



**COUNTY FIRE
DISTRICT**

**BUDGET NARRATIVE
FY 2017 - 2018**

Introduction

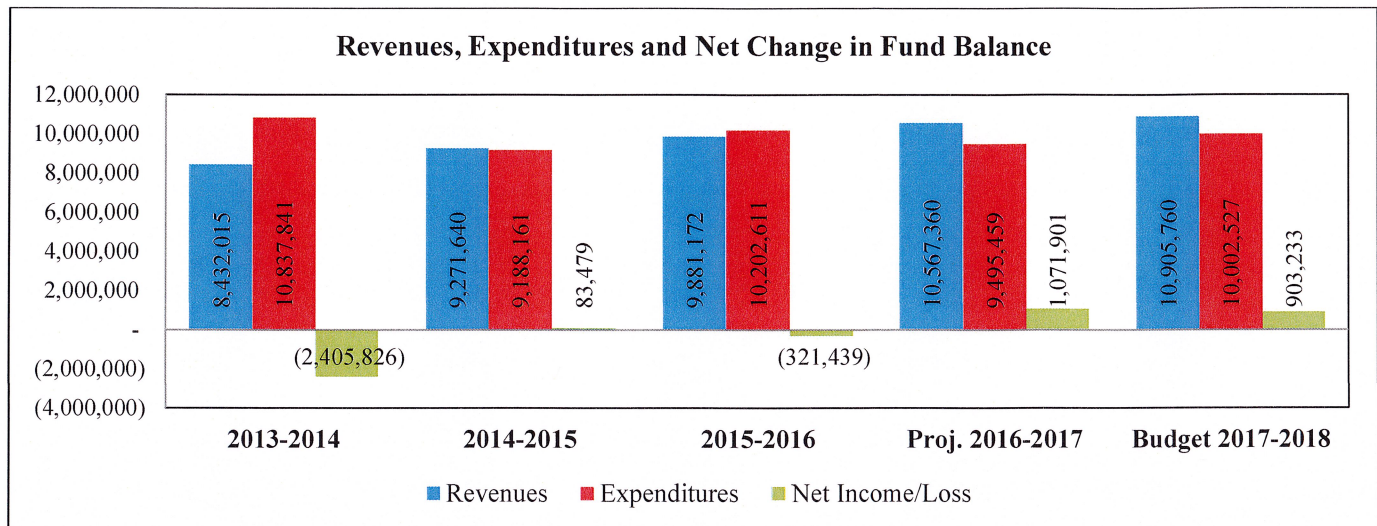
The mission of the Los Altos Hills County Fire District (LAHCFD) is to protect the lives, property and environment within the community it serves from fires, disasters and medical emergencies or incidents through education, prevention and emergency response services for the Town of Los Altos Hills and adjacent county areas.

The District does not employ its own personnel, so to achieve our mission LAHCFD have contracted specialized consultants and contractors, thus minimizing the financial risks and burden of maintaining “in-house” capability. For Emergency Response Services, the District has contracted with the Santa Clara County Fire Department (SCCFD), thereby enjoying all the benefits offered by a larger organization, including a full roster of professional staff, specialized equipment, and a high level of readiness for various types of emergencies. The District also manages a number of other programs aimed at fire prevention; such as upgrades to fire hydrants, water mains and tanks, District-funded brush chipping services for residents, monthly assistance with yard waste disposal, annual weed abatement inspections, and District-funded eucalyptus and dead tree mitigation and removal. Finally, the District provides regular classes in emergency preparedness for residents of the district, including “Personal Emergency Preparedness”, “Community Emergency Response Teams”, and “Cardio Pulmonary Resuscitation”.

Budget Overview

We offer the readers of the District’s budget this narrative overview and analysis of the planned financial and operating activities for the Los Altos Hills County Fire District for the year ending June 30, 2018.

- The District’s assets are expected to increase from \$15 million to \$15.6 million, a 4.2 percent increase. Cash at the end of the year will be slightly in excess of \$13.4 million, while fixed assets (including land, station improvements, fire hydrants, furniture and equipment) are expected to be slightly less than \$2.2 million.
- The District’s strong fund balance has enabled it to undertake costly but essential fire prevention projects during the past eight years upgrading hydrants and tanks. By FY18 most of these projects are finished or in their final stages. During FY18 LAHCFD intends to review and improve fire-fighting water flow capacity throughout the District, which is likely to continue for the next few years, and result in substantial project expense in partnership with local water districts.
- Dead Tree and Eucalyptus removal expense is expected to be less costly than in previous years due to extensive prior removal work, the end of the drought and implementation of a new bidding process which has resulted in substantial tree work savings.
- Revenue is anticipated to increase by 3.2 percent to \$10.9 million. The County assessor’s office reports that home sales and prices continue to rise in the District.
- Expenditures are expected to increase by 5.1 percent from the prior year primarily due to higher fire department expense and the fire-fighting water flow capacity project expected to begin in FY18.
- Beginning on January 1, 2017 a new 10-year contract was entered into with the SCCFD, who have been providing the District with Fire Protection Services for the past 20 years. See the “Contract Services” section on page 6 for more details.



Revenues

FY18 Budget	10,905,760	3.2%		FY16 Actual	9,881,172	6.6%
FY17 Projected	10,567,360	6.9%		FY15 Actual	9,271,640	10.0%
FY17 Budget	10,050,000	1.7%		FY14 Actual	8,432,015	

Property Taxes

Santa Clara County collects taxes for the District, remits funds and charges an administrative handling fee for collecting the money (which is covered in the expense portion of this narrative). The County provides the District with a projection of expected tax revenue that is adapted into the budget.

- Secured Property Taxes:
Secured taxes are calculated based upon the value of real property, land, and personal property, such as structures, located upon the real property. Secured property is taxed at a general rate of one percent of the assessed value. These taxes make up the majority of the District's revenue each fiscal year.

FY18 Budget	9,792,000	4.0%		FY16 Actual	8,798,597	7.5%
FY17 Projected	9,416,000	7.0%		FY15 Actual	8,182,311	8.1%
FY17 Budget	9,087,000	3.3%		FY14 Actual	7,572,518	

- Unitary Property Taxes:
Unitary taxes cover such entities as railroads, electric, gas, and telephone companies. The State Board of Equalization assesses the value of these companies' operations and establishes a countywide tax rate system.

FY18 Budget	43,960	0.0%		FY16 Actual	44,355	24.2%
FY17 Projected	43,960	-0.9%		FY15 Actual	35,718	17.5%
FY17 Budget	43,900	-1.0%		FY14 Actual	30,409	

- Unsecured Property Taxes:
Unsecured taxes are assessed against movable personal property such as business equipment, boats and airplanes. The tax is considered unsecured because any tax not paid results in a lien filed against the owner of the property, not the property itself.

FY18 Budget	630,000	0.8%		FY16 Actual	606,621	-8.7%
FY17 Projected	625,000	3.0%		FY15 Actual	664,757	18.6%
FY17 Budget	643,000	6.0%		FY14 Actual	560,395	

LAHCFD FY18 Budget Narrative

Property Taxes Continued

- Supplemental Senate Bill 813 Tax:

SB 813, also known as the Hughes-Hart Educational Reform Act of 1983, originally was designed to close a perceived loophole in Proposition 13 and generate much needed additional funding for schools. The new law established a “floating lien date” and prevented property owners from delaying the taxation of their properties at higher value assessments. After the first year, the revenue generated by SB 813 is distributed to all local governments that receive property tax revenues.

FY18 Budget	298,800	-10.0%		FY16 Actual	288,777	0.2%
FY17 Projected	332,000	15.0%		FY15 Actual	288,108	76.0%
FY17 Budget	173,000	-40.1%		FY14 Actual	163,690	

- The Homeowner Property Tax Relief:

HOPTR provides a \$7,000 exemption on the value of owner occupied homes. The tax revenue lost from this exemption is made up in part from other sources and the District receives a share of this funding.

FY18 Budget	45,000	0.0%		FY16 Actual	46,557	-3.1%
FY17 Projected	45,000	-3.3%		FY15 Actual	48,062	0.2%
FY17 Budget	46,000	-1.2%		FY14 Actual	47,968	

- Excess Educational Revenue Augmentation Fund:

The County ERAF account has more revenue than necessary to offset all aid to K–12 and community college districts under Proposition 98. In response, the CA State Legislature enacted a law requiring some of these surplus funds to be used for special education programs, with the remaining funds returned to cities, counties, and special districts in proportion to the amount of property taxes they previously contributed to ERAF. LAHCFD received their first return of Excess ERAF in FY16 (but the County did not list it as a separate revenue account until FY17.)

FY18 Budget	7,000	-15.7%		FY17 Budget	8,000	-41.8%
FY17 Projected	8,300	-39.7%		FY16 Actual	13,757	

Other Revenues

- Interest – Deposits and Investments:

The District’s cash balances are commingled with and held by the County of Santa Clara. The District earns income from these holdings, which varies depending upon market interest rates.

FY18 Budget	85,000	0.0%		FY16 Actual	77,007	49.5%
FY17 Projected	85,000	10.4%		FY15 Actual	51,498	-0.4%
FY17 Budget	45,000	-41.6%		FY14 Actual	51,723	

- Property Rental

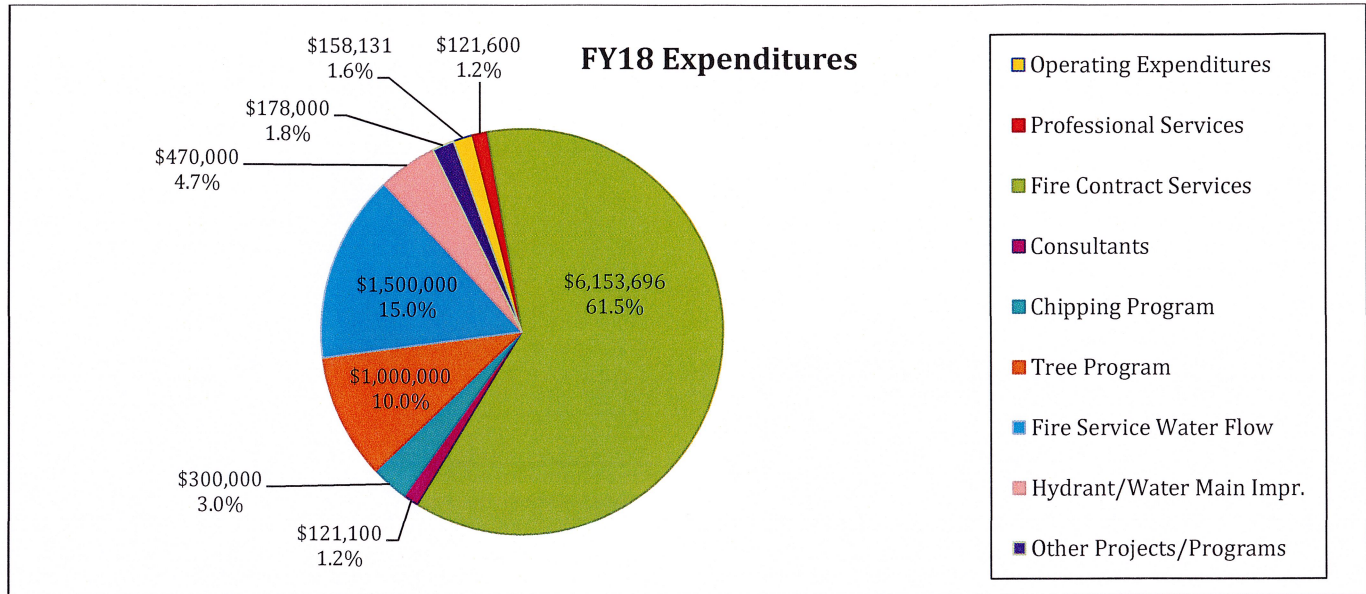
The District owns a property that is rented out, usually to contractors who are performing public work, for parking their heavy equipment and materials during operations. Over the last few years the District has rented out the space an average of 2-3 months per year at a maximum of \$1,500 per month.

FY18 Budget	3,000	-72.7%		FY16 Actual	5,500	1000%
FY17 Projected	11,000	100%		FY15 Actual	500	-88.2%
FY17 Budget	3,000	-45.5%		FY14 Actual	4,250	

- Other/Miscellaneous Revenues

Other income such as reimbursements and hydrant damage insurance settlements.

FY18 Budget	1,000	-9.1%		FY16 Actual	0	-100%
FY17 Projected	1,100	100%		FY15 Actual	686	-35.4%
FY17 Budget	1,100	100%		FY14 Actual	1,062	

Expenditures

FY18 Budget	10,002,527	-5.1%	FY16 Actual	10,202,611	-11.0%
FY17 Projected	9,515,459	6.7%	FY15 Actual	9,188,161	15.2%
FY17 Budget	10,324,001	-1.2%	FY14 Actual	10,837,841	

Operating Expenditures

- Insurance:

In FY16, the District entered into an insurance policy with the Fire Agencies Insurance Risk Authority (FAIRA), which provides a comprehensive asset and liability coverage.

FY18 Budget	5,000	-7.5%	FY16 Actual	5,099	-45.0%
FY17 Projected	4,653	8.7%	FY15 Actual	3,517	1.3%
FY17 Budget	5,100	0%	FY14 Actual	3,562	

- Commissions Fee:

The seven Commissioners of the Board are currently paid \$100 per meeting. Prior to FY17, the Commissioners were only paid for the ten monthly Board Meetings per year; Commissioners are now compensated for sub-committee attendance as well, not to exceed three meetings per month per Commissioner.

FY18 Budget	16,800	-42.4%	FY16 Actual	5,900	37.2%
FY17 Projected	11,800	-100%	FY15 Actual	9,400	-36.2%
FY17 Budget	16,800	-184.7%	FY14 Actual	6,900	

- Outside Hydrant Repair:

This account covers hydrant repair and maintenance costs for the District's 600 hydrants in the Purissima Hills Water District service area. Hydrants in the Cal Water service area are the responsibility of Cal Water. In FY16 a leaking hydrant lateral caused severe road damage which accounted for the unusually large expenditure. The Fire Consultant recommends \$15,000 to cover necessary repairs.

FY18 Budget	15,000	0%	FY16 Actual	70,208	-2598.2%
FY17 Projected	15,000	78.6%	FY15 Actual	2,602	79.8%
FY17 Budget	15,000	78.6%	FY14 Actual	12,910	

LAHCFD FY18 Budget Narrative

Operating Expenditures Continued

- Office Expenses

This account includes amounts spent by the District Clerk on postage, copier expenses, shredding, Commissioner meeting accommodations, etc. Starting in FY16 some expenses that were previously recorded in the "Miscellaneous Expense" account (such as business cards and letterhead) were moved to this account, hence the slightly higher expenditure over prior years.

FY18 Budget	5,000	-25.0%		FY16 Actual	4,610	-58.3%
FY17 Projected	4,000	13.2%		FY15 Actual	2,913	11.0%
FY17 Budget	8,000	-73.5%		FY14 Actual	3,272	

- Professional Services – Internal

This is an annual fee of \$231 paid to the Clerk of the County for processing of the "Property Tax Administration Fee".

- Property Tax Administration Fee:

The Property Tax Administration Fee is paid to the County in the 4th Quarter of the fiscal year, and is based on a variable percentage of actual property tax collection costs. The County provides an estimate of the fee as part of their revenue projections, which typically represents 1% of tax revenue.

FY18 Budget	108,100	-2.0%		FY16 Actual	102,453	-13.3%
FY17 Projected	106,000	-3.5%		FY15 Actual	90,418	10.1%
FY17 Budget	106,000	-3.5%		FY14 Actual	100,619	

- Publications and Legal Notices:

Notices of fire prevention hearings and emergency information are recorded in this account. In FY16, the District started covering the costs of the "Los Altos Hills Our Town" mailings to the unincorporated areas of the Town, accounting for a higher expenditure over prior years.

Note: notices relating to specific "Projects and Programs" are expensed to their corresponding accounts.

FY18 Budget	6,000	0%		FY16 Actual	8,218	-193.1%
FY17 Projected	6,000	27.0%		FY15 Actual	2,804	-213.3%
FY17 Budget	6,500	20.9%		FY14 Actual	895	

- Miscellaneous:

This account is used to record expenses that do not fall into a specific expense category, such as advertising expenses, and boardroom improvements. Historically, this account included website maintenance costs (which from FY17 onward are recorded as "Outside Consultant Services"), and business cards and letterhead (which from FY17 onward are recorded as "Office Expenses".)

FY18 Budget	2,000	0%		FY16 Actual	10,239	24.5%
FY17 Projected	2,000	80.5%		FY15 Actual	13,568	-117.5%
FY17 Budget	2,000	80.5%		FY14 Actual	6,237	

Professional & Specialized Services

- Annual Audit Charter:

The District's finances are audited annually by an outside auditor, and are subject to audit at any time by the Audit Division of the Board of Supervisors. The District's contract with its existing auditor goes through FY20.

FY18 Budget	21,100	-3.2%		FY16 Actual	20,440	-7.9%
FY17 Projected	20,440	0%		FY15 Actual	18,950	-53.4%
FY17 Budget	21,000	-2.7%		FY14 Actual	12,350	

LAHCFD FY18 Budget Narrative

Professional & Specialized Services Continued

- Accounting Services:

The District is provided a financial package including Balance Sheet, P&L and transaction details by an outside accounting firm on a monthly basis, with financial consulting services provided as needed. Beginning in FY16, the financial consultant took on additional responsibilities including disbursement voucher preparation, vendor maintenance, extra budget documents, etc.

FY18 Budget	36,000	0%		FY16 Actual	30,000	-24.2%
FY17 Projected	36,000	-20.0%		FY15 Actual	24,150	-22.0%
FY17 Budget	36,000	-20.0%		FY14 Actual	19,800	

- Outside Legal Fees:

Legal Counsel fees are paid monthly and are variable depending on the scope of work required. Extra expenditure was incurred in FY17 due to Fire Contract renegotiations.

FY18 Budget	60,000	14.3%		FY16 Actual	54,108	11.4%
FY17 Projected	70,000	-29.4%		FY15 Actual	61,043	-45.3%
FY17 Budget	50,000	7.6%		FY14 Actual	33,054	

- Outside Consulting Services:

The District uses outside consultants for special projects. In FY15 The Center for Public Safety Excellence was contracted to assist with Strategic Planning review. For FY17 and onward, this account will include the annual website maintenance costs.

FY18 Budget	4,500	0.0%		FY16 Actual	2,072	88.1%
FY17 Projected	4,500	-117.1%		FY15 Actual	17,387	-
FY17 Budget	4,500	-117.1%		FY14 Actual	-	

Contract Services

- Central Fire District:

Beginning January 1, 2017, the District entered into a contract with the SCCFD for fire protection and emergency medical services through December 31, 2026. The annual percentage increase is based on a weighted average allocation of three indices as follows: 50% the change in the San Francisco/Oakland area consumer price index, 25% assessed local secured parcel values, and 25% firefighter's annual cost of living increases in total compensation. The annual percent increase shall not be less than 2% or greater than 5% of the prior year's base rate.

FY18 Budget	4,507,775	-4.0%		FY16 Actual	4,162,212	-4.4%
FY17 Projected	4,332,636	-4.1%		FY15 Actual	3,988,329	-4.3%
FY17 Budget	4,347,500	-4.5%		FY14 Actual	3,822,594	

- Battalion 14:

Battalion 14 services are part of the SCCFD contract and are recorded in a separate account to better track expenditures. Battalion 14 was added in FY10 and includes the cost of a Battalion Chief 24/7. Annual increases in compensation are calculated at the same rate as outlined above. As part of the new contract, LAHCFD will receive a 1/15th credit of the adjusted base amount for battalion chief services.

FY18 Budget	1,087,530	-0.3%		FY16 Actual	1,080,358	-4.4%
FY17 Projected	1,084,780	-0.4%		FY15 Actual	1,035,224	-4.3%
FY17 Budget	1,128,500	-4.5%		FY14 Actual	992,202	

LAHCFD FY18 Budget Narrative

Contract Services Continued

- Emergency Services Coordinator:

The Emergency Service Coordinator's salary is a contracted service provided by the SCCFD based on 20 hours of service per week. Cost increases annually at the same rate as the Central Fire District (see above.) The annual base amount for ESC Coordinator was lowered as part of the new contract.

FY18 Budget	75,191	4.8%		FY16 Actual	82,488	-4.4%
FY17 Projected	78,980	4.3%		FY15 Actual	79,042	-4.2%
FY17 Budget	86,200	-4.5%		FY14 Actual	75,864	

- Fire Prevention/Emergency Prep:

This account covers the non-labor costs associated with the CERT program and ESC supplies paid to SCCFD. During the last part of FY16 and a majority of FY17 the District did not have a designated ESC, so expenses (outside of labor as covered above) were minimal. FY18 is expected to have increased supply expenses as well as \$23,000 designated to cover relocation costs of the ARK incident command center on the Foothill College campus.

FY18 Budget	40,000	-270.3%		FY16 Actual	20,055	44.1%
FY17 Projected	10,802	46.1%		FY15 Actual	35,909	37.1%
FY17 Budget	40,000	-99.4%		FY14 Actual	27,154	

- Extra Fire Season Staff:

The District contracts for three additional firefighters nine hours a day during high fire hazard periods as designated by Cal Fire, roughly 160 days per year. FY18 has been budgeted slightly lower than FY17 due to increased wet weather patterns that are expected to result in a shorter fire season.

FY18 Budget	325,000	0.9%		FY16 Actual	307,755	-3.5%
FY17 Projected	328,004	-6.6%		FY15 Actual	297,209	26.3%
FY17 Budget	350,000	-13.7%		FY14 Actual	403,032	

- Type 3 Fire Engine Rental

Under the new contract with SCCFD the District will need to rent the Type 3 Engine due to excessive wear caused by the District's service. Cal Fire OES determines the rate each year. The FY18 Budget assumes a rate of \$80 per hour, nine hours a day for 160 days.

FY18 Budget	115,200	-476%		FY17 Projected	20,000	
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- Self-Insurance Claim (Workman's Comp):

The District is currently paying off its share of a few workman's compensation claims, dating from 1993 when they were involved with Los Altos Fire. The City of Los Altos bills the District an agreed upon one-third of the actual payments quarterly.

FY18 Budget	3,000	-20.3%		FY16 Actual	1,444	72.8%
FY17 Projected	2,493	-72.6%		FY15 Actual	5,319	-327.6%
FY17 Budget	4,000	-176.9%%		FY14 Actual	1,244	

Contract Services (Consultants)

- Contract Employment Services (Clerk):

This position serves as the primary and confidential administrative liaison for the LAHCFD Commission and its legal counsel and for the Fire Chief and other executive management personnel in Santa Clara County. Responsibilities include preparing the monthly packets, taking minutes of the monthly meetings, responding to public inquiries, collecting invoices for payment and coordinating auditor visits.

FY18 Budget	61,900	-4.0%		FY16 Actual	56,853	-1.1%
FY17 Projected	59,796	-4.6%		FY15 Actual	56,220	-3.7%
FY17 Budget	59,550	-4.7%		FY14 Actual	54,213	

LAHCFD FY18 Budget Narrative

Contract Services (Consultants) Continued

- Contract Employment Services (Fire Consultant):

The Fire Consultant assists with all of the water main and hydrant projects in the District as well as overseeing the brush chipping, dead tree, eucalyptus and other programs as directed by the Board.

FY18 Budget	59,200	-4.0%		FY16 Actual	56,220	0%
FY17 Projected	56,932	-1.3%		FY15 Actual	56,220	-3.7%
FY17 Budget	59,550	-5.9%		FY14 Actual	54,213	

Projects and Programs

- Chipping Program:

A District-funded, on-site "chipping" service (provided twice-yearly in each of the District's six Areas) to reduce excess fuel loads from residential properties.

FY18 Budget	300,000	-4.9%		FY16 Actual	266,782	-6.2%
FY17 Projected	285,987	-7.2%		FY15 Actual	251,191	14.1%
FY17 Budget	300,000	-12.5%		FY14 Actual	292,532	

- Yard and Waste Program:

This District-funded program allows residents to drop-off garden debris and other combustible plant materials once a month. The District reimburses the Town of Los Altos Hills for the cost of the program. Note: The FY15 number is lower because the Town did not calculate the amount for the 4th Quarter of the fiscal year in time.

FY18 Budget	39,000	-2.4%		FY16 Actual	36,604	-33.3%
FY17 Projected	38,072	-4.0%		FY15 Actual	27,450	26.4%
FY17 Budget	39,000	-6.5%		FY14 Actual	37,320	

- Brush Goat Program:

The District rents goats annually for fuel load reduction, usually provided at the end of the fiscal year in June. The annual charge for goat services has been \$17,738. FY18 estimate is \$18,000.

- Buildings and Grounds:

Includes monthly landscaping fees and any upgrades made to the District owned fire station at Foothill College.

FY18 Budget	6,000	13.2%		FY16 Actual	4,464	7.1%
FY17 Projected	6,916	-54.9%		FY15 Actual	4,804	26.2%
FY17 Budget	12,000	-168.8%		FY14 Actual	6,509	

- Emergency Access Roads:

The District budgets funds for emergency road repairs and maintenance. Fire Consultant recommended \$5,000 to cover extra road repairs due to increased wet and stormy weather conditions.

FY18 Budget	5,000	-150.0%		FY16 Actual	304	33.7%
FY17 Projected	2,000	-557.7%		FY15 Actual	459	76.4%
FY17 Budget	3,000	-886.5%		FY14 Actual	1,948	

LAHCFD FY18 Budget Narrative

Projects and Programs Continued

- Tree Removal and Pruning Program:

The District provides for the removal and pruning of dead or dying trees within the District. Previously there were two accounts; one for “Dead Tree” removal, and one for “Eucalyptus” pruning and removal. A new contract process began in FY17 in which contractors bid to remove and prune all trees in a specific area, rather than billing on a tree-by-tree basis as was done in the past. Since the new process does not track costs by tree type, the two accounts have been combined into a single account called “Tree Removal and Pruning Program.” The prior year figures in the table below have been calculated by combining the “Dead Tree” and “Eucalyptus” expenditures.

Since the program started in FY12, the District has removed or pruned approximately 8,600 trees. Expenditures are expected to decrease in FY18 for three reasons: (1) Dead or dying trees have been pruned or removed for the last five years, (2), Significant FY17 rainfall is expected to result in fewer tree deaths, and (3) the new bidding process has resulted in substantial savings.

FY18 Budget	1,000,000	33.3%		FY16 Actual	2,633,356	-4.6%
FY17 Projected	1,500,000	43.0%		FY15 Actual	2,516,711	-52.2%
FY17 Budget	1,500,000	43.0%		FY14 Actual	1,653,738	

- Hydrant/Water Main Improvements - Purissima:

The District works in conjunction with the Purissima Hills Water District to procure design engineering and construction services for Fire Hydrant/Water Mains Improvement Projects. The multiyear hydrant program was expected to be complete by the end of FY17, but delays and high rainfall caused construction of Phase VIII to be delayed many months. The FY18 budget has provided for two months of the construction expenses, to conclude the project in the new year.

FY18 Budget	470,000	71.4%		FY16 Actual	537,996	-4.5%
FY17 Projected	1,400,000	-160.2%		FY15 Actual	515,064	5.6%
FY17 Budget	1,955,570	-263.5%		FY14 Actual	545,634	

- Hydrant/Water Main Improvements – Cal Water

The District works in conjunction with the California Water Service to repair and maintain water mains and fire hydrants within Cal Water’s service area.

FY18 Budget	10,000	0.0%		FY16 Actual	0	100.0%
FY17 Projected	10,000	-100.0%		FY15 Actual	54,289	82.5%
FY17 Budget	50,000	-100.0%		FY14 Actual	309,969	

- Fire Service Water Flow Improvements

The District is looking to work with Purissima Hills Water District and the California Water Service to improve water flow within the community in order to meet fire-flow standards. The program is expected to span multiple years, with the FY18 budget covering planning, engineering and preliminary construction costs based upon estimated cost projections provided to the District by Purissima and Cal Water.

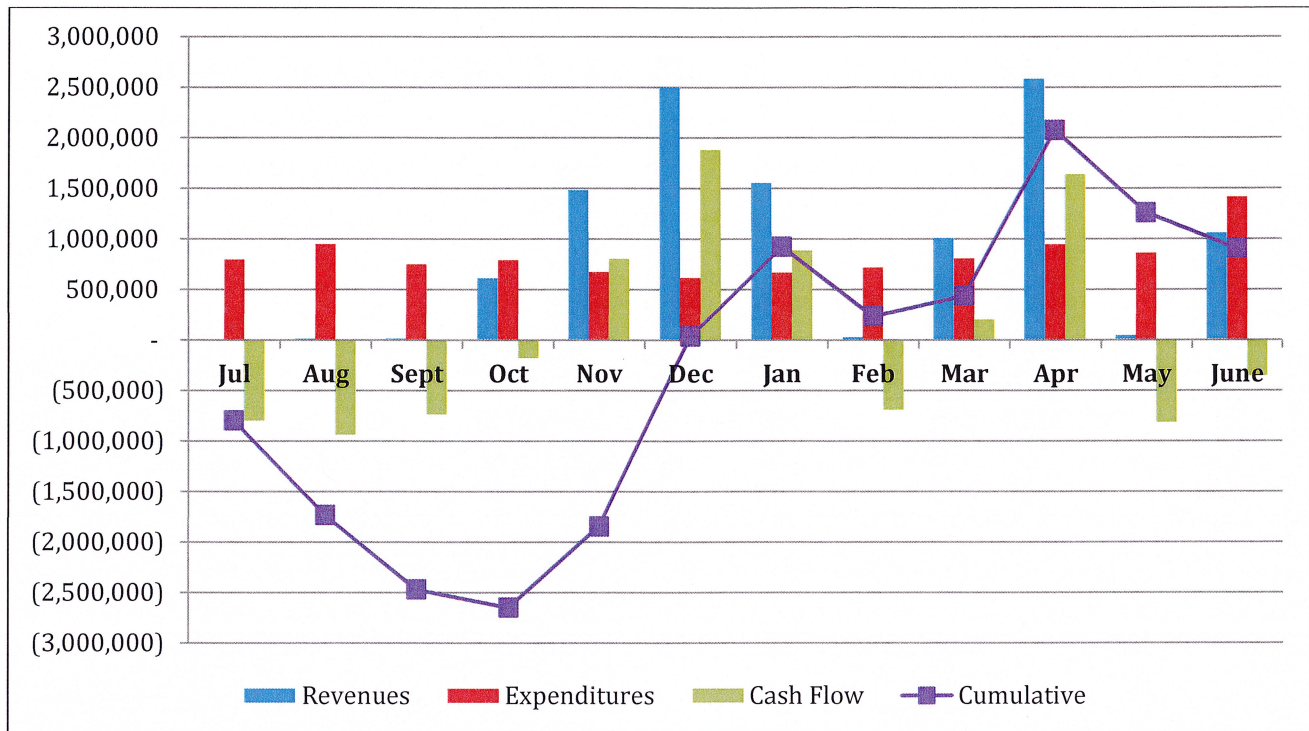
FY18 Budget	1,500,000	100%		FY17 Projected	0	
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- Projects & Programs Contingency

The District has budgeted \$100,000 to cover unexpected Projects and Programs expenses, such as change orders or emergency needs.

- Fuel Break Program Open Space

This program was set up in conjunction with the Mid-Peninsula Open Space District to control weed and brush growth along private property lines adjacent to the Open Space District. Though most of the potential fire hazards were cleared by FY11, the program is kept in place to accommodate future growth. No expenditures are expected for this account in FY18.

Cash Flow by Month

	July	August	September	October	November	December
Revenues	1,500	13,452	11,952	610,614	1,480,752	2,502,214
Expenditures	-797,825	-950,379	-750,579	-791,402	-674,949	-619,410
Cash Flow	-796,325	-936,927	-738,627	-180,788	805,803	1,882,804
Cumulative	-796,325	-1,733,252	-2,471,879	-2,652,667	-1,846,864	35,940
	January	February	March	April	May	June
Revenues	1,555,895	29,880	1,009,080	2,585,171	46,030	1,059,220
Expenditures	-668,103	-718,174	-806,834	-946,782	-862,032	-1,416,058
Cash Flow	887,792	-688,294	202,246	1,638,389	-816,002	-356,838
Cumulative	923,732	235,438	437,684	2,076,073	1,260,071	903,233

The District can expect negative cash flow in the first five months of the fiscal year because the largest portion of the District's revenue (99.2%) comes from Property Taxes which are usually collected twice per year, with the first portion received in December and the second in April (with early or late payments received in the months immediately preceding or following.)

Net Position

Investment in Capital Assets

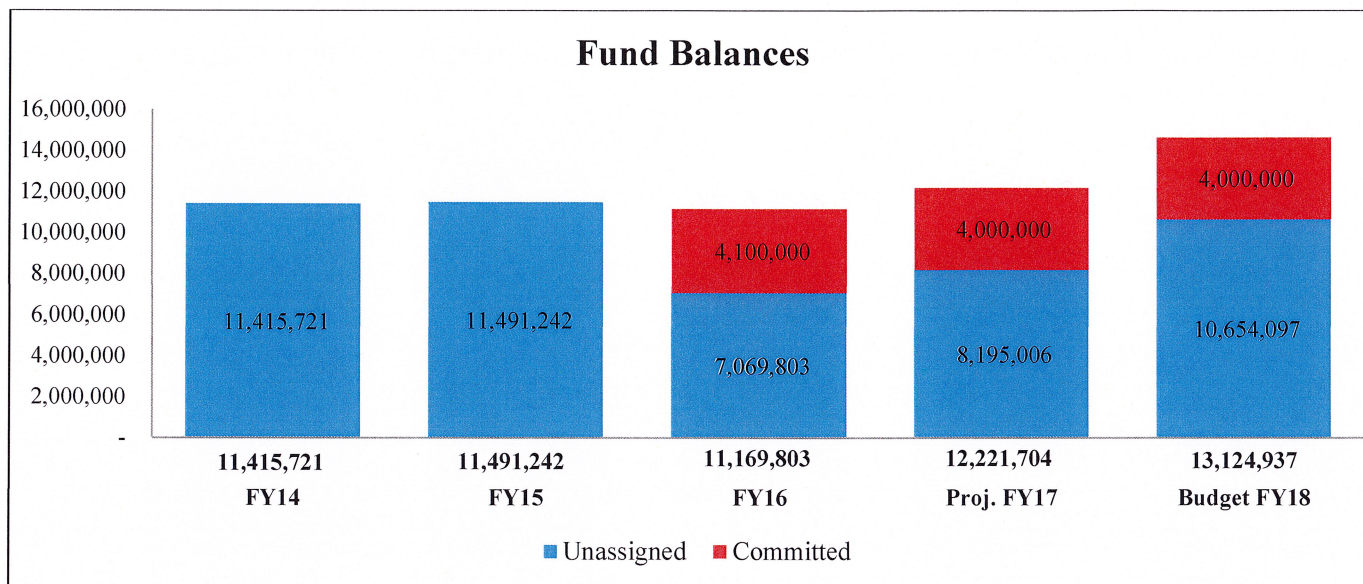
At the beginning of FY18, the District's net investment in capital assets (net of accumulated depreciation) is expected to be \$2,253,343. The investment in capital assets includes land, improvements, fire hydrants, furniture and equipment. No capital additions are anticipated in FY18; therefore (after an estimated \$75,999 in accumulated depreciation) the balance at the end of the fiscal year is estimated to be \$2,177,344. Expenditures for hydrants and water mains are not capitalized since they are either owned by the water districts or not required by GAAP.

Fund Balances

The term “fund balance” is the difference between assets and liabilities reported in a governmental fund, and is usually a positive number. Prior to Governmental Accounting Standards Board Statement Number 54 - Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54) fund balances had been classified into three separate components, Reserved, Designated, and Undesignated. GASB 54 eliminates those three classifications and replaces them with the following five classifications:

- *Non-spendable* – Fund balance classified as *non-spendable* includes amounts that are not in spendable form, such as inventories or legally or contractually required to be maintained intact, such as fund balance associated with inventories.
- *Restricted* - Fund balance should be reported as *restricted* when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- *Committed* - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority, the Board of Commissioners, should be classified as *committed*. These funds cannot be used for any other purpose unless the District removes or changes the specified use by taking the same type of action it employed to previously commit these amounts.
- *Assigned* - Amounts in the *assigned* fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.
- *Unassigned* – The *unassigned* fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

Fund Balances - Continued



For the FY18, the District has elected to classify fund balances as follows:

Committed for Operations - \$2,000,000

The amount of funds *Committed for Operations* will equal a minimum four months of operating expenses (to cover periods where minimal property tax revenue is forthcoming), including base amounts of contracted fire services, consulting and professional services, commissioner's fees, ordinary repair/maintenance of hydrants and water mains, and all other expenditures the District incurs as a result of performing normal daily operations. Daily operations do not include fire prevention programs such as brush chipping, yard-waste and dead tree removal as these are included in Emergency Operation commitments.

Committed for Emergency Operations - \$2,000,000

The amount of funds *Committed for Emergency Operations* will equal a minimum four months of extra fire protection and fire-prevention program expenses (to cover periods where minimal property tax revenue is forthcoming). This includes additional contracted fire-fighting services that should arise specifically due to economic uncertainties or unforeseen disasters or emergencies such as wildfires and earthquakes, staffing for extended fire seasons, and extra contracted services needed to ensure all fire-prevention programs with high priority components are completed in a timely manner.

Unassigned Fund Balance

The remaining amount of fund balance (approximately \$8.2 million at the beginning of FY18) will be classified as *unassigned*. After an estimated net change in fund balance of 903,233, *Unassigned Fund Balance* at the end of FY18 is estimated to be approximately \$9.1 million.