, develop, and retain sufficient and competent personnel.

    a. **Attract** – Seek out candidates who fit the organization's needs and possess the competence for the position.

    b. **Develop** – Enable individuals to develop competencies appropriate for assigned roles and responsibilities. Establish expectations and tailor training based on roles and needs.

    c. **Mentor** – Guide employee performance toward expected standards of conduct and competence, and align the employee's skills and expertise with the organization's objectives.

    d. **Evaluate** – Measure the performance of employees in relation to achievement of objectives and demonstration of expected conduct.

    e. **Retain** – Provide incentives to motivate and reinforce expected performance.

4. Develop contingency plans to ensure that candidates for succession are trained and coached for assuming the target role so that internal controls do not lapse.

Accountability for Performance

1. Establish mechanisms to communicate and hold individuals accountable for performance of internal control responsibilities across the organization and implement corrective actions as necessary.

2. Establish performance measures and incentives appropriate for responsibilities at all levels of the organization.

3. Perform evaluations timely and align incentives with the fulfillment of internal control responsibilities.

Risk Assessment

The Objectives of Risk Assessment:

The AICPA's Auditing Standard AU-C §315.A81 defines risk assessment as:

> *An entity's risk assessment process for financial reporting purposes is its identification, analysis, and management of risks relevant to the preparation and fair presentation of financial statements.*

A local government's risk assessment process includes how management identifies risks (including fraud risk) relevant to the preparation and fair presentation of financial statements in accordance with the local government's applicable financial reporting framework, estimates the significance of each risk, assesses the likelihood of the occurrence, and decides upon actions to respond to and manage them and the results thereof.

Risks relevant to reliable financial reporting include external and internal events, as well as transactions or circumstances that may occur and adversely affect a local government's ability to initiate, authorize, record, process, and report financial data consistent with the assertions of management.

Examples of Methods That May Be Used by a Local Government to Address Risk Assessment:

Below are examples of how a local government might manage its risk assessment process. These are only examples and some local governments might use other methods to meet the objectives of risk assessment:

1. Some local governments should address risk assessment in conjunction with the supervision of personnel. When providing direction to personnel in the performance of their duties, management may identify information as to the types of errors, policy violations, fraud, or noncompliance to which they should be attentive in the performance of their duties.

2. Other local governments may have a more formal risk assessment process that includes one or more of the following elements:

    a. The identification of objectives relevant to the reduction of errors, policy violations, fraud, or noncompliance. This is sometimes communicated to employees by means of the posting of certain organizational policies and procedures.

    b. When errors or violations of policy occur or are identified, the local government should respond to this increase in risk by communicating to appropriate persons within the organization the need to be vigilant with respect to these identified areas of risk.

    c. The local government should report to department heads after each governing board meeting to communicate new or changed risks, conditions, actions, or events that may impact the ability of departments to manage the risks relevant to the operation.

    d. Finance personnel should attend accounting training sessions to become aware of new accounting pronouncements and emerging issues in order to further identify and manage risks associated with proper financial reporting.

e. Departments should send staff to conferences and program training sessions for the purpose of identifying likely risks of noncompliance, fraud, and error relevant to the programs that they manage. These persons should disseminate this information to other persons in their department.

f. The Information Technology (IT) department should periodically identify and communicate risks for which employees should be particularly vigilant.

g. Changes in software should be subject to extensive evaluation and testing in order to identify and manage risks associated with use.

h. The budget should be used as a means to anticipate, identify, and react to changes in conditions that may increase the risk of misstatement.

i. During the year end closing process, the local government should identify for those personnel involved in the closing process the objectives of financial reporting and the likely errors that are associated with each individual's role in that process. This would include identifying the types of nonstandard transactions that merit special consideration or consultation to ensure that all aspects of generally accepted accounting principles associated with those transactions are properly attended to.

j. Management should identify for its staff those parties that have transactions with the local government for which there is a potential conflict of interest due to members of management or elected officials having a relationship with those parties.

k. Throughout the year, management maintains a list of information, conditions, transactions, and events that may increase the risk of accounting error or fraud in order to evaluate the effects of such matters and to properly communicate these matters to the local government's independent auditors. These include new laws or legislation, major changes in government operations, major or unusual transactions, actions of the governing board, new agreements, new joint ventures, asset impairments, new responsibilities for pollution remediation, major changes in executive management, staff reductions that might affect internal controls, major changes in the government's service area, the acquisition of utility systems, new material revenue sources or fee structures, changes in the collectability of loans made to others, regulatory inquiries or audits, significant intra-entity transactions, major changes in the local economy, etc.

Control Activities

The Objectives of Control Activities:

The AICPA's Auditing Standard AU-C §315.A91 defines control activities as:

> *Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities, whether within IT or manual systems, have various objectives and are applied at various organizational and functional levels. Examples of specific control activities include those relating to the following:*
>
> - *Authorization*
> - *Performance reviews*
> - *Information processing*
> - *Physical controls*
> - *Segregation of duties*

Local governments should establish policies and procedures to implement control activities that achieve management directives and respond to identified risks in the internal control system. Control activities can be categorized as policies and procedures that pertain to the following:

Authorization – activities should be authorized in accordance with the local government's policies and procedures.

Performance Reviews – local government should perform analyses of financial data, including comparing actual results to budget forecasts and historical data, to ensure variances are in accordance with expectations, considering internal and external factors.

Information Processing – two aspects, Application Controls and General IT Controls, which relate to the overall effectiveness of IT controls to ensure the proper operation of the local government's information systems.

Application Controls are those related to procedures to check the accuracy of the output data, including follow-up on exceptions. Application controls are designed to help ensure completeness, accuracy, authorization, and validity of all transactions during application processing. It includes both the routines contained within the computer program code as well as the policies and procedures associated with user activities such as entering data, and producing or reporting results.

General IT Controls involve maintaining control procedures to restrict the access to the program data and the ability to make modifications to the data, including software updates and back-up or disaster recovery procedures, to ensure the continued operation of the information systems. General controls are needed to ensure the function of application controls, which depend on computer processing, and includes the structure, policies, and procedures that apply to the agency's overall computer operations. It applies to all information systems: mainframe, minicomputer, network, and end-user environments and can include controlled processes for system access, computer center or server operations, change management, incident response, business continuity, and backup and storage.

Physical Controls – include ensuring the safeguarding of both tangible and intangible assets. The local government should have policies that ensure the physical security over all assets, whether they be capital assets, cash and investments, or other assets, and procedures to periodically count or reconcile the assets to the records. In addition, access to computer programs or data files should be restricted to appropriate personnel.

Segregation of Duties – the functions of authorization, recording or reconciling, and maintaining custody of assets should be segregated.

When designing policies and procedures to address control activities, the local government should keep in mind that the cost of implementing certain control activities should not exceed the benefit derived from the control activities.

For some small local governments, segregation of duties may be a challenge. Review and approval by an appropriate second person may be the most important control activity. That second person may be a member of the governing body in a review or approval role.

Examples of Methods That May be Used by a Local Government to Address Control Activities:

Below are examples of how a local government might implement control activities in specific areas. Each local government will need to identify control activities and areas of risk specific to the local government. These are only examples of key controls in the areas noted and some local governments might use other policies or procedures to meet the objectives of control activities in these and other areas.

1. Cash Deposits

    a. Bank reconciliations are effective tools to detect mistakes, errors, or embezzlements if they are prepared timely, reviewed in detail, and approved by a second person.

    b. Transfers between accounts involve two people (one to initiate and one to approve), to prevent misappropriation of assets.

    c. To ensure proper segregation of duties, the person involved with the bank reconciliation should be prohibited from performing the following duties:

        i. Collection of cash receipts in any form (cash, check, wire, electronic, credit card, etc.);

        ii. Deposit of cash collections with the bank;

        iii. Disbursements; and

        iv. Authorized signer on the account(s).

2. Investments

    a. The purchase or sale of investments should require authorization prior to execution, to ensure the transactions are in compliance with the local government's investment policy, the Government Code, or any other authoritative guidance regulating the purchase or sale.

    b. To safeguard investments, an investment safekeeper should be utilized.

    c. Performance of the investment portfolio should be reviewed periodically to ensure it is meeting the objectives and expectations of the local government.

3. Payroll (Compensation-related Disbursements)

    a. To ensure proper segregation of duties, access to the human resources module (add, delete, and modify employee data) should be segregated from access to the payroll module (payroll processing).

    b. To ensure accuracy and authorization, a second person should be required to review and approve the following:

        i. Timesheets;

        ii. Addition or deletion of employees;

        iii. Changes to the payroll data (existing employees);

iv. Time entry; and

v. Payroll register.

c. Internal financial reports should be reviewed and compared to budget on a periodic basis and variances should be investigated.

4. Non-compensation-related Disbursements/Procurement

a. To ensure proper segregation of duties, access to the vendor database (add, delete, and modify vendor data) may be segregated from access to the accounts payable module (disbursements processing).

b. Invoices should be checked for mathematical accuracy and approved for payment prior to processing.

c. Check/warrant registers should be reviewed for accuracy by a person independent from the accounts payable process and approved prior to finalization.

d. Purchasing guidelines should be established that detail authorization limits, when contracts are required, and when purchases are subject to bidding or informal quotes. Otherwise, the applicable contract procurement sections of the Government Code, or other authoritative guidelines, should be followed.

e. Positive pay, or a similar procedure, should be employed.

f. Internal financial reports should be reviewed and compared to budget on a periodic basis and variances should be investigated.

5. Capital-related Expenditures

a. Procedures should be established to ensure capital expenditures are authorized, identified, and capitalized.

b. Policies and procedures should be established to ensure that capital assets are safeguarded against misuse or theft.

c. Periodic physical inventories should be performed to ensure that the records are accurate and differences investigated/explained. Inventory counts should be performed by a person that is not responsible for safeguarding the assets and differences investigated/explained.

d. Grant funded capital assets must be inventoried and maintained in accordance with applicable grantor requirements.

6. Revenue

a. To ensure proper segregation of duties, the person responsible for the collection of customer payments should be prohibited from being involved with, or having access to, the following:

i. Producing customer bills or reimbursement requests;

ii. Customer database (add, delete, and modify customer or rate data);

iii. Approving voided transactions; and

iv. Posting receipts to the general ledger.

b. Bills should be reviewed by a second person prior to issuance, on a sample basis at a minimum.

c. When subsidiary ledgers are used, the detailed ledgers should be reconciled to the general ledger on a periodic basis and any differences investigated.

d. Internal financial reports should be reviewed and compared to budget on a periodic basis and variances should be investigated.

7. Debt

a. Policies should be established to define when the governing body or staff may authorize the issuance of long-term debt, including bonds, capital leases, loans, lines of credit, etc.

b. Procedures should be established to ensure timely repayment and compliance with on-going debt covenants.

c. To ensure compliance with limitations on use, the use of debt proceeds should be subject to review and approval.

d. Trustee or bank accounts should be reconciled by a person not involved with the authorization for the disbursement of debt proceeds.

8. Financial Reporting

a. A policy should be used to establish budgetary control and approval required for budget amendments.

b. Financial reports should be reviewed for accuracy.

c. Financial reports should be periodically produced and distributed or made available to departments and the governing body for review.

d. Analyses of financial data, including comparing actual results to budget forecasts and prior year actuals, should be performed to ensure variances are in accordance with expectations, considering internal and external factors. Any unexpected variances should be investigated.

Information and Communication

The Objectives of Information and Communication:

The AICPA's Auditing Standard AU-C §315.A84 defines the information system as:

> *The information system relevant to financial reporting objectives, which includes the accounting system, consists of the procedures and records designed and established to:*
>
> - *initiate, authorize, record, process, and report entity transactions (as well as events and conditions) and maintain accountability for the related assets, liabilities, and equity;*
> - *resolve incorrect processing of transactions (for example, automated suspense files and procedures followed to clear suspense items out on a timely basis);*

- *process and account for system overrides or bypasses to controls;*
- *transfer information from transaction processing systems to the general ledger;*
- *capture information relevant to financial reporting for events and conditions other than transactions, such as the depreciation and amortization of assets and changes in the recoverability of accounts receivables; and*
- *ensure information required to be disclosed by the applicable financial reporting framework is accumulated, recorded, processed, summarized, and appropriately reported in the financial statements."*

The AICPA's Auditing Standard AU-C §315.A89 defines communication as:

> *Communication by the entity of the financial reporting roles and responsibilities and significant matters relating to financial reporting involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting. It includes such matters as the extent to which personnel understand how their activities in the financial reporting information system relate to the work of others and the means of reporting exceptions to an appropriate higher level within the entity. Communication may take such forms as policy manuals and financial reporting manuals. Open communication channels help ensure that exceptions are reported and acted on.*

Information is necessary for an entity to carry out internal control responsibilities to support the achievement of its objectives. Management obtains or generates and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control. Communication is the continual, iterative process of providing, sharing, and obtaining necessary information. Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. It enables personnel to receive a clear message from management that control responsibilities must be taken seriously. External communication is twofold as it enables inbound communication of relevant external information and provides information to external parties in response to requirements and expectations.

Information is the data that is combined and summarized based on relevance to information requirements. Information requirements are determined by the on-going functioning of the other internal control components, taking into consideration the expectations of all users, both internal and external. Information systems support informed decision making and the functioning of the other components of internal control by processing relevant, timely, and quality information from internal and external sources.

An information system is the set of activities, involving people, processes, data and/or technology, which enable the organization to obtain, generate, use, and communicate transactions and information to maintain accountability and measure and review the entity's performance or progress toward the achievement of objectives.

A communication system consists of methods and records established to identify, capture, and exchange useful information. Information is useful when it is timely, sufficiently detailed, and appropriate to the user. Management should establish communication channels that: provide timely information; can be tailored to individual needs; inform employees of their duties and responsibilities; enable the reporting of sensitive matters; enable employees to provide suggestions for improvement; provide the information necessary for all employees to carry out their responsibilities effectively; convey management's message that internal control responsibilities are important and should be taken seriously; and convey and enable communication with external parties.

Communication is not an isolated internal control component. It affects every aspect of an organization's operations and helps support the system of internal control. The feedback from this communication network can help management evaluate how well the various components of the system of internal control are working.

Examples of Methods That May Be Used by a Local Government to Address Information and Communication:

Below are examples of how a local government might manage its information and communication. These are only examples and some local governments might use other methods to meet the objectives of information and communication:

1. Local governments may have management-authorized job descriptions for all personnel.

2. Local governments may adopt policies and procedures to communicate important information about management's expectations for each process. Policies should be deployed thoughtfully and conscientiously to ensure that required actions are reasonable. Procedures should articulate the distinct responsibility and accountability of each individual involved in the process. Procedures lose effectiveness unless they are performed consistently, by qualified personnel who have been properly trained, and with a continuous focus on the risks to which they are directed.

3. Local governments should adopt a written ethics policy or code of conduct and communicate management's message to employees concerning ethics through their daily words and actions.

4. Management should periodically review pertinent policies with key employees charged with entering transactions into the financial system.

5. Management should have access to viewing and reporting within the financial system and are encouraged to review their department's revenue, expenses, and budget-to-actual reports. Local governments should have monthly or quarterly reports distributed to department managers.

6. Management should provide written instructions to all financial personnel with a role in the budget development and year-end close processes. Instructions for the year-end close process should include the objectives of financial reporting and information about new accounting and financial reporting guidance.

7. A mid-year financial report, or quarterly financial reports, should be submitted to the governing board for its review. This report of financial data can take various forms, including standard reports produced by that local government's accounting system or a high-level budget-to-actual comparison for selected key funds. An annual financial report, such as a Comprehensive Annual Financial Report (CAFR), is presented to the Audit Committee, if applicable, for its review and then presented to the governing board.

8. Financial reports prepared for external distribution may be reviewed by management prior to distribution.

9. Local governments adopt annual or biennial budgets and maintain processes for preparing and communicating budget revisions.

10. Management may use intranet and internet sites to communicate important information to employees, the governing board, and the public. Information provided on internet sites could include annual financial reports, adopted budgets, and summaries of governing board actions.

11. Local governments should monitor events at the state and national levels for pertinent legislative or regulatory actions.

12. Meetings of management personnel should be conducted to review governing board agenda items, new initiatives, budget updates, and other important information.

13. Staff meetings provide an opportunity for information sharing up, down, and across the organization.

14. Local governments should establish and communicate to their employees a whistleblower hotline to provide a channel for reporting potential wrongdoing. The reporting channel should allow for anonymity and be separate from management's reporting structure to prevent any potential barriers to the reporting of wrongdoing.

Monitoring Activities

The Objectives of Monitoring:

The AICPA's Auditing Standard AU-C §315.A.102 defines monitoring as:

> *Monitoring of controls is a process that is used by management to assess the effective operation of internal controls over time.*

Monitoring involves evaluating the effectiveness of controls on an on-going basis and taking remedial actions when necessary. On-going monitoring activities often are built into the normal recurring activities of a local government and include regular management and supervisory activities. Management's monitoring of controls includes considering whether they are operating as intended and that they are modified as appropriate for changes in conditions.

Examples of Methods That May Be Used by a Local Government to Address Monitoring:

Below are examples of how a local government might manage its monitoring responsibilities. These are only examples and some local governments might use other methods:

1. When employees are supervised and evaluated by management, local governments should use that process to address issues of internal control that are associated with that employee's duties. This allows management to ascertain the effectiveness of those internal controls over the period that the employee performs his or her duties. As a part of the supervision process, management should communicate management's expectations to the employee with respect to those internal controls. This provides a measure by which management judges the effective operation of those controls.

2. A local government might use periodic meetings with personnel of the finance department to identify issues that affect the quality and timeliness of key controls (monthly cash reconciliations, reconciliations of accounts receivable balances to subsidiary ledgers, updating of capital asset records, etc.). Such meetings might include discussion regarding internal control deficiencies identified by finance department employees in the performance of their duties (such as violations of purchasing requirements by other departments, etc.) and an appropriate response to those deficiencies.

3. Local governments may receive information from on-site reviews of regulatory and funding agencies that comment on the effectiveness of internal controls in certain areas. A local government's monitoring activities may include a consideration of the information provided by these reviews and the development and implementation of actions to correct any deficiencies noted.

4. A local government should use its review of budget-to-actual reports to ascertain the on-going quality of the accounting controls that are used to produce reliable and consistent financial information about the local government.

5. A local government should respond to information received from employees regarding the accuracy of their payroll checks in order to give the local government information about the quality of the internal controls associated with the payroll process.

6. A local government should respond to information received from vendors regarding the accuracy of payments made on vendor invoices in order to give the local government information about the quality of the internal controls associated with the accounts payable process.

7. A local government should respond to information received from customers regarding the accuracy of utility billings in order to give the local government information about the quality of the internal controls associated with the utility billing system.

8. Some local governments may establish audit committees and/or use internal auditors to monitor the on-going effectiveness of internal controls.

9. When a material amount of the local government's transactions are processed by vendors or service organizations, some local governments control the risk of fraud and misstatement associated with those transactions by having a high degree of interaction with the vendor or service organization (e.g., authorizing and reviewing those transactions, etc.) as provided by the AICPA's Auditing Standard AU-C §402.A.7. In other cases, the local government may require that the service organization provide an independent auditor's report on the effectiveness of the service organization's controls over the processing of those transactions (i.e., a SOC 1 – Type 2 report).

10. Some local governments include in their monitoring activities a periodic consideration of the continued appropriateness of the organizational structure of the local government to effectively manage the financial reporting risks of the local government.

11. Some local governments may establish a practical mechanism (e.g. hotline) to permit the anonymous reporting of concerns about fraud or abuse and questionable accounting or auditing practices to the appropriate parties.