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CLICK HERE FOR THE FIRE CHIEF'S REPORT DATED FEBRUARY 22, 2013

CLICK HERE FOR THE CHIEF EXECUTIVE OFFICER AND AUDITOR-CONTROLLER'S REPORT DATED MARCH 28, 2013

CLICK HERE FOR THE AUDITOR-CONTROLLER'S REPORT DATED AUGUST 15, 2013

COUNTY OF LOS ANGELES
FIRE DEPARTMENT
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DARYL L. OSBY
FIRE CHIEF
FORESTER & FIRE WARDEN

February 22, 2013

TO: EACH SUPERVISOR

FROM: DARYL L. OSBY, FIRE CHIEF Daryl L. Osby

FIRE DISTRICT - FINANCIAL PLAN UPDATE

In August 2012, the Fire District (District) updated the Financial Plan to explain the financial imbalance between revenue and expenditures, which at that time indicated a projected structural deficit of $43.4 million. This was shared with your respective staff and discussed at the September 4, 2012, Board of Supervisors meeting. We are currently projecting an $11.6 million structural deficit for Fiscal Year (FY) 2012-13. This improved financial outlook is attributed to overall efforts for containing costs, as well as $3.9 million in additional prior-year revenue and $19.79 million in additional revenue related to the Community Redevelopment Agency dissolution.

Please note that the following chart depicts our projections for the next four (4) fiscal years:

Structural Deficit ($ in Millions)	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue (On-Going)	$878.1	$878.7	$891.4	$912.6	$934.8
Expenditures (On-Going)	-889.7	-892.4	-899.3	-908.8	-925.3
Projected Structural Deficit/Surplus	**-$11.6**	**-$13.7**	**-$7.9**	**$3.8**	**$9.5**

In 2012, we procured the services of the Macias Consulting Group to review the projections used in our multi-year fiscal forecast. They concluded that our projection process uses reasonable methods, data, and adjustments. We have attached a copy of their report for your reference. While we are confident that the latest estimate continues to reasonably project our structural deficit, it should be noted that the projection does not include the following:

- Cost related to any potential COLA increases

- Cost related to critical infrastructure needs

Currently, our critical infrastructure needs estimate is $423.9 million and is detailed on page 8 of the Macias Report. For purposes of this memo, we have excluded the costs for the Klinger Replacement and the L.A. Headquarters Refurbishment/Stabilization projects, as these two projects would not be necessary if we move forward with the New Headquarters Construction project. We are currently working with the CEO to validate the critical infrastructure needs estimate.

We are projecting a $158.1 million balance in our reserves at the end of FY 2012-13; however, this amount is insufficient to meet both our infrastructure needs and ensure we maintain an appropriate reserve for budget uncertainties.

Reserves ($ in Millions)	**2012-13**
Projected Ending Fund Balance	$46.2
Designation Balance at Year-End	
Budget Uncertainties	52.0
Infrastructure Growth	18.3
Capital Projects	41.6
Total	**$158.1**

Please note that in FY 2008-09, the District implemented a hiring freeze for non-emergency positions to reduce our structural deficit. While the District was exempt from the County's hiring freeze, our freeze reduced our budget by $6 million per FY. However, we can no longer fully sustain this freeze as the effectiveness of our internal support operations (e.g., Payroll Services, Risk Management, Employee Relations, Procurement Services, Warehousing, Fleet Services, and Information Technology) has been impacted. Therefore, we plan to restore some of the critical positions.

The District has also initiated the following to reduce the structural deficits and ensure efficiencies:

- Microsoft Assessment – This assessment of business operations provided suggestions for improving efficiencies. We will incorporate some of the suggestions provided by Microsoft to our FY 2013-14 Final Changes budget.

- Carve-Out Program - On January 1, 2013, we implemented the Board-approved Labor-Management Workers' compensation, Dispute Resolution agreement. This program provides active employees claiming compensable injuries with an expedited procedure to resolve medical disputes and to facilitate their prompt return to work.

- Risk Management - Additional and more focused efforts toward risk management challenges for FY 2013-14.

- Potential Revenue Streams – Exploring programs (e.g., emergency medical services, emergency response to vehicle accidents, fire prevention and special tax) which, with Board approval, will generate additional revenue for the Department.

On September 4, 2012, your Board adopted a motion directing the Chief Executive Office (CEO) and the Auditor-Controller (A-C) to provide a report on our financial status. While the CEO and the A-C will provide their report in March 2013, we will continue to review our financial condition and will provide an updated plan in thirty (30) days with revised projections, as well as detailed information regarding efficiencies and potential revenue streams. At that time, I will meet with you and/or your staff to review our financial plan and provide additional updates.

If you have any questions, please contact me at (323) 881-6180, or your staff may contact Administrative Deputy Chief Dawnna Lawrence at (323) 881-2426.

DLO:dbl

Attachment

c: William T Fujioka
Brence Culp
Georgia Mattera
Jorge Morales
Sergio Vasquez
Randi Tahara
Joseph Charney
Susan Nissman
Rick Velasquez
Sussy Nemer

Consolidated Fire Protection District of Los Angeles County
Review of Financial Viability and Fiscal Sustainability

July 2012

Macias Consulting Group

MACIAS
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Contents

MCG Highlights

Why MCG Conducted the Review

The Fire District, as a special district, is funded independently of the County of Los Angeles General Fund and must operate within its available funding. As a result, the Fire District must rely on multi-year fiscal planning to ensure adequate funding is available to sustain all current emergency and support services. To assist the Fire District, Macias Consulting Group (MCG) was asked to conduct the following:

- Validate the accuracy of the fiscal forecast from FY 2011-12 through 2014-15.
- Determine the accuracy of property tax growth projections for the Fire District.
- Provide alternative methodology or assumptions for a more accurate forecast, and the corresponding impact of the alternatives to the forecast.

What MCG Recommends

1. The Fire District should develop a long-term capital project/infrastructure plan (5, 10 or 15 year minimum) using a net present value computation method.
2. The Fire District should develop and implement quality assurance procedures to ensure the accuracy of project estimates. These procedures should be documented and can include validating the computation formulas used for preparing estimates and checking the reasonableness of the methodology used by staff.

Consolidated Fire Protection District of Los Angeles County – Review of Financial Viability and Fiscal Sustainability

What MCG Found

Overall, the Consolidated Fire Protection District of Los Angeles County (Fire District) budget projection process uses reasonable methods, data sources and adjustments for its revenue and expenditure forecasts. The Fire District uses actual historical data that is adjusted appropriately to reflect changing factors and anticipated issues. While we were unable to assess the accuracy of property tax growth projections, we determined the Fire District was reasonable in its current approach for estimating future property tax revenues.

Our analysis of capital cost estimates for 11 anticipated infrastructure projects showed the components and methods used to estimate the costs were reasonable; however, the cost estimates for two of the 11 projects need to be revised. The adjusted cost estimate for the Septic Tank project and the Headquarters Refurbishment project are included in this report. We noted the Fire District can use an alternative process for developing cost estimates by using a long-term capital project/infrastructure plan.

Finally, the cost savings estimates that we reviewed on 11 activities were reasonable and accurate.

Principal Results

Fire District has had Success is Keeping Expenditures Aligned with Revenues

Financial viability evaluations can help determine whether jurisdictions are heading for trouble prior to a financial crisis and serve to inform officials on how well they are doing. Our analysis of five key fiscal health indicators[1] shows the Fire District is successful in keeping costs in line with total revenues.

We examined changes in the Fire District's revenues relative to changes in population size for the Fire District.[2] As population increases, it might be expected that revenues and the need for services would increase. As shown in Figure 1.0, the Fire District's revenues per capita was $209.70 in FY 2007-08 and increased slightly to $216.05 per capita by FY 2010-11. If population growth substantially increases, the Fire District may face some challenges in maintaining existing service levels unless it finds new revenue sources or implements other cost savings initiatives.

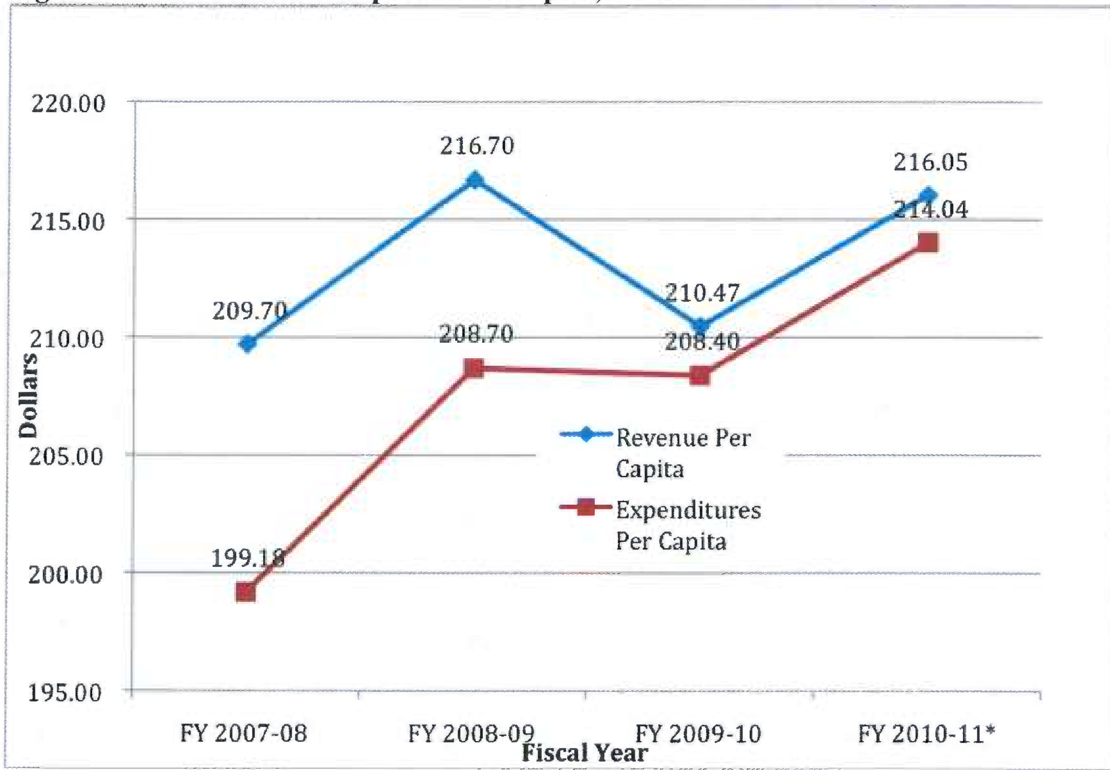
We also examined changes in the Fire District's expenditures relative to changes in population. As the population increases, it is expected that service levels and corresponding expenditures would increase. As shown in Figure 1.0, the Fire District's expenditures per capita was $199.18 in FY 2007-08 that increased to $214.04 per capita by FY 2010-11, indicating the cost of providing services increased as the population changed.

Comparison of revenues and expenditures per capita trends suggests the Fire District has done well, to date, to align its operating and other costs with available resources. The Fire District may not be able be able to sustain its current level of service or pay for large capital projects without finding additional sources of revenue, or implement other cost savings actions.

[1] Total revenues per capita, total expenditures per capita, property tax revenues to total revenues, intergovernmental revenues to total revenues, and salary and benefit expenses to total expenditures.

[2] Population data used for Fire District was provided by the Planning Division that adjusted data from the State of California, Division of Finance.

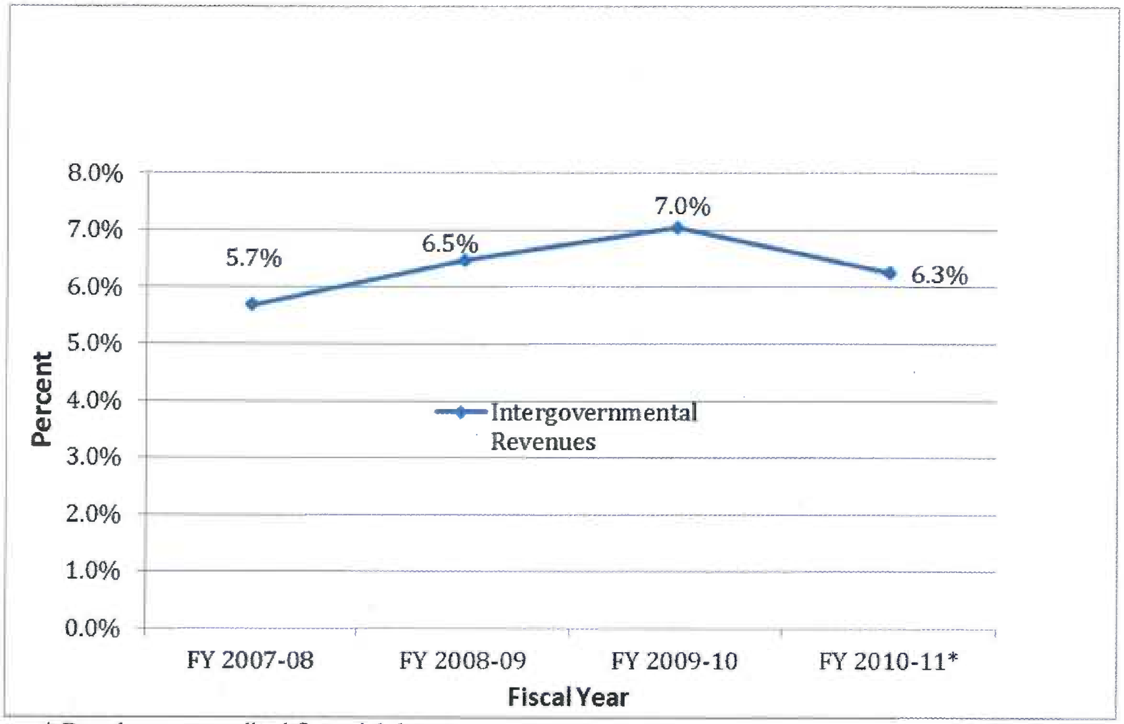
Figure 1.0: Revenue and Expense Per Capita, FY 2007-08 to 2010-11



* Based upon unaudited financial data.
Source: MCG generated chart.

Intergovernmental revenues are revenues received from the county, state and federal levels of government. An analysis of this revenue source shows whether there is an over dependence on such revenues. Any over dependence can be harmful should the level of support decline. As shown in Figure 2.0, intergovernmental revenues have served as a stable revenue source for the Fire District, ranging from 5.7 percent to 7.0 percent over the last four years.

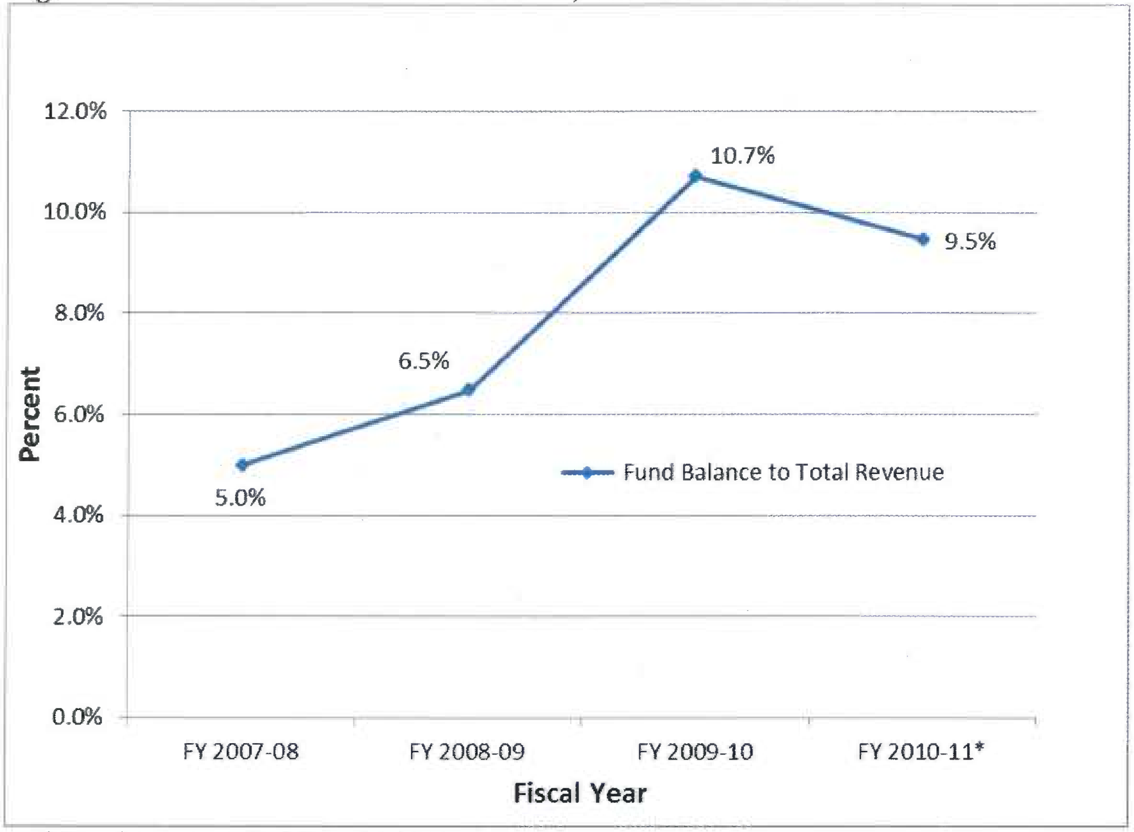
Figure 2.0: Intergovernmental Revenue as a Percentage of Total Revenue, FY 2007-08 to 2010-11



* Based upon unaudited financial data.
Source: MCG generated chart.

Fund balances are not always synonymous with funds available, but their size can affect the Fire District's ability to withstand changing conditions or emergencies. It can also affect the Fire District's ability to accumulate funds for capital purchases without taking on additional debt. As shown in Figure 3.0, the ratio of fund balances to revenues increased from 5.0 percent in FY 2007-08 to 9.5 percent in FY 2010-11, suggesting the Fire District can withstand minor emergencies if its financial sustainability remains at current levels.

Figure 3.0: Fund Balance to Total Revenue, FY 2007-08 to 2010-11



* Based upon unaudited financial data.
Source: MCG generated chart.

Projected Revenues and Expenditures Estimates Are Accurate

Projecting revenues and expenditures for subsequent years is a common practice among public agencies. The results provide a means for long-term financial planning. Our analysis of eight key revenue sources valued at $869,920,000 for FY 2014-15 and five key expenditure categories valued at $905,130,000 shows the Fire District uses reasonable methods, data sources and adjustments to develop budget projections. The budget projections are based on actual historical data that are appropriately adjusted to reflect known factors and conditions. It is important to note there is inherent uncertainty in any financial projection.

While the Fire District reasonably projects the amount of property tax revenue that it will receive, we attempted to determine the accuracy of the County Assessor's forecasts of anticipated property tax revenue. This evaluation was important to ensure that the Fire District was accurately projecting revenues from its share of property tax allocations. However, we were not able to coordinate work with the County Assessor's Office within the timeframe of this review. Nonetheless, the County Assessor's Office reported that its current methodology is under review and will likely begin partnering with the County Chief

Executive Office to modify and/or establish new methodologies to jointly develop future forecasts. It is not known whether any subsequent changes would lead to increases or declines to the Fire District's share of property tax revenue.

As shown in Figures 4.0 and 5.0, the Fire District has received lower levels of property tax revenues for FY 2009-10 and FY 2010-11 after 11 years of revenue increases (from year-to-year).

Figure 4.0: Property Tax Revenue Historical Increase and Recent Decline

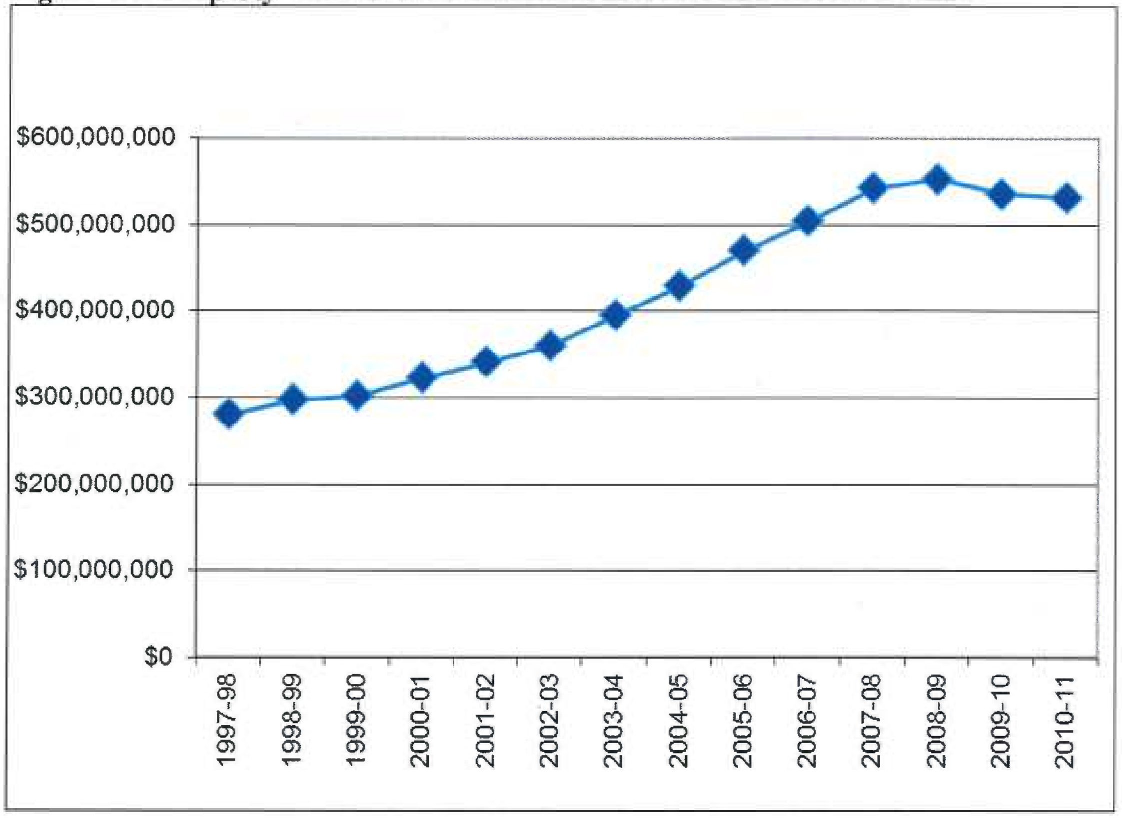
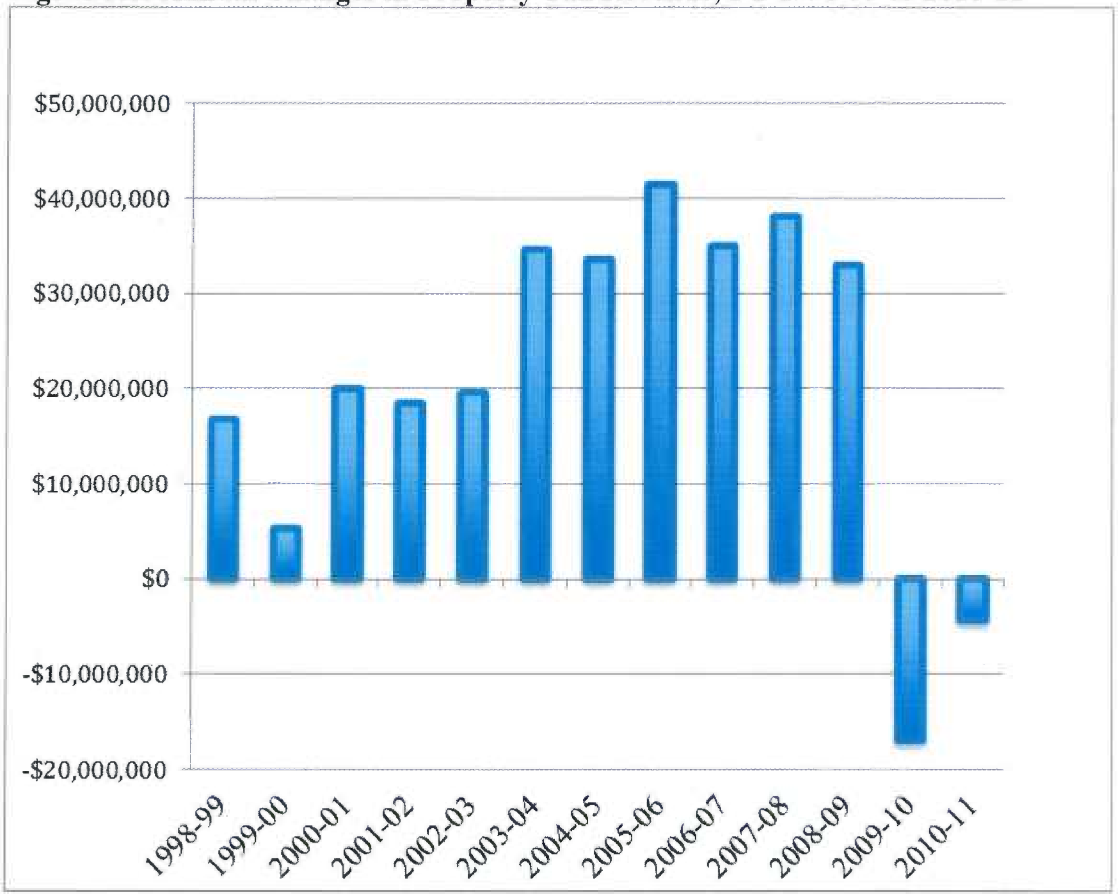


Figure 5.0 below shows the actual dollar value of the downturn in property tax revenue.

Figure 5.0: Annual Changes in Property Tax Revenue, FY 1998-99 to 2010-11



The Fire District's current projection assumes a modest return to growth in property tax revenue based on County Executive Office management judgment of improving economic and housing conditions over time. Specifically, the Fire District's projections account for modest growth ranging from 1.14 percent to 3.20 between FY 2011-12 and FY 2016-17, as shown in Table 6.0 below. We find these to be reasonable growth estimates to factor into the projection.

Table 6.0: Property Tax Growth Projection Estimates

Fiscal Year	Property Tax Growth
2011-12	1.70%[3]
2012-13	1.14%[4]
2013-14	2.40%[5]
2014-15	2.60%
2015-16	3.00%

[3] Source of estimate: Auditor-Controller's Office.
[4] Source of estimate: County Assessor's Office.
[5] Source of estimate: Chief Executive Office for FYs 2013-2017.

2016-17	3.20%

For other revenue projections, the Fire District appropriately factored potential material events and circumstances. For example, projections for "Other Revenue" weighed the financial impact from the closure of redevelopment agencies. Also, revenue projections from the settlement of Educational Revenue Augmentation Fund (ERAF) factored in declines that occurred in previous years.

Our analysis of expenditure projections found the Fire District appropriately accounted for potential increases to primary employee benefits, such as retirement costs, health care costs, retiree health insurance and workers' compensation. Expenditures for these sub-categories are expected to substantially increase while salary and wage expenditures remain stable. Currently, the salary expenditures assume no cost-of-living-adjustment (COLA). Determining whether COLA should be included in the budget projections is generally an executive management decision.

Cost Estimates for Critical Infrastructure Projects are Reasonable

The Fire District has developed capital cost estimates for 11 anticipated infrastructure projects in their Critical Infrastructure Project Summary, as follows:

Infrastructure Project	Cost Estimate
Privacy and Access Compliance	$70,000,000
Septic Tank Repair/Replacement Projects	$10,702,000
Potable Water Upgrade Projects	$8,020,870
Fire Station Replacement	$90,352,000
New Headquarters Construction	$164,279,000
Klinger Replacement	$38,390,400
LA Headquarters Refurbishment and Stabilization	$21,585,714
Computer Aided Dispatch Replacement	$8,750,000
Network Infrastructure	$8,000,000

Replace Baywatch Rescue Boat Headquarters	Not evaluated. This project is in adopted budget as expenditure.
Replace Two Baywatch Rescue Boats	$1,185,000
Helicopter Replacement	$62,500,000

We assessed the methodology in developing 11 of the 12 project cost estimates and found the sources and methods used to develop costs were reasonable. At the time of our review, the remaining project – replacing the Baywatch Rescue Boat Headquarters – had already been included in the adopted budget as an expenditure item, so we did not validate the accuracy of the estimate. Cost estimates for the 11 projects are generally supported by preliminary cost estimates, some prepared by professional services firms on contract to the Department of Public Works. For projects that could be long term, such as construction related projects, the cost estimates appropriately included a contingency amount.

The cost estimates for 2 of the 11 projects need to be revised. For the Septic Tank project, the cost estimate should be $10,112,000 instead of $10,702,000. For the Headquarters refurbishment project, the cost estimate from the 2008 report should be updated to make sure that it is a current and accurate. This is common practice for four-year old estimates. The 2008 cost estimate should be adjusted by 12.5 percent, for a revised cost estimate of $24,283,928. The cost estimates for the remaining 9 projects are accurate.

We noted the cost estimates for the infrastructure projects should be captured separately in a Fire District specific capital project/infrastructure plan, which the District has already recognized that it needs in its draft strategic plan. Such a plan provides a description over a specific period time, from 5 to 15 years; the need for large capital projects; their nature; and timeframe for completion. A capital project plan also provides information to decision-makers to rank the priority of projects to be completed, as well as the projected costs of the projects using popular methods of capital budgeting, such as net present value (NPV)[6], internal rate of return (IRR), discounted cash flow (DCF) and payback period.

Developing a capital project/infrastructure plan -- a financial management best practice -- would aid in making better infrastructure projections and better presentations of project information. Presently, the Fire District presents three separate cost estimates related to its headquarters building. One estimate is for constructing a new headquarters building along with other construction at the same site ($164 million), another cost estimate is for replacing the existing Klinger headquarters building only ($38 million), and the final cost estimate is for refurbishing and stabilizing the Klinger building ($22 million). A capital budget process

[6] Net present value is a method to compare the cost of the project now with the cost in the future and is the standard criterion for deciding whether a government program can be justified on economic principles (benefits minus costs).

would actually include a description that these projects are actually "options" for management consideration to address the headquarters building issue.

Cost Savings Estimates Were Accurate

To help offset costs to build the infrastructure projects, cost savings from other areas can be realized. The Fire District, in a county-wide effort to explore efficiencies as a means to generate on-going or one-time savings, identified 11 cost-efficiency efforts as described by the Fire District's Efficiency Savings Summary. These include:

- water main construction project;
- tire retread program;
- unused phone line disconnection;
- heart code online advanced cardiac life support program;
- risk exposure cost avoidance plan;
- carve out program;
- cell phone – data reduction;
- fuel efficiency pilot program;
- utilities reduction and conservation;
- vehicle accident reduction; and
- wellness fitness North Region pilot program.

Four of the 11 projects -- water main construction project, tire retread program, unused phone line disconnection program, and the heart code online advanced cardiac life program -- reported cost savings of $736,000. The documentation provided for these four projects was adequate to support estimated savings.

We further assessed the methods used by the Fire District to estimate the cost savings for the four projects and found most of them to be reasonable. For example, in estimating cost savings for the tire retread program, the Fire District calculated the cost of tires that it would not have to purchase because of extending the life cycle of existing tires, a reasonable method. We did identify the cost savings estimated for the water main construction project of $100,000 should be lower. While the Fire District was reasonable in its method to compare a contractor's estimate with the cost of completing the project in-house, we found that the Fire District did not include fully the in-house labor cost for the work. Factoring in such labor expenses would have lowered the amount of saving.

Recommendations

We recommend that the Fire District:

1. Develop a long-term capital project/infrastructure plan (5, 10 or 15 year minimum) using a net present value computation method.

2. Develop and implement quality assurance procedures to ensure the accuracy of project estimates. These procedures should be documented and can include validating the computation formulas used for preparing estimates and checking the reasonableness of the methodology used by staff.

Appendix A: Objectives, Scope and Methodology

The Fire District contracted with MCG to address the following objectives:

- Validate the accuracy of the fiscal forecast from FY 2011-12 through 2014-15.
- Determine the accuracy of property tax growth projections for the Fire District.
- Provide alternative methodology or assumptions for a more accurate forecast, and the corresponding impact of the alternatives to the forecast.

To accomplish these objectives, we, as requested by the Fire District:

- Evaluated revenue and expenditure projections for the following categories: property taxes, special taxes, contract revenue, assistance by hire revenue, federal/state revenue, salaries and employee benefits, services and supplies, other charges, capital assets and other financing uses.
- Evaluated estimated infrastructure costs as identified in the Fire District's Critical Infrastructure Project Summary.
- Evaluated the cost-savings estimates related to efficiencies described in the Fire District's Efficiency Savings Summary.

We interviewed Fire District personnel who were integral in preparing budget projections and in requesting and using cost estimates, particularly with projects included in the Critical Infrastructure Projects Summary. We collected and analyzed documentation related to developing the budget projection, cost estimates and cost-efficiency savings activities. As part of our efforts to ensure the accuracy and reliability of the data, we selectively traced numbers and verified computations. We also interviewed non-Fire District representatives from the County of Los Angeles Chief Executive Office, the Auditor-Controller's Office and the Department of Public Works to obtain their perspective and to verify what they had provided the Fire District. Our request to meet with a representative of the County Assessor's Office to evaluate the accuracy of the property tax revenue allocation projection could not be coordinated within the timeframe of this review.

Our work was performed between May 29, 2012 and June 22, 2012.

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WILLIAM T FUJIOKA
Chief Executive Officer

March 28, 2013

To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

CONSOLIDATED FIRE PROTECTION MULTI-YEAR FISCAL ESTIMATE (ITEM 45, AGENDA OF SETEMBER 4, 2012)

On September 4, 2012, the Board instructed the Auditor-Controller (A-C), with assistance from the Chief Executive Office (CEO), to conduct a review of the Fire Department's (Department) financial position as of the close of the 2011-12 Fiscal Year (FY). The Board further instructed the CEO to work with the Department to prepare longer term estimates of revenue and major expenditures regarding the Department's future challenges beyond the current County budgeting cycle.

On December 20, 2012, the A-C, along with the CEO, submitted an extension request for an additional 90 days to report back to the Board with the fiscal forecast. This report will provide a comprehensive overview of the Department's current and future fiscal projections and an explanation of the methodology and data used in the Department's multi-year forecasts which cover FYs 2012-13 through 2017-18 (Attachment A).

Introduction

The Department currently prepares a multi-year financial forecast in order to track expenditures and revenues. The estimates that form the basis of this report are from September 2012.

Since the September 2012 forecast, the Department has provided numerous updates to reflect the most current information available as it relates to actual expenditures and revenue received during the course of the FY. A financial plan update was submitted by the Department on February 22, 2013, that included a review of their financial viability and fiscal sustainability by the Macias Consulting Group. The review concluded that the Department's projection process uses reasonable methods, data, and adjustments. The most recent forecast from January 29, 2013, shows a marked improvement in the Department's financial outlook due to projected increases in property tax and revenue related to the dissolution of the Community Redevelopment Agencies (CRAs). However, these most recent estimates do not account for the possibility of future Cost of Living Adjustments (COLAs) for Departmental personnel nor the costs associated with the Department's critical infrastructure needs. The CEO continues to work with the Department to validate these estimates, which are addressed later in this report.

The most pressing fiscal issue confronting the Department is the continued presence of a structural deficit which exists when ongoing expenditures exceed ongoing revenues and can only be addressed through a reduction in spending and/or an increase in revenues. For FY 2011-12, the deficit was $16.8 million and is expected to grow to $34.9 million for FY 2012-13. For FYs 2013-14 through 2015-16, the Department projects their structural deficit to be at $17.4 million, $25.2 million, and $19.6 million respectively.

STRUCTURAL DEFICIT (As of 09/28/2012)
FISCAL YEARS 2011-12 THROUGH 2017-18

	2011-12 Actual	2012-13 Projection	2013-14 Projection	2014-15 Projection	2015-16 Projection	2016-17 Projection	2017-18 Projection
Revenue (Net of Designation/Fund Balance)	$ 860,295,750	$861,547,000	$ 869,552,000	$ 878,267,000	$ 894,504,000	$ 911,602,000	$ 928,265,000
Expenditures (Net of Designation)	$ 877,066,312	$896,437,000	$ 886,938,000	$ 903,453,000	$ 914,141,000	$ 923,882,000	$ 934,688,000
Structural Deficit	$ (16,770,562)	$ (34,890,000)	$ (17,386,000)	$ (25,186,000)	$ (19,637,000)	$ (12,280,000)	$ (6,423,000)
Estimated Fund Balance	$ 46,810,857	$ 22,723,000	$ 5,337,000	$ (19,849,000)	$ (19,637,000)	$ (12,280,000)	$ (6,423,000)
Designation	$ 125,852,000	$111,052,000	$ 111,052,000	$ 111,052,000	$ 111,052,000	$ 111,052,000	$ 111,052,000

Overview

For FY 2011-12, the Department had $877.1 million (Net of Designation) in actual expenditures of which $740.8 million or 83 percent was for salaries and employee benefits (S&EB) and $108.1 million was for services and supplies (S&S). The remaining $40.4 million was for expenditures related to capital asset purchases, settlements, and to finance infrastructure needs (Attachment B).

The vast majority of revenue for the Department comes from the collection of property tax. Of the $860.3 million (Net of Fund Balance/Designation) in actual revenue received/generated by the Department in FY 2011-12, $538 million or over 60 percent was comprised of property tax revenue. Other significant sources of revenue include a voter-approved Special Tax to fund fire and emergency services, and revenue from 11 contract cities for fire and emergency medical services provided by the Department (Attachment C).

Another significant source of funding for the Department is Fund Balance. Fund Balance is the difference/variance between expenditures and revenues. A negative Fund Balance occurs when expenditures exceed revenues and results in a budget gap or deficit. Conversely, a positive Fund Balance is surplus revenue after the Department's expenses have been accounted for. A positive Fund Balance from a prior FY becomes a revenue source for the upcoming FY.

A portion of the Fund Balance should be set aside in a Designation/Contingency Fund. A Contingency Fund sets aside resources to provide for unforeseen expenditures or for anticipated large-scale purchases (Attachment D).

Expenditures

The majority of the Department's expenditures within their Operating Budget reside in S&EB. Of the $877.1 million (Net of Designation) in actual expenditures for FY 2011-12, $740.8 million or 83 percent of those expenditures were related to S&EB costs. For the six-year period beginning in FY 2012-13 and ending in FY 2017-18, the Department is projecting an 8.4 percent increase in S&EB expenditures from $770.3 million to $835.3 million primarily due to increases in employee benefits. These estimates are based on prior year expenditures as well as information provided by the CEO for major S&EB categories including: retirement, retiree health insurance, workers' compensation, and choices/options. Also included in the Department's forecast are overtime expenditures, a key category in their Operating Budget. Overtime estimates for FY 2012-13 are calculated using actual expenditures from the current FY coupled with prior year expenditures from FY 2011-12. Overtime estimates for FY 2013-14 and beyond are calculated using an average from the prior three FYs.

The Department's S&EB forecast does not include any salary increases through FY 2017-18 because any COLAs for that period are subject to negotiation.

Projections for S&S expenditures are based on a combination of historical actuals for ongoing purchases and estimates for one-time purchases. While a majority of those purchases are funded via property tax revenues, the Department also receives State and Federal grant funding that offsets Department purchases as well. Major expenditure categories include: telephone and data communication services; maintenance for the Department's helicopter fleet; costs related to an array of services provided by other County departments; fuel costs for the Department's fleet of vehicles, including fire engines; and costs associated with the Department's lifeguard operations.

The Other Charges section primarily reflects: principle payments for financing related to the construction of five new fire stations in the Santa Clarita Valley, anticipated liability costs, and anticipated finance payments beginning in FY 2015-16 for the purchase of new fire engines. It should be noted that the anticipated finance payments for the purchase of new fire engines have been removed from subsequent versions of the forecast.

The Capital Assets section reflects anticipated expenditures of $6.2 million in FY 2012-13 for the outright purchase of new fire engines. Also included are anticipated expenditures of $12.2 million for the purchase of various capital asset items, including new communication equipment and replacement vehicles.

The Other Financing Uses section primarily reflects transfers of funding from the Operating Budget to the Department's Capital Projects – Accumulated Capital Outlay (ACO) Fund for infrastructure projects.

Revenue

Property tax constitutes the single largest source of revenue for the Department's Operating Budget. Of the $860.3 million in ongoing actual revenue for FY 2011-12, $538 million or nearly 63 percent originated from property tax. For FY 2012-13, the Department is projecting revenue of $548.7 million based on estimates provided by the Los Angeles County Assessor's Office which projects a 2.2 percent increase based on actual revenue received in FY 2011-12. For FY 2013-14 and beyond, property tax projections are based on estimates provided by the CEO.

Another significant revenue source for the Department is the Special Tax assessment approved by voters in 1997 which generates additional revenue for fire protection and emergency medical services only. This Special Tax allows for rates to be increased on property parcels by a maximum of two percent on a yearly basis based on the type and size of a specific piece of property. For FY 2011-12, the Special Tax generated $73.8 million in revenue for the Department. For FY 2013-14 through FY 2017-18, the Department's estimates are based on the maximum two percent increase. In order to levy this increase, the Department currently has to obtain Board approval on an annual basis. One possible way to ensure that the revenue from the increase is included in the Department's budget on a consistent basis is to include it as part of the yearly County-wide budget development process. Further analysis is needed in order to determine the feasibility of such an action.

The GF-Lifeguards revenue category reflects an agreement between the County and the Department in which 70 percent of the Department's lifeguard operations would be funded through net County cost with the remaining 30 percent to be funded through existing Department revenues. The estimate for FY 2012-13 includes funding for increases in employee benefits and for the purchase of a new rescue boat. Projections for FYs 2013-14 through 2017-18 are based on the current FY budgeted revenue amount of $26.5 million less $473,000 in one-time funding for the rescue boat.

The Other revenue category encompasses all other revenue received by the Department that is not specifically identified in the above categories. Various sources of information including agreements, fee schedules, and historical trends are used to develop projections. Significant sources of revenue included in this category are the following:

- Fee for Service Cities - Revenue collected via agreements between the Department and 11 contract cities for fire protection and emergency medical services.

- Assistance By Hire – Revenue from other agencies for fire protection services provided in other jurisdictions.

- State Responsibility Area (SRA) – Funding from the State for providing ongoing services on SRA land.

- Community Redevelopment Agency – This is funding that the Department received from local community redevelopment agencies. However, with the recent dissolution of CRAs as part of the State of California's 2011-12 budget, it is uncertain as to how much the Department will be receiving from this funding source for the next five years and beyond.

Fund Balance

Included as a funding source within the Department is the Fund Balance, which represents available funding and revenue less the District's expenditures. For every new FY the ending Fund Balance from the prior year becomes the beginning Fund Balance for that new year. The multi-year forecast shows a declining Fund Balance beginning in FY 2012-13, with an estimated balance of $22.7 million. By FY 2014-15 there is a projected deficit of $19.8 million. Finally, in FY 2017-18 the deficit is $6.4 million. This is due to the fact that over the same five-year period projected increases in the Department's operating expenses are outpacing any projected increases in revenue.

As a special district, the Department does not receive funding from the County General Fund with the exception of the net County cost provided to cover approximately 70 percent of expenditures for their lifeguard operations. To that end, the Department has recently been transferring funds from the Designation in order to address reduced fund balances as a result of the structural deficit. For instance, in FY 2011-12 the Department transferred $22.1 million from the Designation in order to balance the budget. That amount, coupled with a prior year Fund Balance of $81.3 million and $1.6 million in commitment cancelations, resulted in a total available Fund Balance of $46.8 million.

Designations

The Designation consists of one-time funding that the Department sets aside in three separate accounts for the following activities:

- Budget Uncertainties – This account is used to reserve unanticipated expenditures or revenue shortfalls. It was established following a January 2005 report by the A-C that recommended the Department develop a formal policy for a level of unreserved fund balance maintained in a budgetary Designation for operating contingencies. As per A-C recommendations, the Department maintains an amount at least equal to approximately four percent to five percent of its total operating expenditures. For FY 2011-12, there was $59.8 million kept in the account or an amount equal to 6.7 percent of total operating expenditures.

- Infrastructure Growth - This account is used to reserve the replacement of fleet vehicles as well as large-scale communication projects, including the replacement of the Department's dispatch console used to communicate with fire or Emergency Management System units in the field via voice or data.

- Capital Projects – This account was established to reserve specific capital project needs such as the construction of a new departmental headquarters.

  Use of the Designation requires approval by the Board of Supervisors via a four vote Board letter and appropriation adjustment. In addition, funding can be used for a purpose other than the specific account where the funds reside. For instance, funding in the Capital Projects account can be used to address the Department's structural deficit. When funds are transferred out of the Designation and into the Operating Budget it becomes a source of funding. The Department can also transfer funding from its Operating Budget back to the Designation. As a result of the structural deficit, the Department has had to transfer funds from the Designation to their Operating Budget with greater frequency. For FY 2011-12 there was $125.9 million in the Designation compared to FY 2012-13 in which the Department is projecting $111.1 million to be available within the fund. The use of significant portions of the fund to address the deficit significantly impacts the Department's ability to fund critical capital projects and infrastructure needs.

In previous FYs, the Department transferred a portion of excess Fund Balance into one of the three Designation accounts. For example, in FY 2011-12 it transferred $29.2 million in excess Fund Balance to Budget Uncertainties and Infrastructure Growth and for FY 2012-13 it transferred another $20.4 million into Budget Uncertainties. However, the prospect of dwindling fund balances will limit the Department's ability to continue to fund the Designation.

Capital Projects

The Department has two Accumulated Capital Outlay (ACO) Funds which are comprised of one-time funding that is revenue offset with grants, developer fees, and Fund Balance from the Department's Operating Budget. Individual capital projects are budgeted within these funds.

Fire ACO Fund

The total amount appropriated in the FY 2012-13 Fire ACO Fund is $74 million. This comprises available funding for nearly 70 priority capital projects. While some of these projects are fully funded, many of the projects remain only partially funded and on hold until the Department can identify funding.

- Nearly $36 million of the funding is offset with revenue from developer's fees and short-term financing. These revenue offset projects include allocations for land acquisition for future fire stations and allocations for bond-financed new stations in Santa Clarita.

- The Department has identified major capital programs/projects that have only been partially funded, but are recorded in the ACO Fund as a project. This includes:

    - $15,915,000 appropriated for various privacy and access projects. Approximately 28 locations have been identified and have been given minor allocations of appropriation totaling $1,681,000. However, $14,234,000 remains in an unallocated holding pot for future privacy and access projects as they are identified.

- $611,000 appropriated for a new headquarters replacement project. The total estimated cost for this project is projected to be approximately $167 million.

- $14.5 million appropriated for a few select critical infrastructure projects. For instance, many of the fire stations' and fire camps' existing septic and potable water systems are either failing or have outlived their useful life. The current funding addresses only the most critical situations at these facilities. The total shortfall for the remaining projects has not yet been determined.

- The remaining $7 million of appropriation is comprised of the remaining funding from previously approved projects that are currently in construction.

<u>Del Valle ACO Fund</u>

Funding for improvements specifically made to the Del Valle Training Center near Castaic are recorded in this fund on an as-needed basis. Currently, about $998,000 is budgeted for various erosion and soil remediation projects.

Updated Estimates

As mentioned earlier in this report, the Department updates their financial plan throughout the course of the FY with the most current information available. Since September 2012, when the Department provided their initial forecast which has become the basis for this report, there has been a significant change with regards to their estimates, including greater-than-expected property tax revenues and one-time funding due to the dissolution of the CRAs. This additional revenue is expected to reduce the structural deficit as well as increase the Fund Balance.

STRUCTURAL DEFICIT (as of 1/29/13)
FISCAL YEARS 2011-12 THROUGH 2017-18

	2011-12 Actual	2012-13 Projection	2013-14 Projection	2014-15 Projection	2015-16 Projection	2016-17 Projection	2017-18 Projection
Revenue (Net of Designation/Fund Balance)	$860,295,750	$878,136,000	$ 878,745,000	$891,419,000	$ 912,590,000	$934,787,000	$956,673,000
Expenditures (Net of Designation)	$877,066,312	$889,725,000	$ 892,406,000	$899,339,000	$ 908,805,000	$925,333,000	$928,288,000
Structural Deficit	$ (16,770,562)	$ (11,589,000)	$ (13,661,000)	$ (7,920,000)	$ 3,785,000	$ 9,454,000	$ 28,385,000
Estimated Fund Balance	$ 46,810,857	$ 46,167,000	$ 37,427,000	$ 29,507,000	$ 33,292,000	$ 42,746,000	$ 71,131,000
Designation	$125,852,000	$111,885,000	$ 106,964,000	$106,964,000	$ 106,964,000	$106,964,000	$106,964,000

According to the Department's latest estimates as of January 29, 2013, the projected structural deficit for FY 2012-13 is now $11.6 million, which represents a significant reduction from their original projection of $34.9 million referenced earlier in this report (Attachment E). In addition, beginning in FY 2015-16, the Department is projecting that revenues will exceed expenditures including a surplus of $28.4 million by FY 2017-18. Coupled with these surpluses, are projected increases in the Department's Fund Balance as well. For FY 2012-13, the Department's latest estimates project a year-end Fund Balance of $46.2 million and by FY 2017-18 that amount is expected to climb to $71.1 million. These estimates represent a marked increase from what was included in the September 2012 forecast.

It should be noted that like earlier versions of the forecast, these updated estimates do not include the potential for salary COLAs which would impact any projected surplus and Fund Balance. It is estimated that a one percent increase in salaries Department-wide would result in a $5.7 million increase in total S&EB costs. Also excluded in the forecast are costs related to critical infrastructure needs. The Department is currently working with the CEO to develop a critical infrastructure needs estimate.

Moving Forward

The Department has taken significant steps in attempting to mitigate the structural deficit by implementing over $50.3 million in cost curtailment measures since FY 2008-09 including: freezing vacant non-emergency positions, reductions in capital asset purchases, and a reduction in non-essential travel and training. Beyond these measures, the Department is also exploring the possibility of developing new revenue streams including fees related to services provided through its fire prevention program, potential department-wide efficiencies related to its information technology practices, and workers' compensation costs. The Department anticipates completing a report in April 2013 detailing the viability of implementing these measures.

In the event the aforementioned measures prove insufficient and the Department having exhausted all attempts at identifying additional efficiencies and revenue streams in addressing the deficit, the possibility of initiating a Special Tax ballot measure may be considered at a later date. Such a measure would raise the cap on the Special Tax from the current amount of $62.26 and would generate an additional $1.2 million in revenue for every $1 increase in the cap amount. This action would require further analysis and review and approval from the Board.

The possibility for further change in the Department's multi-year forecast exists due to the potential of a County-wide salary COLA in the near future, fluctuations in property tax estimates, and issues surrounding the funding of critical capital project needs. The

CEO will continue to monitor the Department's fiscal situation on a monthly basis and will report back to the Board if any significant month-to-month discrepancies are identified.

Should you have any questions, please contact Georgia Mattera at (213) 893-2374 or Dennis Conte at (213) 893-9738.

WTF:GAM:SW
DC:llm

Attachments

Fire.Multi-Yr Fiscal Est.bm.032813

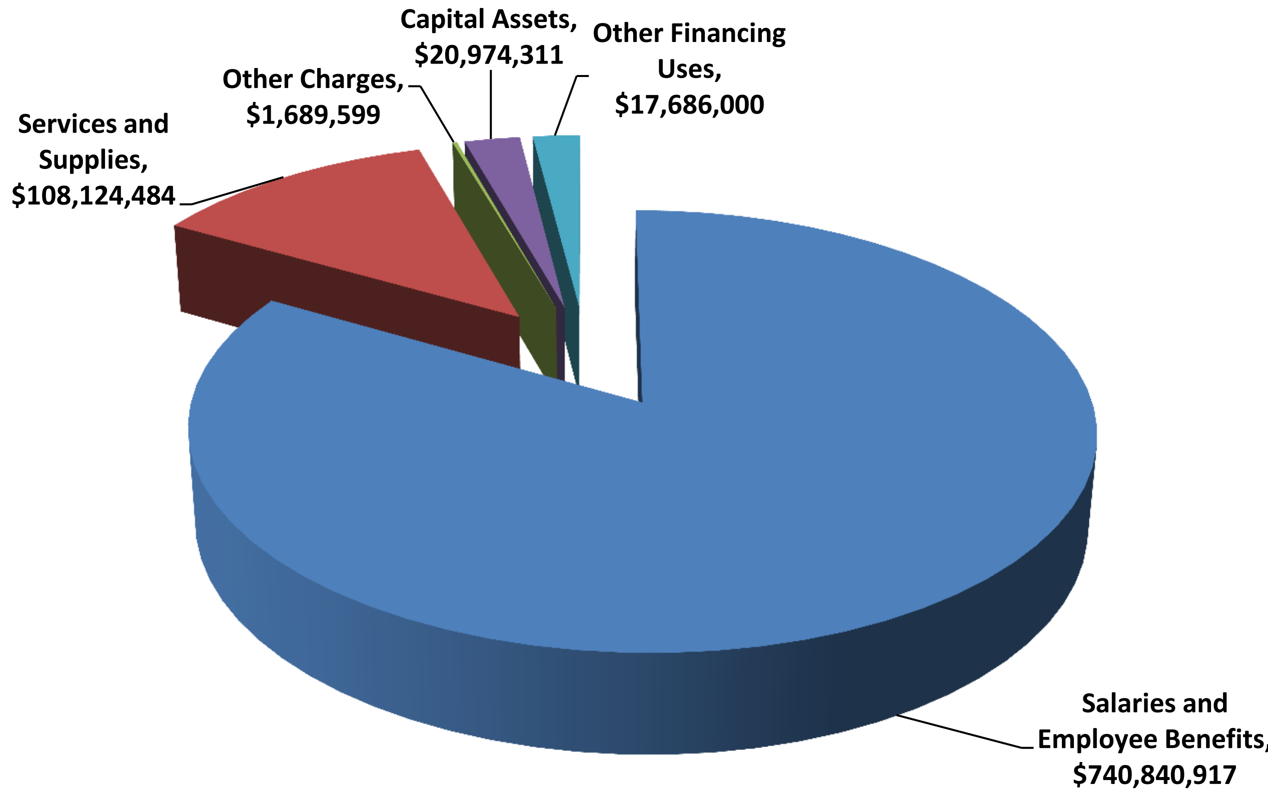
Los Angeles County Fire Department
Multi-Year Fiscal Forecast

Attachment A

	2011-12 Actual	2012-13 Supplemental	2012-13 Projection	2013-14 Projection	2014-15 Projection	2015-16 Projection	2016-17 Projection	2017-18 Projection
Salaries & Employee Benefits	$ 740,840,917	$ 779,402,000	$ 770,319,000	$ 787,738,000	$ 804,453,000	$ 813,917,000	$ 824,099,000	$ 835,325,000
Services & Supplies	108,124,484	123,699,000	103,278,000	92,221,000	92,051,000	92,221,000	92,051,000	92,221,000
Other Charges	1,657,799	2,325,000	2,325,000	2,312,000	2,282,000	2,282,000	2,283,000	2,285,000
5 New Fire Stations ($48.7M)	31,800	3,766,000	1,246,000	2,793,000	2,793,000	2,793,000	2,793,000	2,793,000
Engines/Quints						1,054,000	1,054,000	1,054,000
Capital Assets	14,081,784	14,863,000	12,231,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Engines/Quints	6,892,527	6,164,000	6,164,000					
Other Financing Uses	4,563,000	3,941,000	3,941,000					
Privacy and Access	12,249,000							
412 EP	874,000	874,000	874,000	874,000	874,000	874,000	602,000	10,000
Subtotal - Expenditures	$ 889,315,312	$ 935,034,000	$ 900,378,000	$ 886,938,000	$ 903,453,000	$ 914,141,000	$ 923,882,000	$ 934,688,000
Appropriation For Contingency								
Reserves								
Assigned for Budget Uncertainties	14,229,000	20,415,000	20,415,000					
Assigned for Infrastructure Growth	15,000,000							
Total Financing Requirements (A)	**$ 918,544,312**	**$ 955,449,000**	**$ 920,793,000**	**$ 886,938,000**	**$ 903,453,000**	**$ 914,141,000**	**$ 923,882,000**	**$ 934,688,000**
Property Tax	$ 538,012,218	$ 548,738,000	$ 548,738,000	$ 559,992,000	$ 572,302,000	$ 586,838,000	$ 602,528,000	$ 618,163,000
Retro ERAF- Property Tax	9,658,567	-	-	-	-	-	-	-
Special Tax-Current	73,250,180	74,714,000	74,714,000	76,214,000	77,738,000	79,298,000	80,882,000	82,502,000
Special Tax-Prior	542,655	543,000	543,000	543,000	543,000	543,000	543,000	543,000
GF-Lifeguards	25,630,000	26,514,000	26,514,000	26,041,000	26,041,000	26,041,000	26,041,000	26,041,000
Measure B Funds	1,323,603	1,324,000	1,324,000	1,324,000	1,324,000	1,324,000	1,052,000	460,000
Other Revenue	206,780,847	222,424,000	206,162,000	205,438,000	200,319,000	200,460,000	200,556,000	200,556,000
Prior Year Revenue	5,097,680		3,552,000					
Subtotal - Revenue	$ 860,295,750	$ 874,257,000	$ 861,547,000	$ 869,552,000	$ 878,267,000	$ 894,504,000	$ 911,602,000	$ 928,265,000
Beginning Fund Balance	81,340,000	46,810,000	46,810,000	22,723,000	5,337,000	-	-	-
Cancel Reserves								
Assigned for Budget Uncertainties	3,772,000	28,160,000	28,160,000					
Assigned for Infrastructure Growth	3,670,000	2,281,000	2,281,000					
Assigned for Capital Projects	14,708,000	3,941,000	3,941,000					
Commitment Cancellations	1,569,419		777,000					
Total Available Financing (B)	**$ 965,355,169**	**$ 955,449,000**	**$ 943,516,000**	**$ 892,275,000**	**$ 883,604,000**	**$ 894,504,000**	**$ 911,602,000**	**$ 928,265,000**
Estimated Fund Balance (B - A)	**$ 46,810,857**	**$ -**	**$ 22,723,000**	**$ 5,337,000**	**$ (19,849,000)**	**$ (19,637,000)**	**$ (12,280,000)**	**$ (6,423,000)**

Attachment B

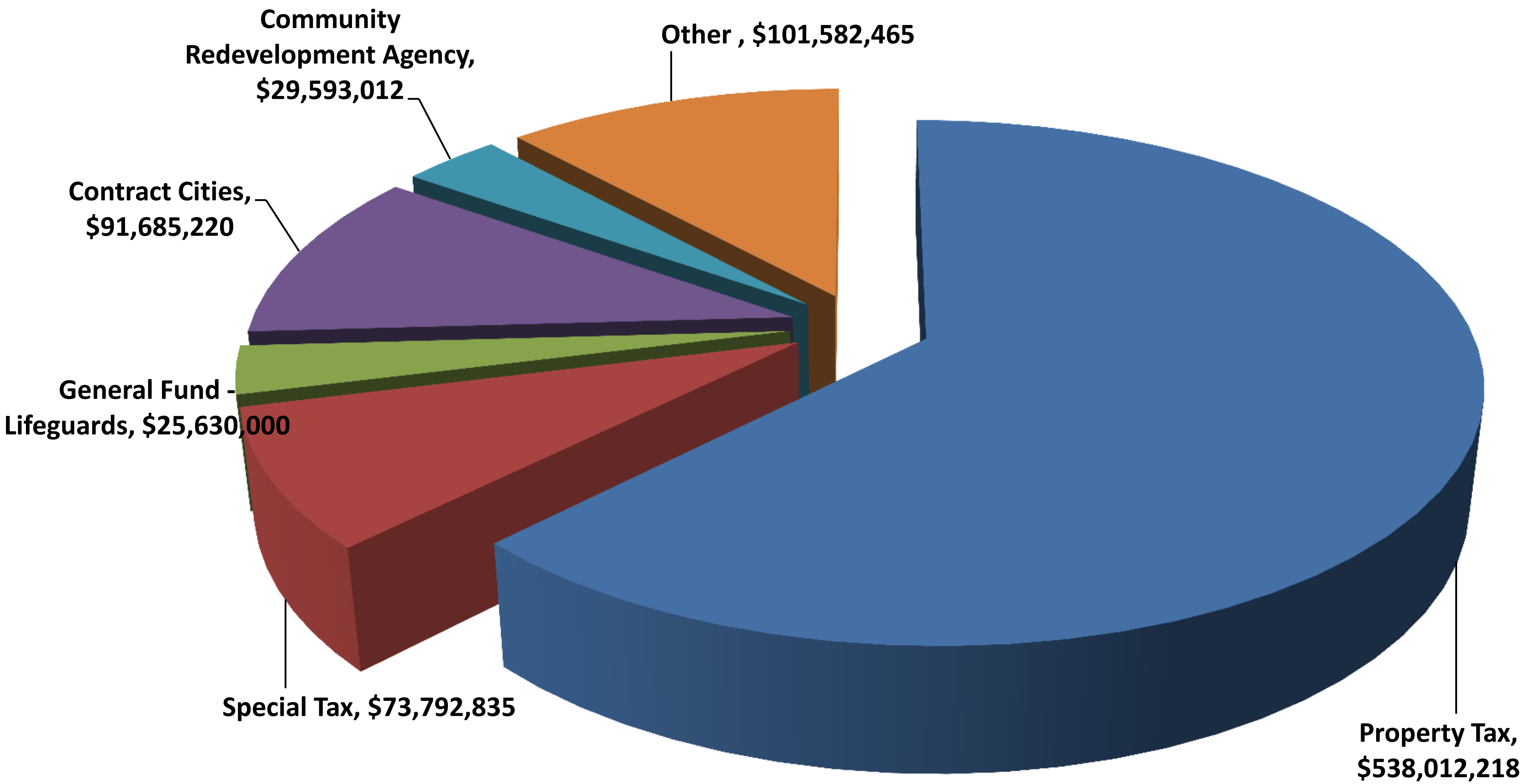
FY 2011-12 Actual Expenditures by Category
Total Expenditures: $889,315,312*



*Includes on-going expenditures only.

Attachment C

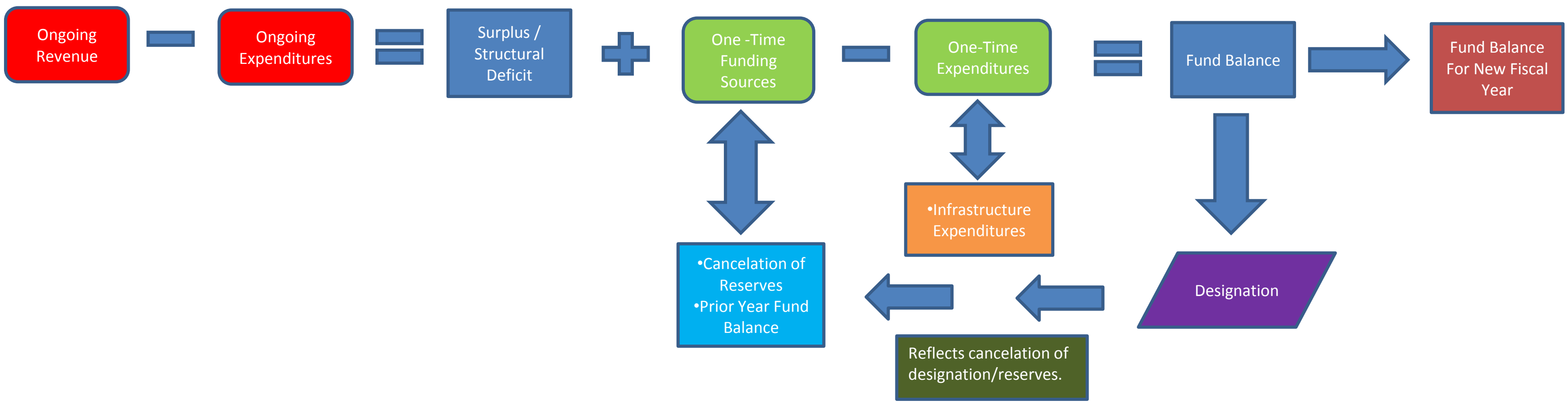
FY 2011-12 Actual Revenue by Category
Total Revenue: $860,295,750



*Includes on-going revenues only.

Attachment D

Fund Balance and Designation



Los Angeles County Fire Department
Multi-Year Fiscal Forecast

Attachment E

	2011-12 Actual	2012-13 Final Adopted	2012-13 Projection	2013-14 Recommended	2013-14 Projection	2014-15 Projection	2015-16 Projection	2016-17 Projection	2017-18 Projection
Salaries & Employee Benefits	$ 740,840,917	$ 779,402,000	$ 763,491,000	$ 796,532,000	$ 780,529,000	$ 796,943,000	$ 805,937,000	$ 815,608,000	$ 826,281,000
Services & Supplies	108,124,484	123,699,000	103,267,000	109,833,000	98,041,000	96,139,000	96,611,000	96,139,000	96,611,000
Other Charges	1,657,799	2,325,000	2,325,000	4,333,000	4,333,000	1,960,000	1,960,000	1,961,000	1,963,000
5 New Fire Stations ($48.7M)	31,800	3,766,000	1,246,000	2,423,000	2,423,000	2,423,000	2,423,000	2,423,000	2,423,000
Engines/Quints									
Capital Assets	14,081,784	14,863,000	12,518,000	4,126,000	4,126,000	1,000,000	1,000,000	1,000,000	1,000,000
Engines/Quints	6,892,527	6,164,000	6,004,000	2,080,000	2,080,000			7,600,000	
Other Financing Uses	4,563,000	3,941,000	3,941,000	-					
Privacy and Access	12,249,000								
412 EP	874,000	874,000	874,000	874,000	874,000	874,000	874,000	602,000	10,000
Subtotal - Expenditures	$ 889,315,312	$ 935,034,000	$ 893,666,000	$ 920,201,000	$ 892,406,000	$ 899,339,000	$ 908,805,000	$ 925,333,000	$ 928,288,000
Appropriation For Contingency									
Reserves									
Assigned for Budget Uncertainties	14,229,000	20,415,000	20,415,000						
Assigned for Infrastructure Growth	15,000,000								
Total Financing Requirements (A)	**$ 918,544,312**	**$ 955,449,000**	**$ 914,081,000**	**$ 920,201,000**	**$ 892,406,000**	**$ 899,339,000**	**$ 908,805,000**	**$ 925,333,000**	**$ 928,288,000**
Property Tax	$ 538,012,218	$ 548,738,000	$ 561,328,000	$ 562,827,000	$ 578,179,000	$ 595,352,000	$ 614,812,000	$ 635,591,000	$ 656,438,000
Retro ERAF- Property Tax	9,658,567	-	-	-	-	-	-	-	-
Special Tax-Current	73,250,180	74,714,000	75,187,000	76,697,000	76,697,000	78,230,000	79,800,000	81,394,000	83,025,000
Special Tax-Prior	542,655	543,000	494,000	494,000	494,000	494,000	494,000	494,000	494,000
GF-Lifeguards	25,630,000	26,514,000	25,937,000	26,470,000	26,470,000	26,470,000	26,470,000	26,470,000	26,470,000
Measure B Funds	1,323,603	1,324,000	1,324,000	1,324,000	1,324,000	1,324,000	1,324,000	1,052,000	460,000
Other Revenue	206,780,847	222,424,000	209,992,000	213,007,000	195,581,000	189,549,000	189,690,000	189,786,000	189,786,000
Prior Year Revenue	5,097,680		3,874,000						
Subtotal - Revenue	$ 860,295,750	$ 874,257,000	$ 878,136,000	$ 880,819,000	$ 878,745,000	$ 891,419,000	$ 912,590,000	$ 934,787,000	$ 956,673,000
Beginning Fund Balance	81,340,000	46,810,000	46,810,000	34,461,000	46,167,000	37,427,000	29,507,000	33,292,000	42,746,000
Cancel Reserves									
Assigned for Budget Uncertainties	3,772,000	28,160,000	28,160,000	4,921,000	4,921,000				
Assigned for Infrastructure Growth	3,670,000	2,281,000	2,281,000	-					
Assigned for Capital Projects	14,708,000	3,941,000	3,941,000	-					
Commitment Cancellations	1,569,419		920,000						
Total Available Financing (B)	**$ 965,355,169**	**$ 955,449,000**	**$ 960,248,000**	**$ 920,201,000**	**$ 929,833,000**	**$ 928,846,000**	**$ 942,097,000**	**$ 968,079,000**	**$ 999,419,000**
Estimated Fund Balance (B - A)	**$ 46,810,857**	$ -	**$ 46,167,000**	$ -	**$ 37,427,000**	**$ 29,507,000**	**$ 33,292,000**	**$ 42,746,000**	**$ 71,131,000**

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
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WENDY L. WATANABE
AUDITOR-CONTROLLER

August 15, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe Wendy L. Watanabe
Auditor-Controller

SUBJECT: **REVIEW OF THE CONSOLIDATED FIRE PROTECTION DISTRICT BUDGET AND FINANCIAL POSITION FOR FISCAL YEAR 2011-12 (Board Agenda Item 45, September 4, 2012)**

On September 4, 2012, the Board of Supervisors (Board) instructed the Auditor-Controller (A-C), with assistance from the Chief Executive Office (CEO), to review the Fiscal Year (FY) 2011-12 budget and financial position of the Los Angeles County (County) Consolidated Fire Protection District (Fire or District). Specifically, the Board requested the A-C to:

(1) Validate Fire's reported operating revenue and expenditures for FY 2011-12,
(2) Compare Fire's actual financial performance for the fiscal year to its budget,
(3) Review Fire's reported deficit, and
(4) Compare the District's services and amounts paid by property owners in the cities/areas served by the District.

We expanded our review to include the following three areas:

(5) Evaluate the future outlook of Fire's revenues and expenditures,
(6) Compare Fire's Fund Balance to other counties' fire districts, and
(7) Review discounts (salary credits) the District gives to independent cities that contract for Fire services (Contract Cities).

Background

Fire operates, under State law, as a Special District governed by the Board. The District's resources are accounted for within a Special Revenue Fund that is independent of the County General Fund. Fire is funded primarily by the District's share of Countywide property taxes, and a voter-approved Special Tax. The District also receives revenue from the State and federal governments, and from Contract Cities. For FY 2011-12, Fire had over 4,500 budgeted positions, and an annual budget of $989.6 million.

As a Special District, Fire maintains its own Special District fund. At the end of each fiscal year, with the Board's approval, Fire can reserve unspent funds from that year and carry them over for future use to meet unanticipated emergencies, funding shortfalls, and other needs. Fire's reserves include the following:

- **Fund Balance** - Fund Balance is an accumulation of unspent funds from prior years as a result of the District's revenue exceeding its expenditures. At the beginning of FY 2011-12, Fire's Fund Balance totaled $81.3 million.

- **Committed Designations** (Designations) - Designations are portions of Fund Balance set aside from year-to-year for tentative plans for committed future spending. The amounts recommended for movement to and from Designations, and the purposes for the use of Designations, are based on plans established by Fire and the CEO, and are subject to Board approval. Fire's Designations include three internal accounts: 1) Budget for Uncertainties; 2) Infrastructure Growth/Fixed Assets; and 3) Capital Projects. At the beginning of FY 2011-12, the District maintained $118.8 million in Designations.

- **Accumulated Capital Outlay (ACO) Funds** - Fire has ACO funds that the District can transfer funds in and out of for specific capital projects and infrastructure needs. ACO funds are technically not "reserve" funds because they are intended for committed expenses for identified capital outlays. At the beginning of FY 2011-12, Fire's ACO funds had a balance of $49.3 million for capital improvements/replacements.

On March 28, 2013, the CEO reported to your Board separately on projected changes in the District's revenue and expenditures that could materially impact Fire's financial condition, and provided multi-year estimates of the District's reported structural deficit and future fiscal challenges. The CEO provided updated revenue and expenditure forecasts on May 8, 2013. The CEO's revised projections have been incorporated within this report, where applicable.

Review Summary

This report includes significant analysis of Fire's budgetary performance and historical revenue and spending trends. Throughout the report are references to various Tables that summarize calculations in support of financial conclusions. These Tables are provided within a single Attachment to provide ease of reference. A more detailed analysis of each review area and recommendations are described in the Review Detail section of this report.

(1) Validate Fire's Reported Operating Revenue and Expenditures for FY 2011-12 (Table 1): Our review determined that Fire accurately reported its operating revenue and expenditures for FY 2011-12. We reviewed supporting documentation for $788.0 million (92%) of Fire's operating revenue, which totaled $860.3 million, and all of Fire's operating expenditures, totaling $871.6 million, and determined the amounts reported were reasonable and accurate.

(2) Compare Fire's Actual Financial Performance to Budget for FY 2011-12 (Tables 1 and 2): Fire's routine/ongoing operating revenues exceeded operating expenditures by $9.6 million. However, decisions to purchase needed fixed assets and equipment generated an additional $20.9 million of expenditures, resulting in an $11.3 million net operating deficit (excluding carry-over fund balance).

Fire's actual expenditures (including routine operating expenditures and purchases of fixed assets and equipment) of $918.5 million exceeded their actual revenue of $884.0 million, after including the impact of fund transfers to and from reserves and ACO funds, resulting in a $34.5 million shortfall. However, technically speaking, Fire operated within its budget because it ended FY 2011-12 with a $46.8 million surplus due to an $81.3 million carry-over fund balance from the previous fiscal year. The $46.8 million surplus became the year-end Fund Balance that carried forward as the District's FY 2012-13 beginning Fund Balance.

It is important to distinguish between an assessment of one year's operating performance, and a snapshot of cumulative fund balance/deficit. The former is isolated to one annual budget cycle, and the latter is more applicable to the adequacy of ongoing cash flows.

(3) Review Fire's Reported Deficit (Table 2): Irrespective of Fire's carry-over fund balance, Fire could have entirely avoided any deficit in FY 2011-12 by utilizing reserve funds (i.e., Designations) to offset expenditures, including expenditures due to Fire's decisions to purchase fixed assets and equipment. The CEO reported that Fire had a FY 2011-12 operating deficit of $16.8 million. However, we calculated the deficit to be $11.3 million. The difference in operating deficits is due to the CEO's inclusion of $5.5 million in net transfers out to Fire's Capital Project ACO Fund and Helicopter ACO Fund, which included an $874,000 transfer for scheduled helicopter lease payments.

For the FYs 2013-14 through 2016-17, the CEO projects that Fire will have an ongoing deficit, with a surplus projected in FY 2017-18. Fire provides critical services, and must be able to purchase fixed assets and equipment when needed. However, Fire may be able to minimize or avoid deficits through strategic timing of its acquisition of fixed assets and capital improvements, consideration of potential market-based financing options to pay for these acquisitions, and decisions about how to use its Fund Balance, Designations, and/or ACO funds to smooth the cyclical impact of economic downturns.

(4) Compare Services and Amounts Paid by Property Owners Served by the District (Table 3): Our review compared services and amounts paid by property owners in the cities/areas served by the District. Fire management indicated that the District provides an equal level of fire protection and emergency medical services to all areas, and responds to calls from the closest available fire station, regardless of the location of the emergency.

We also determined that the average per parcel amount paid by property owners within the unincorporated areas is less than the amount paid in independent cities that pass through a portion of their property tax revenue to the County (Property Tax Cities) and Contract Cities served by the District. The difference in these amounts is due primarily to the lower average assessed value per parcel in the unincorporated areas. Given the difference in these assessed values, the amount paid within unincorporated areas compared to cities appears reasonable. We also determined that a portion of the difference between the average amounts paid in Property Tax and Contract Cities is due to salary credits given to some Contract Cities, which we explain in detail later in this report.

(5) Evaluate Fire's Future Outlook of Revenue and Expenditures (Tables 4 and 5): We reviewed the most significant operating revenue and expenditure sources for the District, and evaluated the reasonableness of the CEO's projections. Based on our review of the CEO's methods, and related forecasts and analysis, we concluded that operating projections appear reasonable. However, Fire needs to work with the CEO to refine its existing plans for fixed assets and capital improvement needs, including consideration of financing alternatives that will meet the District's requirements, while minimizing deficits.

(6) Compare Fire's Fund Balance to Other Counties' Fire Districts (Table 6): We compared the reasonableness of Fire's Fund Balance for FY 2011-12 to three other counties' fire districts, and determined that the District maintains a significantly lower Fund Balance as a percentage of its expenditures than the other counties. Fire needs to establish criteria for the amount that should be maintained in its Fund Balance, Designations, and ACO funds, and a strategy for use of long-term financing for major acquisitions and capital outlays.

(7) Review Discounts (Salary Credits) the District Gives to Independent Cities that Contract for Fire Services (Contract Cities): Fire informed us that they provide salary credits to some Contract Cities based on criteria such as Fire's experience and knowledge of operations, population density, proximity to other fire stations, and negotiations with each city. We could not conclusively determine if salary credits are a prudent business model because the program's limited structure relies on significant subjectivity. Fire needs to reevaluate the amount of salary credits given to Contract Cities to ensure relative parity between amounts paid by cities/areas, and to address the District's projected deficits.

Review Detail

(1) Validate Fire's Reported Operating Revenue and Expenditures for FY 2011-12 (Table 1)

Based on our review of Fire's financial records and external information, Fire accurately reported its operating revenue and expenditures for FY 2011-12. We reviewed supporting documentation for $788.0 million (92%) of Fire's total operating revenue, and all of Fire's operating expenditures, totaling $871.6 million, and determined the amounts reported were reasonable and accurate.

(2) Compare Fire's Actual Financial Performance to Budget for FY 2011-12 (Tables 1 and 2)

Fire's routine/ongoing operating revenues exceeded operating expenditures by $9.6 million. However, decisions to purchase needed fixed assets and equipment generated an additional $20.9 million of expenditures, resulting in an $11.3 million net operating deficit (excluding carry-over fund balance).

Our review noted that in FY 2011-12, Fire collected less operating revenue than budgeted by $25.8 million (3%), primarily in State and Federal funding, and charges for services. Fire under spent its operating expenditures compared to its budget by $71.1 million (8%), primarily in Services and Supplies (S&S), and Salaries and Employee Benefits (S&EB) expenditures. We also noted that Fire spent $6.2 million less than budgeted for fixed asset purchases.

The $25.8 million operating revenue shortfall was mainly due to the following:

- **Intergovernmental Revenue** - The actual revenue received was $16.8 million less than budgeted. Fire indicated that the reduced revenue included $9.3 million because of grant-funded purchases being deferred to the following fiscal year, and staffing vacancies that resulted in reimbursement claims being delayed until FY 2012-13.

- **Charges for Services** - The actual revenue received was $8.0 million less than budgeted, primarily due to lower billable services in major fire and emergency assistance to other jurisdictions, lower ambulance revenue from fewer ambulance calls, and lower college affiliation agreement revenue. This amount also includes an $874,000 decrease in Contract City revenue, primarily due to prior-year billing adjustments, which amounted to approximately 1% of total Contract City revenue.

The $71.1 million savings in operating expenditures were related to several factors, including:

- **Services & Supplies** - Actual expenditures were $44.9 million less than budgeted. The District indicated that the savings were due to Fire's self-imposed greater scrutiny on all purchasing, and changes in District priorities.

- **Salaries & Employee Benefits** - Actual net expenditures were $15.3 million less than budgeted. The District had $25.0 million in savings due to fewer major fires and emergency deployments than in prior years (reducing overtime expense), and vacant positions, as a result of a self-imposed freeze on hiring administrative staff. These savings were partially offset by $9.6 million in higher than expected Workers' Compensation, Choices, and Horizons costs.

- **Fixed Assets/Equipment** - The $6.2 million in fixed asset savings were due to changes in the District's fixed asset priorities, and carryover of items to the following fiscal year. In FY 2011-12, the District spent $20.9 million for fixed assets, paid for with $3.7 million from its Designations, and $17.2 million in operating revenue.

We concluded that overall, Fire operated within budget. Fire's actual expenditures of $918.5 million exceeded their actual revenue of $884.0 million, which resulted in a $34.5 million shortfall. However, Fire's carry-over Fund Balance from the prior year of $81.3 million helped reduce the shortfall, which resulted in overall savings of $46.8 million. The $46.8 million became the FY 2011-12 year-end Fund Balance, and was carried forward to FY 2012-13 as the District's beginning Fund Balance.

As previously indicated, Fire management can set aside funds in reserves and ACO funds for tentative future spending plans, unanticipated emergencies, funding shortfalls, capital improvements, and other needs. We noted that the $34.5 million shortfall, discussed above, could have been further reduced or eliminated if Fire decided to retain funds for its Operating Budget, rather than transfer out a net total of $23.2 million, which includes $17.7 million in transfers to their ACO Fund and $5.5 million to their Designations.

It is important to distinguish between an assessment of one year's operating performance, and a snapshot of cumulative fund balance/deficit. The former is isolated to one annual budget cycle, and the latter is more applicable to the adequacy of ongoing cash flows.

(3) Review of Fire's Reported Deficit (Table 2)

FY 2011-12 CEO's Reported Deficit: Irrespective of Fire's carry-over fund balance, Fire could have entirely avoided a deficit in FY 2011-12 by utilizing reserve funds (i.e., Designations) to offset expenditures, including expenditures due to Fire's decisions to purchase fixed assets and equipment. The CEO reported that Fire had a FY 2011-12 operating deficit of $16.8 million. We calculated the deficit to be $11.3 million. The difference in operating deficits is due to the CEO's inclusion of $5.5 million in net transfers out to Fire's Capital Project ACO Fund and Helicopter ACO Fund, which included an $874,000 transfer for scheduled helicopter lease payments.

The $16.8 million deficit reported by the CEO for FY 2011-12 was based on Fire using their operating funds to pay for their fixed assets and capital projects. Specifically, Fire spent $20.9 million on fixed assets and equipment, and transferred out a net of $5.5 million to their ACO Fund reserves. We determined that the $5.5 million should not be included to determine Fire's operating surplus or deficit, as this fund was preserved and transferred out to generally build up Fire's overall reserves (see chart below).

COMPARISON OF OPERATING SURPLUS/DEFICIT CALCULATIONS
FISCAL YEAR 2011-12
(Amounts in millions)

	CEO's Calculation	A-C's Calculation
Operating Revenue	$ 860.3	$ 860.3
Less: Operating Expenditures	(850.7)	(850.7)
Less: Fixed Asset/Equipment Expenditures	(20.9)	(20.9)
Less: Net Transfers to Fire ACO Funds	(5.5)	-
Operating Surplus/(Deficit)	**$ (16.8)**	**$ (11.3)**

Determining Fire's Deficit/Surplus: Determining Fire's year-end results, either a deficit or surplus, largely depends on decisions made by Fire management to purchase fixed assets and specialized fire-fighting and safety equipment, and transfer out unspent funds into ACO funds for capital improvement expenditures. For example, in FY 2011-12, we noted that Fire transferred out a total of $17.7 million to their ACO funds. Fire could have reduced or avoided their reported $16.8 million deficit if Fire decided to retain those funds in their Operating Budget.

Understandably, Fire provides critical services, and must be able to purchase fixed assets and equipment when needed. However, Fire may be able to minimize or avoid deficits through strategic timing of its acquisition of fixed assets and capital improvements, consideration of potential market-based financing options to pay for these acquisitions, and decisions of how to use its Fund Balance, Designations, and/or ACO funds to smooth the cyclical impact of economic downturns.

Fire management indicated that, while they reported a deficit in FY 2011-12, the District has made substantial efforts over the past few years to continue to provide the same level of protection. These efforts are despite a reduction in property tax revenue, and $50.3 million in spending cuts implemented as Fire's contribution toward Countywide budget reductions.

According to Fire management, the District strives to balance funding constraints with priority needs for fixed assets, specialized fire-fighting and safety equipment, and critical long-term infrastructure needs. Fire has identified approximately $423.8 million in critical infrastructure needs, such as repair and replacement of fire stations, and modification of facilities to accommodate privacy and access issues. The majority of these needs are not addressed in the District's operating budget.

Based on Fire's projected operating revenue and expenditures, including fixed asset and capital project requirements for future years, the CEO and Fire conclude that the District has an ongoing deficit. However, as noted earlier, Fire's year-end results (i.e., reporting a deficit) depend largely on decisions by Fire regarding the amount and funding source for its fixed asset and capital project expenditures, transfers to/from its accumulated Fund Balance, Designations, or ACO funds, and/or financing options. For example, if Fire were able to delay some fixed asset and capital improvement expenditures, and/or decide how to use its Fund Balance, Designations, or ACO funds, and/or utilize bonds to pay for those expenditures, the District could minimize or avoid reporting a deficit.

A-C's Review of CEO Projections: As noted in Table 2, the CEO's May 2013 updated projections indicate that Fire will have deficits from FY 2013-14 through FY 2016-17, with a surplus projected in FY 2017-18. Fire may be able to minimize or avoid deficits through strategic timing of its acquisition of fixed assets and capital improvements, consideration of market-based financing options to pay for these acquisitions, and decisions about how to use its Fund Balance, Designations, and/or ACO funds to smooth the cyclical impact of economic downturns.

Fire management indicated that the recent and projected future deficits were primarily due to lower property tax revenue, as a result of Countywide reductions in property values over the last few years. For example, Fire's secured and unsecured property tax revenue decreased from FY 2008-09 to FY 2010-11 by $14.1 million (3%). These projections have changed since the CEO's March 2013 report, based on expected increases in property tax revenue, and increases in expenditures due to negotiated salary increases and other cost increases.

Property taxes are Fire's major source of funding, and projections are based on economic indicators of anticipated property tax revenues, as forecasted by the Office of the Assessor (Assessor). Both the Assessor and the CEO project that property tax revenue will increase over the next few years. We reviewed the Assessor's economic evaluation, including forecasts of property values and resultant property taxes, and agree with their assessment. Additionally, the State's dissolution of Community Redevelopment Agencies will result in an increase in property tax revenue for the District. We also reviewed Board correspondence, State legislation, and associated contracts related to other major revenue categories and conclude these sources provide a reasonable basis for forecasting CEO's projections.

A-C's Review of Fire's Designations: Although CEO reports a deficit moving forward, we noted that there is sufficient funding projected to be available within Fire's Designations to offset its projected deficits in each of the fiscal years that the CEO projects a deficit. One of the purposes of Designations is for budget uncertainties that Fire may experience. While we recognize that Fire needs an appropriate amount of reserves for unexpected emergencies and critical infrastructure needs, a key issue is the adequacy of reserves. We will discuss reserves later in this report within the context of comparing Fire's reserves to other counties' fire districts.

A-C's Review of Fire's Fixed Asset and Capital Project Expenditures: Fire's fixed asset expenditures, and transfers to and from the District's Designations and its ACO funds vary from year to year. As discussed earlier, Fire may be able to limit its deficits through a combination of delaying action on fixed assets and capital improvements, or deciding how to use its available Fund Balance, Designations, or ACO funds, and/or developing a plan to use long-term financing for major acquisitions and capital improvements. Fire management has indicated their need to balance available funding with priority fixed assets, specialized fire-fighting and safety equipment, and critical long-term infrastructure needs. Fire management further indicated that the changes in purchases and transfers from year to year are due in part to the District adjusting its outlays based on its financial status. For example, Fire shared with us that they intend to purchase some fire-fighting vehicles every three years, instead of every year, to address the District's financial issues.

Fire provides essential fire protection and emergency medical services to cities/areas within the District, and must make fixed asset purchases and capital improvements, as deemed necessary by the District. Fire also needs to have appropriate reserves for unexpected emergencies. In addition to periodic replacement of fire-fighting vehicles, the District also has approximately $423.8 million in long-term unmet infrastructure needs, which include remodeling/replacing some fire stations, and replacing the District's headquarters.

We reviewed Fire's inventory of fixed assets (primarily Fire vehicles) and critical infrastructure needs, and the corresponding amounts within the CEO's spending forecasts for each of the projected budgets through FY 2017-18. The fixed asset costs are consistent with Fire's recent purchases and plans to purchase vehicles every three years, and infrastructure pricing is based on the expertise of the Department of Public Works, and engineering and construction estimates previously obtained for proposed projects.

Based on our review, the cost of Fire's projected expenditures appears to be consistent with pricing within the competitive marketplace. However, the timing of the acquisition of fixed assets and capital improvements is based on factors such as industry recommended replacement schedules, and the expertise of Fire and the CEO, in conjunction with the District's preparation of their annual budget. We noted that most of the anticipated critical infrastructure needs are not included in the budget projections in Table 2. Fire management indicated that they are working with the CEO to enhance the accuracy of forecasting by clarifying plans to address their critical needs, including financing some capital projects using bonds.

Fire and the CEO should continue to evaluate the District's fixed asset and critical infrastructure needs, review the District's transfers to/from its Fund Balance, Designations, and ACO funds, explore financing options, and develop a financial plan (e.g., including project prioritization, timeframes, funding sources, etc.) that will meet the District's needs, while minimizing deficits.

Recommendation

1. **Fire management and the CEO continue to evaluate the District's fixed asset and critical infrastructure needs, review the District's transfers to/from its Fund Balance, Designations, and ACO funds, explore financing options, and develop a financial plan (e.g. including project prioritization, timeframes, funding sources, etc.) that will meet the District's needs, while minimizing deficits.**

(4) Compare Services and Amounts Paid by Property Owners in the Cities/Areas Served by the District (Table 3)

The District provides fire protection and emergency medical services to unincorporated areas of the County, 47 Property Tax Cities, and 11 Contract Cities. The Contract Cities are independent cities that have been added to the District's service area since 1978, and receive fire and emergency medical services under contract with the District. The District received approximately $91.7 million from Contract Cities in FY 2011-12, and $545.1 million in property taxes and $73.8 million from the Special Tax on parcels in Property Tax Cities and unincorporated areas.

The Board asked the A-C to compare the services provided and amounts paid by property owners in the cities/areas served by the District. Fire management indicated that they provide an equal level of fire protection and emergency medical services to all areas, and respond to calls from the closest available fire station, regardless of the location of the emergency.

As noted in Table 3, Fire's analysis of its FY 2011-12 revenue, including property tax and the Special Tax, indicates that the average Fire-related tax per parcel in Property Tax Cities is approximately 11% more than the average in Contract Cities: $673 for Property Tax Cities, compared to $600 for Contract Cities. However, the Fire-related tax paid per parcel in unincorporated areas, $458, is much less than the amount paid in Property Tax and Contract Cities. The lower average amount paid in unincorporated areas is due to the lower average assessed value per parcel in the unincorporated areas, $254,000, compared to $392,000 in Property Tax Cities, and $403,000 in Contract Cities.

Given the difference in assessed values, the difference in amounts paid between unincorporated areas and the Cities appear reasonable. However, the difference between the average amount paid in Property Tax and Contract Cities is much more than the difference between the average assessed values ($392,000 versus $403,000, a 3% difference). As discussed later in the report, another reason for the difference between the average amounts paid in Property Tax and Contract Cities may be related to salary credits given to some Contract Cities.

(5) Evaluate Fire's Future Outlook of Revenue and Expenditures (Tables 4 and 5)

As noted earlier, the District reported $860.3 million in operating revenue and $871.6 million in operating expenditures for FY 2011-12. We reviewed the most significant revenue sources for the District, amounting to $788.0 million (92%) of Fire's total revenue, and all of Fire's expenditures to evaluate the reasonableness of the CEO's projections. Attached is a summary of the District's significant revenue (Table 4) and expenditure (Table 5) categories for FY 2011-12, and the future outlook and expected changes in those amounts.

As previously mentioned, current projections indicate that the District's property tax revenue may increase over the next few years. Based on our review of the CEO's methods and related forecasts from the Assessor, and our review of Board correspondence, State legislation, and associated contracts related to other major revenue categories, the CEO's revenue estimates for future fiscal years appear reasonable. Fire management indicated that they are also evaluating potential sources of increased revenue from health care reform (Affordable Care Act), user fees, and assessments for responses to vehicle accidents.

Our review of Fire's FY 2011-12 expenditures indicates that combined S&S and S&EB costs of approximately $849.0 million will be incurred on an ongoing basis. The CEO projects Fire's ongoing operating expenditures for FY 2012-13 to be $866.7 million. The $17.7 million difference is due to projected increases in employee benefits. Based on our analysis of Fire's fixed asset needs, comparisons of year-to-year S&S needs, and recently negotiated wage increases, the CEO's expenditure projections appear reasonable.

Fire's fixed asset expenditures may vary based on the District's purchasing decisions. For example, Fire management indicated that they plan to purchase fire engines and other vehicles every three years beginning in FY 2013-14, instead of purchasing vehicles every year, as they have in the past. However, the actual amount of fixed asset expenditures will depend on the reliability of Fire's existing major equipment, the need for additional equipment, management's decisions about financially substantive purchases, and how to fund these expenditures. Fire management also indicated that they are continuing to look at ways to reduce their expenditures, such as leasing fire-fighting equipment and identifying internal efficiencies.

(6) Compare Fire's Fund Balance to Other Counties' Fire Districts (Table 6)

At the beginning of FY 2011-12, Fire had $81.3 million in Fund Balance and $118.8 million in Designations. At the end of FY 2011-12, the District's Fund Balance decreased to $46.8 million, and Designations increased to $125.9 million. The accumulated Fund Balance and Designations for Budget Uncertainties provide a margin of financial safety, allowing the District to meet unanticipated emergencies and funding shortfalls.

To determine the reasonableness of Fire's Fund Balance, we compared the District's beginning Fund Balance as a percentage of its expenditures for FY 2011-12 to the Orange County Fire Authority, and the San Bernardino and Ventura County Fire Protection Districts. Our comparison indicates that the District maintains a significantly lower Fund Balance as a percentage of its expenditures than the other counties. It is a substantial challenge to find any fire entity in California or nationwide that is closely comparable to Los Angeles County Fire due to differences in legal structure, size, demographics, geographic diversity, accounting methods, etc. Our comparison of Fire with other entities is intended to provide a measure of perspective given the unique aspects of each entity.

In our 2005 audit of Fire's budget, we indicated that the District did not have a formal policy on how much should be maintained in its Fund Balance. In our current review, we noted that Fire has not developed the recommended formal policy for its Fund Balance. However, the CEO indicated that based on Government Finance Officers Association (GFOA) guidelines, Fire should have operating reserves equal to two months (17%) of the District's operating expenses, or $148.2 million.

As noted in Table 6, Fire's Fund Balance of $81.3 million, or 5%, is less than the 17% in reserves recommended by the GFOA. However, if Fire's Designations balance of $118.8 million (excluding ACO funds) is added to the Fund Balance, Fire's total reserves of $200.1 million, or 22%, exceeds the GFOA guidelines.

In addition, we noted that Fire has not established formal criteria for how much should be maintained in its Infrastructure Growth or Capital Project Designations. Fire also has not developed a formal plan to fund its infrastructure needs, including projects such as the proposed replacement headquarters building that could be paid for with long-term financing. Without appropriate criteria to prioritize competing needs, and evaluation of financing alternatives, Fire may accumulate insufficient or excessive funds to pay for major items, such as improvements to Fire facilities (i.e., capital projects), and replacement of high-cost equipment (e.g., fleet vehicles, large-scale communication systems, etc.).

Fire should work with the CEO to: 1) establish criteria for the amount that should be maintained in the District's Fund Balance, Designations, and ACO funds; and 2) develop a formal plan to use Designations, ACO funds, and/or long-term financing to facilitate the acquisition of its equipment and infrastructure/capital improvement needs.

Recommendations

Fire management work with the CEO to:

2. **Establish criteria for the amount that should be maintained in the District's Fund Balance, Designations, and ACO funds.**

3. **Develop a formal plan to use Designations, ACO funds, and/or long-term financing to facilitate the acquisition of its equipment and infrastructure/capital improvement needs.**

(7) Review Discounts (Salary Credits) the District Gives to Independent Cities that Contract for Fire Services

Fire management indicated that the contractual agreements Fire has with each Contract City per year include salary credits, in part because the Cities help the District fund stations in their areas. According to Fire, this allows the District to have more stations, and provides better geographic coverage to all areas of the District.

In FY 2011-12, the salary credits provided by Fire to nine of the 11 Contract Cities totaled $19.9 million (approximately 22% of Fire's FY 2011-12 Contract Cities revenue). The credits vary, and are based on Fire's experience and knowledge of operations and negotiations with each Contract City. Fire explained that the credits determination considers factors such as population, incident levels, land use, and availability of nearby

District resources. Fire believes the incremental value of the Contract Cities' resources exceeds the Cities' revenue stream by over $40 million annually. For example, Fire described that the District moved an existing engine, Engine 15, into a station newly built in the City of La Mirada (Station 194). The City of La Habra funded 50% of the construction cost for the station, so the staffing for Station 194 is included on the annual fee calculation for the City of La Habra. The District incurred no additional operating cost to staff Station 194. The merits of the District's cost share are determined on a city-by-city basis, and justification provided is based on each city's benefits to the District.

We could not conclusively determine if salary credits are a prudent business model because the program's limited structure relies on significant subjectivity. Fire should reevaluate the salary credits given to Contract Cities to ensure relative parity between the amounts paid among Contract and Property Tax Cities, and to address the District's projected deficits.

Recommendation

4. **Fire management reevaluate the salary credits given to Contract Cities to ensure relative parity between the amounts paid among Contract and Property Tax Cities, and to address the District's projected deficits.**

Review of Report

We discussed the results of our review with Fire and the CEO. Fire and CEO management each expressed their commitment to resolving the District's projected deficits, including working together to identify additional revenue streams, financing plans, and efficiencies to curtail costs. The District's response is attached (Attachment II) and indicates that Fire will provide the A-C with an action plan, including timeframes for implementing the recommendations, within 90 days.

We thank Fire and the CEO for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:RS

c: William T Fujioka, Chief Executive Officer
Daryl L. Osby, Fire Chief
Sachi A. Hamai, Executive Officer, Board of Supervisors
John F. Krattli, County Counsel
Santos H. Kreimann, Chief Deputy Assessor
Gail Farber, Director of Public Works
Justice Deputies
Public Information Office
Audit Committee

BUDGET TO ACTUAL FINANCIAL COMPARISON DETAIL
FISCAL YEAR 2011-12
TABLE 1 (AMOUNTS IN MILLIONS)

		Budget		Actual		Over or (Under) Budget
Beginning Fund Balance	$	81.3	$	81.3	$	-
Operating Revenue						
Property Taxes	$	544.7	$	545.1	$	0.4
Charges for Services		171.1		163.1		(8.0)
Voter-Approved Special Tax		73.6		73.8		0.2
Intergovernmental - State & Federal		66.1		49.3		(16.8)
Licenses & Permits		13.0		13.0		-
ERAF Tax		9.7		9.7		-
Fines & Forfeitures		5.8		4.1		(1.7)
Interest & Rents		1.6		1.1		(0.5)
Misc & Other Financing		0.5		1.1		0.6
Total Operating Revenue	$	**886.1**	$	**860.3**	$	**(25.8)**
Designations (1)						
Capital Projects	$	14.7	$	14.7	$	-
Budget Uncertainties/Commit Cancel		3.8		5.3		1.5
Infrastructure Growth/Fixed Assets		3.7		3.7		-
Total Designations/Cancellations	$	**22.2**	$	**23.7**	$	**1.5**
Total Revenue	$	**908.3**	$	**884.0**	$	**(24.3)**
Operating Expenditures						
Salaries & Employee Benefits	$	756.2	$	740.9	$	(15.3)
Services & Supplies		153.0		108.1		(44.9)
Fixed Asset/Equipment Expenditures		27.1		20.9		(6.2)
Other Charges		4.9		1.7		(3.2)
Contingency Appropriation/S&S Expenditure		1.5		-		(1.5)
Total Operating Expenditures	$	**942.7**	$	**871.6**	$	**(71.1)**
Capital Projects						
Total Transfers to Fire ACO Funds	$	17.7	$	17.7	$	-
Total Capital Projects	$	**17.7**	$	**17.7**	$	-
Designations (1)	$	**29.20**	$	**29.20**	$	-
Total Expenditures	$	**989.6**	$	**918.5**	$	**(71.1)**
Funding Shortfall	$	-	$	(34.5)	$	-
Ending Fund Balance	$	-	$	**46.8**	$	**46.8**

(1) As a Special District, Fire includes Operating Revenue and transfers from Designations in Total Revenue, and Operating Expenditures and transfers to Designations in Total Expenditures. When Fire needs funding from its Designations, the funding is transferred to the Department's operating budget, where it is reflected as a revenue source, and correspondingly, Designations increases are reflected in the operating budget as an expenditure.

FIRE'S STRUCTURAL DEFICIT REPORTED BY CEO (AS OF MAY 2013)
FISCAL YEARS 2011-12 THROUGH 2017-18
TABLE 2 (AMOUNTS IN MILLIONS)

	FY 2011-12 Actual	FY 2012-13 Projection	FY 2013-14 Projection	FY 2014-15 Projection	FY 2015-16 Projection	FY 2016-17 Projection	FY 2017-18 Projection
Operating Revenue	$ 860.3	$ 908.0	$ 898.3	$ 899.5	$ 921.3	$ 944.3	$ 967.1
Operating Expenditures	(850.7)	(866.7)	(916.7)	(924.7)	(940.7)	(949.8)	(960.9)
Fixed Asset/Equipment	(20.9)	(13.6)	(14.1)	(1.0)	(1.0)	(8.6)	(1.0)
Operating Surplus/Deficit	**$ (11.3)**	**$ 27.7**	**$ (32.5)**	**$ (26.2)**	**$ (20.4)**	**$ (14.1)**	**$ 5.2**
Total Transfers to Fire ACO	$ (17.7)	$ (4.8)	$ (3.1)	$ (0.9)	$ (0.9)	$ (0.6)	$ (0.0)
One-time Transfer to ACO	12.2	3.9	2.3	-	-	-	-
Overall Deficit/Surplus	**$ (16.8)**	**$ 26.8**	**$ (33.3)**	**$ (27.1)**	**$ (21.3)**	**$ (14.7)**	**$ 5.2**
Fund Balance							
Ending Fund Balance	**$ 46.8**	**$ 84.5**	**$ 18.6**	**$ (8.5)**	**$ (21.3)**	**$ (14.7)**	**$ 5.2**
Cumulative Fund Balance	-	-	-	**$ (8.5)**	**$ (29.8)**	**$ (44.5)**	**$ (39.3)**
Designations							
Total From Designations	$ (23.7)	$ (35.3)	$ (2.2)	-	-	-	-
Total To Designations	29.2	20.4	32.5	-	-	-	-
Net Designations	**$ 5.5**	**$ (14.9)**	**$ 30.3**	-	-	-	-
Ending Designations	**$ 125.9**	**$ 111.9**	**$ 142.2**	**$ 142.2**	**$ 142.2**	**$ 142.2**	**$ 142.2**

PER PARCEL COST
FISCAL YEAR 2011-12
TABLE 3 (AMOUNTS IN MILLIONS)

	Property Tax Revenue (1)	Special Tax Revenue	Total Revenue	Number of Parcels	Per Parcel Cost
Property Tax Cities	$ 323.7	$ 51.6	$ 375.3	558,000	**$ 673**
Unincorporated Areas	130.1	21.4	151.5	331,000	**458**
Contract Cities (2)	-	-	93.0	155,000	**600**

(1) Fire reduced property tax revenue by $91.0 million for Forester and Fire Warden services not related to Fire station activity.
(2) Contract Cities Total Revenue is based on annual contract amounts.

DISTRICT REVENUE - FUTURE OUTLOOK
BASED ON FISCAL YEAR 2011-12 ACTUALS
TABLE 4 (AMOUNTS IN MILLIONS)

Revenue (3)	Description	FY 2011-12	Future Outlook
Property Taxes	Portion of property tax (1%) levied by the County	$ 525.4	CEO projects increase in property tax revenue of 3% annually
Fee-For-Service (FFS) Cities	Payment for fire protection and emergency medical services	91.7	Stable Board-approved contract amounts
Special Taxes	Voter-approved tax	73.8	Potential 2% increase annually with Board approval
Lifeguard Operations	County General Fund share to pay 70% of Lifeguard Operations	25.6	Stable General Fund share
Community Redevelopment Agencies (CRA)	CRA pass-through payments	22.5	With CRA dissolution, CRA revenue decrease will be offset with increase in property tax revenue
California Department of Forestry and Fire Protection (CAL Fire)	Payment for fire protection services in State Responsibility Areas	14.9	Fixed allocation amount established by the State
Educational Revenue Augmentation Fund (ERAF) (1)	Final payment from lawsuit between the State and Fire	9.7	Final payment received in FY 2011-12
Assistance by Hire (ABH) (2)	Payments for firefighting services in State and federal jurisdictions	6.1	Dependent on fire activity/need
Advanced Life Support (ALS) (2)	Payment for paramedic services	6.0	Dependent on emergency activity/need

(1) Final ERAF payment of $9.7 million received in FY 2011-12. ERAF will no longer be available in future years.

(2) ABH and ALS revenue, totaling $12.1 million, depends on level and location of fire activity.

(3) District Revenue Table does not include Fire's other revenue sources, totaling $79.3 million (three-year average).

DISTRICT EXPENDITURES - FUTURE OUTLOOK
BASED ON FISCAL YEAR 2011-12 ACTUALS
TABLE 5 (AMOUNTS IN MILLIONS)

Expenditure	Description	FY 2011-12	Future Outlook
Salaries & Employee Benefits	Wages and benefits for District employees	$ 740.9	Projected increases of no more than 2% each year related to employee benefits and increases in wages
Services & Supplies	Includes contracts, purchase orders, and services from other County departments	108.1	Projected amounts generally appear stable and exclude one-time purchases
Fixed Assets	Includes fire trucks, engine pumpers, dual band radios, and dispatch consoles	20.9	Set to reduce with fire engines/quints to be purchased every 3 years after FY 2013-14

FUND BALANCE COMPARISON
FISCAL YEAR 2011-12
TABLE 6 (AMOUNTS IN MILLIONS)

	District (2)	San Bernardino	Orange	Ventura
Beginning Fund Balance	$ 81.3	$ 39.6	$ 85.2	$ 88.1
Total Revenue	884.0	119.3	257.8	128.4
Total Expenditures	918.5	113.8	256.8	129.8
Ending Fund Balance	$ 46.8	$ 45.1	$ 86.2	$ 86.7
Fund Balance/Expenditures	**5%**	**40%**	**34%**	**67%**
Beginning Fund Balance and Designations (1)	$ 200.1			
Fund Balance & Designations/Expenditures	**22%**			

(1) The District's Beginning Fund Balance and Designations total of $200.1 million includes $81.3 million in beginning Fund Balance and $118.8 million in Designations, and excludes all ACO funds.

(2) The District's Revenue and Expenditures includes Designations.

COUNTY OF LOS ANGELES

FIRE DEPARTMENT

1320 NORTH EASTERN AVENUE
LOS ANGELES, CALIFORNIA 90063-3294
(323) 881-2401

DARYL L. OSBY
FIRE CHIEF
FORESTER & FIRE WARDEN

August 15, 2013

TO: WENDY L. WATANABE
AUDITOR-CONTROLLER

FROM: DARYL L. OSBY, FIRE CHIEF

DS for DLO

REVIEW OF THE CONSOLIDATED FIRE PROTECTION DISTRICT BUDGET AND FINANCIAL POSITION FOR FISCAL YEAR 2011-12 (BOARD AGENDA ITEM 45, SEPTEMBER 4, 2012)

In response to your draft report provided to us on August 6, 2013, I have reviewed and discussed it with my staff. Additionally my staff has communicated with your staff, Robert Smythe, to discuss the findings and recommendations. The District is in general agreement with the findings identified in the report.

The District will continue to evaluate the fixed asset and critical infrastructure needs and explore financing options for these needs. Last year, the District developed a financial plan to address our critical infrastructure needs. We will work with the Chief Executive Office (CEO) to develop a plan to use the Designations, Accumulated Capital Outlay (ACO) funds, and/or long-term financing, and provide this information in updates to the Financial Plan (Recommendations No. 1 and No. 3).

As discussed with Mr. Smythe, in response to the January 21, 2005, Fire Protection District Budget Review report, we met with the then Chief Administrative Office and agreed to establish a budgetary designation for operating contingencies at an amount equal to approximately 4% of the District's total expenditures. Since then, the District has maintained the Designation for Budget Uncertainties for this purpose. We will, however, work with the CEO to develop criteria for the amount that should be maintained in the District's Fund Balance, all Designations, and ACO funds (Recommendation No. 2).

Many factors, such as incident level, proposed jurisdictional boundaries, development, the availability of existing District resources, are utilized in our decision-making related to Contract City salary credits. The merits of the District's cost share are determined on a city-by-city basis and justification provided based upon each city's specific benefit to the District, which is predominately based upon the proximity of a city's fire station to existing District service areas and the service needs in those areas. We, therefore, recommend revising Recommendation No. 4 to require the District to document the factors considered for the salary credits provided to each Contract City.

We will provide your office with an action plan, including timeframes for implementing the recommendations, within 90 days.

If you have any questions, please contact me or your staff may contact Deputy Chief Dawnna Lawrence at (323) 881-2426.

DLO:trb

Attachments

COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

January 21, 2005

TO: Supervisor Gloria Molina, Chair
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **FIRE PROTECTION DISTRICT BUDGET REVIEW**

At your request, we have reviewed the budget performance of the County Fire Protection District (Fire or District). The purpose of our review was to identify reasons for the District's fiscal year (FY) 2003-04 year-end fund balance of approximately $71 million. Our review included comparing the Fire District's budget to actual financial performance for the last three fiscal years. We also reviewed the District's budget monitoring procedures, grants, contract city billings, trust, and revenue and expenditure accounting. We also compared the District's financial position with two other county fire agencies.

Review Summary

Overall, the District's financial performance compared to its budget has resulted in favorable variances. In addition, the District is doing a good job of accounting for their revenues and expenditures and maintains adequate controls over their grants and trust funds. We noted some areas where the District can improve their budget development and monitoring.

Our review indicates that the District's higher than anticipated ending fund balance was primarily due to 1) higher than expected revenue as a result of a continued increase in property tax revenues and 2) the District including the prior year-end fund balance in their expenditure budgets which exceed their projected expenditures. We have recommended that the District discontinue including these excess amounts in their budgets and use budgetary designations to manage amounts in excess of projected expenditures.

Our review also indicated that the District needs to ensure that it uses the most up-to-date information available to monitor its financial status. In addition, our comparison of the Fire District's financial position to two other county fire agencies indicates that the District's year-end fund balance appears reasonable.

The following are the detailed results of our review and our recommendations for corrective action.

Background

The District provides fire prevention and suppression, rescue services, management of hazardous materials incidents, and ocean lifeguard services in the County. The District has 4,097 budgeted positions and a FY 2004-05 budget totaling $748 million. The District is funded primarily through the County-wide tax levy (1% property tax) and the Voter Approved Special Tax that the Board establishes each year based on recommendations by the District. Fire also receives some revenue from the State and federal governments and contract cities. The District is a separate legal entity from the County and accounts for its operations separately in a special revenue fund. District management indicated that, because they are a special district, they operate with budgetary caution to ensure they can maintain essential service levels. Management indicated that this includes trying to maintain a reasonable level of fund balance to help finance the following year's budget.

The District indicated that part of their financial management process is reviewing their projected fund balance and working with the CAO and the Independent Citizens' Oversight Committee (ICOC) to review the appropriate level of the Voter Approved Special Tax to ensure adequate levels of funding are available to meet fire and emergency medical service needs. The District indicated that they evaluate their operational needs and financial condition in making recommendations to the Board of Supervisors for changes in the tax rate.

Budgetary Performance

We compared the District's actual financial results to its budget for the last three fiscal years. For the three years, the District had an ending fund balance of $71.5 million, $27.3 million and $19.5 million. It should be noted that the budget amounts and corresponding variances are presented prior to the effect of the Auditor-Controller's year-end closing budget adjustments. The results are summarized below:

Fiscal Year 2003-04

	Budget	Actual	Over or (Under) Budget
Fund Balance, Beginning	$ 27,338,820	$ 27,338,820	
Revenue	$ 632,168,000	$ 647,314,948	$(15,146,948)
(Expenditures)	$(648,259,000)	$ (603,110,674)	$ 45,148,326
Total Financing Available	$(16,091,000)	$ 44,204,274	$(60,295,274)
Fund Balance, Ending	$ 11,247,820	**$ 71,543,094**	$(60,295,274)

Fiscal Year 2002-03

	Budget	Actual	Over or (Under) Budget
Fund Balance, Beginning	$ 19,533,903	$ 19,533,903	
Revenue	$ 583,769,000	$ 582,291,011	$ 1,477,989
(Expenditures)	$(600,716,000)	$ (574,486,094)	$ 26,229,906
Total Financing Available	$ (16,947,000)	$ 7,804,917	$(24,751,917)
Fund Balance, Ending	$ 2,586,903	**$ 27,338,820**	$(24,751,917)

Fiscal Year 2001-02

	Budget	Actual	Over or (Under) Budget
Fund Balance, Beginning	$ 17,441,249	$ 17,441,249	
Revenue	$ 540,355,000	$ 540,462,739	$ (107,739)
(Expenditures)	$(557,483,000)	$ (538,370,085)	$ 19,112,915
Total Financing Available	$(17,128,000)	$ 2,092,654	$(19,220,654)
Fund Balance, Ending	$ 313,249	**$ 19,533,903**	$(19,220,654)

For FY 2003-04, the District overrealized their revenue budget by approximately $15 million (2%) and underspent their expenditure budget by approximately $45 million (7%). The revenue variance was mostly due to an increase in property tax revenues. The $45 million expenditure variance was due to several factors including the following:

- The District includes amounts in their expenditure budgets in excess of their projected expenditures. County departments and districts are supposed to develop their expenditure budgets based on their historical expenses, plus expected increases in expenses. However, our review indicates that the Fire District overestimates their expenditure budget by adding their projected prior year-end fund balance to their expenditure appropriations as provisional amounts. In FY 2003-04, the District included provisional amounts of $11.1

million in its salaries and employee benefits (S&EB) budget and $2.5 million in the services and supplies (S&S) budget.

- In 1992, the State required counties and districts to shift part of their property tax revenues to the Educational Revenue Augmentation Fund (ERAF) for eventual distribution to schools. A 1999 State Controller (SCO) audit of Los Angeles County's allocation of property tax revenues concluded that the District owed ERAF millions of dollars. The SCO audit finding was based on a narrow interpretation of a 1997 law passed by the State Legislature which exempted the Fire District from the 1992 ERAF shift. The issue was litigated and the District received a judgment of approximately $137 million plus interest, to be paid annually in $18 million installments. The first installment was received in FY 2003-04.

  The District prepared a budget adjustment to increase their revenue budget by $18 million and appropriated $16.7 million to S&EB and $1.3 million to S&S. However, the $16.7 million appropriated to S&EB was not spent. The District should have elected to place the ERAF money in "Appropriation for Contingencies," or alternatively, they should have designated the money for a particular District future need.

- The District's budget overestimated retirement and workers' compensation costs by $8 million. These costs were budgeted based on the levels recommended by the Chief Administrative Office (CAO).

- Purchasing delays in the District resulted in $6 million in unspent funds.

For 2002-03 and 2001-02, the District over-budgeted their expenditures by $26 million (4%) and $19 million (3%), respectively. These variances were due in part to including excess amounts in their expenditure budgets, which totaled $11.9 million in FY 2002-03 and $12.8 million in FY 2001-02.

Overall, the District's financial performance compared to its budget has resulted in favorable variances. The FY 2002-03 and 2001-02 variances were relatively minor and several of the FY 2003-04 variances were outside the District's control. However, the excess amounts included in the budget can misstate the District's financial position and do not represent the best estimate of actual expected costs. We recommend that the District discontinue including excess amounts in their expenditure budget and develop the District's expenditure budget based upon the projected expenditures for the budget year. If the District wants to have funds available for unmet needs or unexpected events, the additional funds should be established as budgetary designations (see discussion later in this report).

<u>Recommendation</u>

1. **District Financial Management discontinue including amounts in their expenditure budgets in excess of their projected expenditures and develop their expenditure budget based upon the projected expenditures for the budget year.**

Budget Monitoring

The District prepares several monthly and quarterly management reports at the District and unit levels to monitor budget and actual performance. The District also prepares Budget Status Reports (BSRs) for submission to the CAO, usually three times a year, after the 5^{th}, 9^{th}, and 11^{th} months. In addition, the District prepares three-year fiscal forecasts based on historical and current year trends. The forecasts are used to assist in developing the projected amounts included in the BSRs.

We reviewed the District's FY 2003-04 budget monitoring process and the District's May 2004 (11^{th} month) BSR and noted several factors which resulted in the BSR underestimating the District's FY 2003-04 ending fund balance. For example:

- Fire did not use the most current available actual data to prepare the May 2004 month BSR. We noted that the District used March data rather than May data to project their services and supplies expenditures. As a result, the BSR overstated the estimated expenditures by $6.8 million.

- Fire included $5.2 million in their projected S&EB expenditures. $3 million was for proposed salary increases that were expected to be retroactive to January 2004 which did not materialize, and $2.2 million was as a result of double counting expenditures related to Emergency Medical Services enhancements.

- Fire did not include cancellation of prior year commitments totaling $1.8, even though the commitments were cancelled in March 2004.

As a result, the District's 11^{th} month BSR for May 2004 underestimated the District's projected year end fund balance by approximately $18 million. In order to effectively monitor their budget and to ensure projected year-end fund balance is accurate, Fire Financial Management needs to ensure that they use the most current actual data to prepare their budget monitoring reports, that assumptions regarding future expenses are appropriate and the monitoring reports are properly completed. Fire management is aware of the discrepancies in completing the May 2004 11^{th} month BSR and indicated that subsequent estimates and reports, including the FY 2004-05 5^{th} month BSR, will be properly completed and supported by the most current information.

Recommendation

2. **Fire management ensure that they use the most current actual data to prepare their budget monitoring reports, that assumptions regarding future expenses are appropriate and that the reports are properly completed.**

Comparison to Other Fire Departments and Use of Designations

As part of our review, we compared the District's FY 2003-04 financial results to the Orange County Fire Authority (OCFA) and the Santa Barbara Fire Protection District (SBFPD) for the same period. The results are summarized below:

FY 2003-04 Financial Results (in millions)

	District	OCFA	SBFPD
Fund Balance, Beginning	$ 27.3	$ 32.7	$ 4.5
Revenue	$ 647.3	$ 177.8	$ 20.4
(Expenditures)	$(603.1)	$ (169.1)	$ (20.9)
Fund Balance, Ending	$ 71.5	$ 41.4	$ 4.0

The District's ending fund balance of $71.5 million is approximately 12% of the District's total expenditures. The ending fund balances for OCFA and SBFPD totaled $41.4 million and $4 million and represented 24% and 19% of their expenditures, respectively. Based on this comparison, the District's year-end fund balance appears reasonable.

We did note that OCFA and SBDPD place most of their year-end fund balance into Designations or Reserves for operating contingencies. The OCFA has a formal policy to designate 10% of their operating expenditures for unplanned emergencies. This allows the funds to be used for emergencies with the approval of the governing body.

As noted earlier, the District indicated that they attempt to ensure their long-term financial stability by maintaining an adequate fund balance (3-5% of expenditures per the District). However, there is no formal policy for establishing budgetary designations or appropriations for contingencies to account for the fund balance as part of their budget process. As previously discussed, the District's practice is to include these amounts, which are in excess of their projected expenditures, in their expenditure budgets.

In order to maintain long-term financial stability and to establish designated reserve fund levels, we recommend that the District work with the CAO to develop a formal policy on the level of unreserved fund balance that should be maintained. Those funds should then be appropriated into a budgetary designation for operating contingencies. The District should also develop a plan to spend the available fund balance in excess of the amount that will be designated for operating contingencies.

As of the November 2004 5th month BSR, the District is projecting an ending fund balance of approximately $80 million. Based on that projection, the District should designate a portion of those funds for contingencies in their FY 2005-06 budget in accordance with policy to be developed above. The District should also develop plans to spend the remaining fund balance. If approved by the Board, these modifications should be incorporated into the District's FY 2005-06 Final Budget.

Recommendations

Fire District Management:

3. **Work with the CAO to develop a formal policy on the level of unreserved fund balance that should be maintained as a budgetary designation for operating contingencies.**

4. **Designate a portion of the estimated FY 2004-05 ending fund balance in accordance with the approved policy and develop plans to spend the remaining available fund balance.**

Review of Report

District management was very cooperative during our review and actively participated in the review process. Management recognizes the need for improvement and indicated its commitment to correcting the problem areas noted. In addition, the District is drafting a spending plan which addresses both the available fund balance for FY 2005-06 and the ERAF settlement funds. The District's response is attached.

Overall, the District agrees with our recommendations. If you have any questions regarding this report, please contact me or have your staff contact Jim Schneiderman at (626) 293-1103.

JTM:MMO:JS:AA
Attachment

c: David E. Janssen, Chief Administrative Officer
P. Michael Freeman, Chief
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee

COUNTY OF LOS ANGELES

FIRE DEPARTMENT

1320 NORTH EASTERN AVENUE
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P. MICHAEL FREEMAN
FIRE CHIEF
FORESTER & FIRE WARDEN

(323) 881-2401

January 21, 2005

TO: J. TYLER MCCAULEY
AUDITOR-CONTROLLER

FROM: P. MICHAEL FREEMAN

FIRE PROTECTION DISTRICT BUDGET REVIEW

We have reviewed the draft of the subject report provided to us on January 11, 2005, and discussed the findings and recommendations with your staff on January 18, 2005. Based on our exit conference on that date, the District is in general agreement with the findings made by your staff.

As indicated in your report, we have already implemented the Auditor's recommendations with regard to completing our Budget Status Reports (BSR) as reflected in the District's 5th month BSR provided to the Chief Administrative Office. It is important to note that our estimates in preparing the BSRs are based on the best information available at the time. Events out of our control such as the recent winter storms require additional resources that could change our projected year-end fund balance from one BSR to another.

We also wish to emphasize that the Special Tax has been lowered and raised by the Board of Supervisors in the past as recommended by the District, with the concurrence from the Independent Citizen's Oversight Committee, based on our ending fund balance and financial stability. The Special Tax is being managed in a prudent and responsible manner according to the original intent of the Special Tax, which is to provide supplemental funding for fire and emergency medical services when needed.

We will provide you an action plan including timeframes for implementing the recommendations by February 15, 2005. The District is currently taking action on some of the recommendations and anticipates full implementation prior to forwarding you our action plan.

If you have any questions, please contact me or your staff may contact Deputy Chief Mark Cooper at (323) 881-2426.

PMF:MAC:lyg

COUNTY OF LOS ANGELES

FIRE DEPARTMENT

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(323) 881-2426

P. MICHAEL FREEMAN
FIRE CHIEF
FORESTER & FIRE WARDEN

February 15, 2005

TO: JAMES SCHNEIDERMAN, CHIEF ACCOUNTANT-AUDITOR
AUDITOR-CONTROLLER

FROM: MARK COOPER, DEPUTY CHIEF
ADMINISTRATIVE BUREAU

FIRE PROTECTION DISTRICT BUDGET REVIEW

As indicated in our January 21, 2005 response to the Fire Protection District Budget Review Report, we are providing the implementation status on the four recommendations included in the report.

Recommendation #1:

District Financial Management discontinue including amounts in their expenditure budgets in excess of their projected expenditures and develop their expenditure budget based upon the projected expenditure for the budget year.

Status:

This recommendation has been implemented. The FY 2005-06 Budget Request was developed based upon projected expenditures for the budget year and does not include amounts in excess of the projected expenditures. The projected FY 2005-06 ending fund balance of $11.9 million is included in the FY 2005-06 Budget Request as an Appropriation for Contingency to address short-term, unanticipated operational needs of the District.

Recommendation #2:

Fire management ensure that they use the most current actual data to prepare their budget monitoring reports, that assumptions regarding future expenses are appropriate and that the reports are properly completed.

Status:

This recommendation has been implemented. The FY 2004-05 Fifth Month Budget Status Report was prepared using five months of actual data and projected expenditures for the remainder of the fiscal year. The projected expenditures were based on expenditure trends and assumptions regarding planned future expenditures. Also, the Fifth Month Budget Status Report was properly completed and included required information regarding prior-year activity.

Recommendation #3:

Fire district management work with the Chief Administrative Office to develop a formal policy on the level of unreserved fund balance that should be maintained as a budgetary designation for operating contingencies.

Status:

This recommendation has been implemented. Fire District Management met with the Chief Administrative Office and agreed to establish a budgetary designation for operating contingencies at an amount equal to approximately 4% of the District's total expenditures. The budgetary designation for operating contingencies will be used to pay for unanticipated expenditures or revenue shortfalls and will serve as a prudent budgetary reserve.

Recommendation #4:

Fire District management designate a portion of the estimated FY 2004-05 ending fund balance in accordance with approved policy and develop plans to spend the remaining available fund balance.

Status;

This recommendation has been implemented. The Fire District has identified $80 million of the $85.4 million projected FY 2004-05 ending fund balance as a general designation for the Fire District's Spending Plan. The Spending Plan has been shared with the Chief Administrative Office and will be implemented with the Board of Supervisor's approval.

If you have any questions regarding the status of these recommendations, please call me at (323) 881-2426 or Helen Jo, Chief, Financial Management Division, at (323) 838-2301.

MAC:ems