



COUNTY OF LOS ANGELES

FIRE DEPARTMENT

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FORESTER & FIRE WARDEN

November 20, 2009

TO: EACH SUPERVISOR

FROM: P. MICHAEL FREEMAN 

DISTRICT FINANCIAL PLAN – UPDATE #2

Attached is Update #2 to the District's Financial Plan. This update provides a methodical approach to documenting changes that affect the District's financial situation. Included in Update #2 are expenditure freezes and curtailments, final book closing for 2008-09, first-quarter expenditures and revenues, and further reductions to our property tax revenue. Our forecast continues to indicate a significant cumulative funding shortfall of \$162.4 million over the next three fiscal years (an increase of \$1 million from the last update), as our operational expenditures continue to exceed ongoing revenues.

The Financial Plan presents updated solutions for funding the shortfall through 2011-12. Your Honorable Board's recent approval of an increase in the special tax levy for 2009-10, as proposed in our last update, and the securitization (proceeds from the sale of bonds) to restore the District's Proposition 1A property tax loan to the State are integral components in meeting the projected shortfall.

All information that has been updated from the August 6 Update #1 is shown in bold italics so that new information can be easily identified. We anticipate issuing a third update in February 2010 to incorporate changes in second-quarter expenditures and revenues and any other pertinent information that may significantly change the Plan.

If you have any questions, please call me at (323) 881-2401.

PMF:hej

Attachment

c: William T Fujioka, Chief Executive Officer
Brence Culp, Deputy Chief Executive Officer
Vicky Santana
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Joseph Charney
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SERVING THE UNINCORPORATED AREAS OF LOS ANGELES COUNTY AND THE CITIES OF:

AGOURA HILLS	CALABASAS	DIAMOND BAR	HIDDEN HILLS	LA MIRADA	MALIBU	POMONA	SIGNAL HILL
ARTESIA	CARSON	DUARTE	HUNTINGTON PARK	LA PUENTE	MAYWOOD	RANCHO PALOS VERDES	SOUTH EL MONTE
AZUSA	CERRITOS	EL MONTE	INDUSTRY	LAKESIDE	NORWALK	ROLLING HILLS	SOUTH GATE
BALDWIN PARK	CLAREMONT	GARDENA	INGLEWOOD	LANCASTER	PALMDALE	ROLLING HILLS ESTATES	TEMPLE CITY
BELL	COMMERCE	GLENDALE	IRVINDALE	LAWNSIDE	PALOS VERDES ESTATES	ROSEMEAD	WALNUT
BELL GARDENS	COVINA	HAWAIIAN GARDENS	LA CANADA FLINTRIDGE	LOMITA	PARAMOUNT	SAN DIMAS	WEST HOLLYWOOD
BELLFLOWER	CUDAHY	HAWTHORNE	LA HABRA	LYNWOOD	PICO RIVERA	SANTA CLARITA	WESTLAKE VILLAGE
BRADBURY							WHITTIER

CONSOLIDATED FIRE PROTECTION DISTRICT OF LOS ANGELES COUNTY



FINANCIAL PLAN

Update #2

November 20, 2009

**FIRE DISTRICT FINANCIAL PLAN
UPDATE #2
November 20, 2009**

Foreword

The July 15, 2009 Financial Plan anticipated updates when new financial information became available that impacts the Plan. ***This second update reflects the latest projections for three fiscal years (2009-10 through 2011-12), and Attachment C, which details our proposed solutions to the shortfalls at this time, has been updated.***

An integral part of the Financial Plan is ***the recently approved increase to the special tax for Fiscal Year 2009-10 and the District's participation in the Proposition 1A Securitization Program to restore its property tax loan to the State.***

Background

Effective public safety services such as fire suppression and emergency medical services require a stable source of funding. Most of the time, property tax, which is 62% of the Fire District's annual revenue, serves as this stable source. Yet, over the past 25 years, rare but extreme downturns in property tax revenues have caused close calls where emergency services levels were at risk.

When these downturns or other events have impacted the District's property tax, the Board of Supervisors and the public have acted responsibly to maintain emergency services. A Benefit Assessment was adopted in 1992, and when Proposition 218 invalidated it, the voters approved the Special Tax in 1997. The District has effectively managed its finances by controlling costs, and establishing savings of one-time funds for infrastructure needs, capital projects, and financial uncertainties.

Some of these one-time funds will provide funding to offset the projected shortfall in the near term, but increases in the Special Tax will be necessary to provide a stable, ongoing stream of revenue until the property tax rebounds.

Purpose of the Plan

This Financial Plan summarizes the financial outlook for the Fire District through Fiscal Year 2011-12, and outlines our plans to deal with the projected funding shortfall. It will be a "road map" for the District, the Board of Supervisors, and the District's stakeholders to understand our financial situation and to anticipate actions necessary to maintain stable funding for emergency services.

Note: Bold italics indicate changes from the previous issue of this Financial Plan.

District's Financial Outlook

Based on our *latest* projections, **which include the 2008-09 expenditure freezes and curtailments (Attachment A), final book closing for 2008-09 and changes to our property tax projections as advised by the Chief Executive Office in September, our overall ongoing operational expenditures continue to exceed ongoing revenues and the District is facing a cumulative funding shortfall totaling \$162.4 million over the next three fiscal years as follows:**

	<u>Update #2</u>	<u>Update #1</u>	<u>Shortfall Change</u>
2009-10:	\$23.5 million	\$32.3 million	\$8.8 million decrease
2010-11:	\$59.7 million	\$60.9 million	\$1.2 million decrease
2011-12:	<u>\$79.2 million</u>	<u>\$68.2 million</u>	\$11.0 million increase
	\$162.4 million	\$161.4 million	

2009-10: Updated to reflect the unanticipated additional funds of \$4.6 million from 2008-09 year-end book closing and revised revenue and expenditure projections of \$4.2 million for a net decrease of \$8.8 million in the projected shortfall.

2010-11: Updated to reflect an additional 2.0% loss of property tax revenue, offset by additional projected revenue for a net decrease of \$1.2 million in the projected shortfall.

2011-12: Updated to reflect a further 2.5% reduction to the projected property tax revenue, offset by higher projected revenue for a net increase of \$11 million in the projected shortfall.

Further reductions in property tax revenue, increasing costs of maintaining emergency service levels, and staffing new fire stations under construction, are the primary causes of the funding shortfall.

Plan to Offset Projected Shortfalls

The following summarizes our **updated** plan to offset projected shortfalls over the next three fiscal years:

2009-10: \$23.5 Million Projected Shortfall

1. ***Increase in*** the annual Special Tax levy for single family residences from \$49.93 to \$56.17 with commensurate increase for other types of properties.
2. ***Cancellation of transfer to ACO Helicopter Fund.***
3. ***Participation in the Proposition 1A Securitization Program to restore the District's property tax loan to the State.***

2010-11: \$59.7 Million Projected Shortfall

1. With Board approval, increase the annual Special Tax ***to the maximum levy.***
2. With Board approval, cancel designations and use savings as necessary to fund emergency services (if Item #1 does not occur, additional savings would be used to fund emergency services, or major curtailments would be necessary).

(Note: It is recognized that use of a designated savings is a stopgap measure at best, and would severely impact essential infrastructure and capital project needs, and could reduce District funds for financial uncertainties below a prudent level).

2011-12: \$79.2 Million Projected Shortfall

1. With Board approval, continue the 2010-11 Special Tax levy with a 2% CPI increase.
2. With Board authorization and voter approval at the November 2010 election, establish a "Supplemental Cap" to the Special Tax equal to twice the current cap for single-family residences with commensurate increases for other types of properties (see Attachment B).

Major Uncertainties that Could Impact the Plan

- Increases or decreases to our property tax projections.
- Increases in salary, employee benefits, and/or retirement costs.
- Other unanticipated cost increases or revenue decreases.

Conclusion

This Financial Plan outlines proven actions which, if implemented on a timely basis, will maintain critical Fire District emergency services.

This is the ***second*** update of the Financial Plan issued in July 2009. This Plan will continue to be updated through 2011-12 to reflect the most current financial status of the Fire District. Likewise, all recommended actions will be quantified and briefed in advance of requesting Board of Supervisors' action and approvals.

***Financial Plan Update #2
November 20, 2009***

Attachment A: Expenditure Freezes and Curtailments

The Fire District implemented and continues several freezes and cost curtailments in 2008-09 totaling \$22.6 million. These savings are included in the District's fiscal forecast through 2011-12:

- Continuing the freeze on vacant non-sworn positions
- Continuing the freeze on all non-essential Services and Supplies
- Continuing the reduction of non-essential travel/training
- Continuing the deferral of the 4-person staffing
- Reassigning of staff battalion chiefs to activate needed field battalion
- Reducing overtime related to special assignments
- Reducing overtime related to recruit training
- Downsizing of Department bureaus from seven to six

Other means of generating cost savings will be aggressively pursued and implemented while still meeting our financial objectives.

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Attachment B: Supplemental Cap to Special Tax

If necessary, the District will recommend that the Board of Supervisors and District voters approve a ballot measure to establish a “Supplemental Cap” to the Special Tax. This will provide the Board the authority to levy the Special Tax at a higher amount as necessary to offset the loss of property tax revenue.

The following provides background information and summarizes the proposed Supplemental Cap:

- In 1997, Measure E was approved by District voters and established a Special Tax to replace the District’s benefit assessment that invalidated Proposition 218 in 1996.
- The Special Tax is a per-parcel-tax with an initial amount of \$48 annually for single-family residences and higher rates for commercial and other properties. It has a provision for a maximum annual CPI increase of 2% for the annual cap. Over the **thirteen** years the Special Tax has been levied, it has been levied at its cap only once and has, in fact, been reduced when the property tax levels were sufficient to finance District operations.
- Special Tax revenue can only be used for firefighting and paramedic services and the annual levy is set each year by a 3/5 vote of the Board.
- The continuing fluctuation of property tax makes it necessary to raise the cap to maintain emergency services in future years. If necessary, the District will propose that a Supplemental Cap equal to twice the current cap be submitted to the voters in November 2010. This increased cap will provide the Board with the authority and flexibility to increase the actual levy as necessary to maintain emergency services.
- Should the voters reject the proposed Supplemental Cap, the existing provisions of the Special Tax, including the cap amount, would remain in effect.

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Attachment C: Projected Shortfalls and Solutions
(\$ in millions)

Current financial projections through 2011-12 show a cumulative **\$162.4** million shortfall for three fiscal years, despite curtailments implemented in fixed assets, services and supplies, and non-sworn personnel that continue as outlined on Attachment A. The current plan to solve this shortfall is as follows:

Fiscal Year 2009-10: ***Problem (shortfall of \$23.5 million***, expenditures exceeding revenues). Proposed/***Approved*** solution to:

\$3.0 Cancel transfer to ACO Helicopter Fund
7.3 Special Tax Increase*
13.2 One-Time Funds/***Proposition 1A Securitization*****
\$23.5 Solution

Fiscal Year 2010-11: ***Problem (shortfall of \$59.7 million***, expenditures exceeding revenues). Proposed solution:

\$14.0 One-Time Funds
7.3 ***Continue Special Tax Increase from 2009-10****
6.8 ***Special Tax Increase to Maximum Levy****
31.6 ***Projected available funds from 2009-10 year-end closing*****
\$59.7 Solution

Fiscal Year 2011-12: ***Problem (shortfall of \$79.2 million***, expenditures exceeding revenues). Proposed solution:

\$7.3 ***Continue Special Tax Increase from 2009-10****
8.3 ***Continue Special Tax Increase to Maximum Levy with 2% CPI****
52.6 Special Tax Supplemental Cap (If approved by voters in November 2010)*
11.0 ***One-Time Funds***
\$79.2 Solution

*** Special Tax Increase:**

To address the shortfall in funding for Fiscal Year 2009-10, the Board approved an increase from \$49.93 to \$56.17 per single family home, with proportional increases for all other rates. This change will generate additional revenue of \$7.3 million compared to the 2008-09 levy.

Note: Bold italics indicate changes from the previous issue of this Financial Plan.

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For 2010-11, an **increase** from \$56.17 to \$61.93 (**maximum levy**) per single family home, with proportional increases for all other rates, would generate **additional** revenue of **\$6.8** million compared to the **2009-10** levy.

For 2011-12, an increase from \$61.93 to \$63.17 (2% CPI) per single family home, with proportional increases for all other rates, would generate additional revenue of \$8.3 million compared to the 2009-10 levy.

For 2011-12, if projections hold, a substantial increase in the special tax would be needed to maintain services. Voters would need to approve the **supplemental cap** increase in the November 2010 election. To generate the \$52.6 million additional special tax revenue, the single family home rate would increase to an estimated \$108 per home charge. The District will monitor this very closely and take all cost reduction measures feasible to reduce the impact on the property owner.

**** One-Time Funds/Proposition 1A Securitization:**

The allocation of bond proceeds from the securitization to restore the District's Proposition 1A property tax loan to the State of \$44.8 million will be remitted in two equal installments on January 15, 2010 and May 3, 2010. At which time, it will replace the need for one-time funds identified for 2009-10. In addition, if projections hold, funds may be available at year-end to help address the projected 2010-11 shortfall. The District will reflect these changes in the next update to the Financial Plan.

Designations

The District has funding designated for capital improvements and delayed infrastructure needs. The solution to the District's projected shortfall requires these funds to be utilized to fund operational costs as follows:

\$ 126.9 Designations
- **13.2** 2009-10
- **14.0** 2010-11
- **11.0** 2011-12

\$ 88.7 Balance (**9.5%** of Projected 2011-12 Expenditures)

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