

***North Tahoe Fire Protection District
Management's Discussion and Analysis
June 30, 2019***

Purpose

This discussion and analysis of the North Tahoe Fire Protection District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019, and the District's financial status at June 30, 2019. Together with the District's Financial Statements and Independent Auditors' Report, and the required supplementary information, they form the District's annual report. This report is designed to provide our citizens, taxpayers, employees and customers with a general overview of the District's finances and to show the District's accountability for the money it receives.

Financial Highlights

- As of June 30, 2019, the District's cash and investment balance is \$8,427,780. \$82,688 of this balance is restricted. Capital assets, net of accumulated depreciation, at June 30, 2019 total \$10,787,084.
- The District used 100% of its property tax, special tax and fire assessment revenues to fund operations and general fund activities.
- Approximately \$1,808,522 of property tax revenues that would have been otherwise allocated to the District will be reallocated to other governmental agencies. The State of California is shifting property taxes from local government to help reduce the State's budget deficit and the Placer County Redevelopment Successor Agency has frozen property tax appreciation in each of three geographically defined areas within the Fire District and subject to a 2% pass-through retains the balance of the District's tax.
- For every dollar of payroll for Tier I Safety employees, the District is responsible to pay approximately \$0.21 in retirement (PERS) expense. For every dollar of payroll for Tier II Safety employees, the District is responsible to pay approximately \$0.19 in retirement expense. For every dollar of payroll for Tier III Safety employees, the District is responsible to pay approximately \$0.12 in retirement expense. For every dollar of payroll for Tier I Miscellaneous employees, the District is responsible to pay approximately \$0.15 in retirement (PERS) expense. The District no longer has any active Tier I Miscellaneous employees. For every dollar of payroll for Tier II Miscellaneous employees, the District is responsible to pay approximately \$0.13 in retirement expense. For every dollar of payroll for Tier III Miscellaneous employees, the District is responsible to pay approximately \$0.07 in retirement expense.
- Regarding workers compensation, \$8.67 of every \$100.00 in gross payroll is allocated to safety personnel and \$4.90 of every \$100.00 in gross payroll to miscellaneous personnel.
- These, along with other employee-related fringe benefits, help to illustrate how employee costs are the largest and most significant portion of the District budget.
- With regards to PERS retirement, having a defined benefit plan historically resulted in broad swings in employer contributions directly tied to gains and losses out of District control. The District participates in a pooled plan with other agencies which has stabilized contribution rates in the short-term. Similar pooling with other agencies has

***North Tahoe Fire Protection District
Management's Discussion and Analysis
June 30, 2019***

stabilized workers compensation rates. District staff anticipates increases in both programs in the coming years.

Overview of the Financial Statements

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements* and *required supplementary information*. The basic financial statements include two kinds of statements that provide different views of the District.

- The *government-wide financial statements* consist of the Statement of Net Assets and the Statement of Activities. These statements provide both long-term and short-term information about the District's overall financial status.
- The *fund financial statements* consist of the Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance. These statements provide the District's activity on a fund basis. The *fund financial statements* tell how the District's services were financed in the short-term, as well as what remains for future spending.

Government-wide Statements

The government-wide statements report information about the District's financial activities as a whole in a way that helps determine if the District is better or worse off as a result of the year's activities. The Statement of Net Assets includes all of the District's assets and liabilities at the end of the year. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. These statements use the accrual basis of accounting, which is similar to the basis of accounting used by most private-sector companies.

These statements report the District's net assets and the changes in them. The District's net assets – the difference between assets and liabilities – provide one measure of the District's financial health. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the property tax base and the condition of the District's facilities.

Fund Financial Statements

The fund financial statements are reported side-by-side with the Statement of Net Assets and the Statement of Activities. These statements provide information by fund. The fund financial statements provide a short-term view of the District's operations and the service it provides, which is providing full service, all-risk fire protection, fire prevention, paramedic ambulance and rescue services within the boundaries of the District and contractual areas in El Dorado County, Meeks Bay Fire Protection District and Alpine Meadows. The District has only one fund, the General Fund, which serves as the general operating fund.

North Tahoe Fire Protection District
Management's Discussion and Analysis
June 30, 2019

Financial Analysis of the District as a Whole

Registered voters within the District passed a special tax increase in August 2005 which provided \$2,735,741 of revenue in the current year. Additionally, property owners within the District passed a special assessment in the fall of 2007 which provided \$756,114 of revenue in the current year. Following direction of the Board of Directors, the District has begun a program of rebuilding unrestricted reserves as a “rainy day” fund and designating restricted reserves for refurbishing and replacing the District’s apparatus and fire stations.

Condensed Financial Information

NET POSITION		
ASSETS:	2018	2019
Non-capital	\$ 9,252,917	\$ 9,483,895
Capital	\$ 10,855,911	\$ 10,787,084
Total Assets	\$ 20,108,828	\$ 20,270,979
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows	\$ 6,752,416	\$ 9,213,289
LIABILITIES:		
Current	\$ 1,950,736	\$ 2,126,549
Long-term	\$ 32,579,990	\$ 36,294,643
Total Liabilities	\$ 34,530,726	\$ 38,421,192
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows	\$ 344,126	\$ 443,246
NET POSITION:		
Net Investment in capital assets	\$ 1,383,297	\$ 1,678,883
Restricted	\$ 26,615	\$ 36,528
Unrestricted	\$ (9,423,520)	\$ (11,095,580)
Total Net Assets	\$ (8,013,608)	\$ (9,380,169)

The figures noted above reflect relatively no change in Total Assets (less than 1%). The 11.27% increase in total liabilities is the result of reporting the net other post-employment benefits (OPEB) liability (see Note 12 for specifics) and aggregate net pension liability (see Note 10 for specifics). Finally, a decrease in Total Net Position of 17% is noted from the prior fiscal year.

***North Tahoe Fire Protection District
Management's Discussion and Analysis
June 30, 2019***

This is due to the increase in OPEB liabilities resulting from the roll forward valuation of GASB 75 (see Note 12 for specifics).

Changes in Net Position - Governmental Activities

The following presents a summary of revenues and expenses for the fiscal year ending June 30, 2019. The percentage is in relationship to the annual totals for revenue and expenses.

	2018		2019	
	AMOUNT	% OF TOTAL	AMOUNT	% OF TOTAL
REVENUES:				
Taxes	\$ 9,846,813	62%	\$ 10,336,278	63%
Ambulance services	\$ 2,113,508	13%	\$ 2,172,514	13%
Interest/grants/other	\$ 1,353,522	9%	\$ 1,007,787	6%
Contract services	\$ 2,556,872	16%	\$ 3,042,549	18%
Total Revenues	\$ 15,870,715	100%	\$ 16,559,128	100%
EXPENSES:				
Salaries	\$ 6,858,352	41%	\$ 6,891,998	39%
Benefits	\$ 5,418,226	32%	\$ 6,334,414	35%
Operating expenses	\$ 3,427,603	21%	\$ 3,449,815	19%
Bad debt	\$ 277,558	2%	\$ 487,751	3%
Depreciation	\$ 750,003	4%	\$ 761,711	4%
Total Expenses	\$ 16,731,742	100%	\$ 17,925,689	100%
Change in Net Assets	\$ (861,027)		\$ (1,366,561)	
Beginning Net Assets	\$ (7,152,581)		\$ (8,013,608)	
Ending Net Assets	\$ (8,013,608)		\$ (9,380,169)	

Property tax revenue remains the single largest source of revenue for the Fire District. Beginning in the 2008/2009 fiscal year, the District levied a property owner approved Fire Suppression Assessment. Proceeds from this Assessment were used 1) to obtain, furnish, operate and maintain fire suppression services and apparatus including, but not limited to, emergency communication systems, property inspection and chipping programs, fire engines and station equipment, and 2) to pay the cost of firefighting personnel as to assure that there are always enough personnel available to effectively respond to a fire emergency during periods of peak demand.

In fiscal year 2018/2019, total property tax revenues increased \$489,465; the District received some of the anticipated pass through monies for the Placer County Redevelopment Successor Agency. Additionally, the District received some of the residual disbursement of these funds. During the previous year, the District received pass through monies as well as residual disbursement from the Placer County Redevelopment Successor Agency.

***North Tahoe Fire Protection District
Management's Discussion and Analysis
June 30, 2019***

Revenue received from ambulance service fees remained consistent. Because we received Ground Emergency Medical Transport (GEMT) payments for multiple fiscal years in 2017/2018, it appears that we only had a minimal increase in overall ambulance revenue in 2018/2019. In fact, the District began participating in the Intergovernmental Transfer (IGT) reimbursement program and we received \$304,258 in revenue from this program alone.

Overall contract revenues increased to \$3,042,549. Contract revenues are based partly on property taxes (as is the case in the District's contract with Alpine Springs County Water District and El Dorado County) and since Property Taxes revenues increased, we would expect to see an increase in these revenues. In fiscal year 2013/2014, the District entered into a contract with Meeks Bay Fire Protection District to provide Fire Management Services and other related services. In 2015, the District entered into an additional companion agreement with a labor group unification provision stating that as of July 1, 2016, all safety personnel will become employees of NTFPD. These payroll costs were incorporated into the contract, which resulted in a substantial increase from fiscal year 2015/2016. Personnel cost increased in 2018/2019 which would in turn cause an increase in the Meeks Bay contract amount.

Contributing to the increase in contract revenue is the increase in fire season activity. Notable in 2018/2019 was the District's responses to the Ferguson Fire in the Sierra National Forest, Stanislaus National Forest and Yosemite National Park and the Camp Fire in Paradise, California, which was the deadliest and most destructive wildfire in California history to date. The Camp Fire was also the most expensive natural disaster in the world in 2018 in terms of insured losses. Strike Teams generated \$1,089,440 in reimbursement type revenue. This is done by providing mutual aid, "assistance for hire agreements", where the District provides fire apparatus and overhead personnel to state and federal forest agencies through cooperative agreements such as the California Fire Assistance Agreement and USFS Operating Agreements. California and other western states have seen an alarming increase in both the length and severity of fire season. Correspondingly, the District's Strike Team revenue has increased exponentially as well, most of which goes to covering personnel and other associated costs. The factors in the paragraph above as well as the Strike Team revenue increase combined to account for the increase to contract revenues.

Grant revenues have decreased from the prior year. This decrease is primarily due to the expiration of the FEMA SAFER grant in October 2019. The District was awarded multiple new grants in 2018/2019, which included the FEMA AFG Extrication Equipment Grant and portable Message Boards, as well as the numerous ongoing Forest Fuels grants (SNPLMA 15, SNPLMA 16, FEMA Fuels Reduction, etc.)

Revenues increased by approximately 4% and expenses increased by approximately 7% over the previous fiscal year. Expressed as dollars, revenue increased \$688,413, while expenses increased \$1,193,947. The increase in revenue is mainly due to the increase in Strike Team reimbursements and participation in the IGT program, as discussed above. The increase in expenditures is primarily due to increased benefit costs of 17% or \$916,188. The increase in benefit costs is due to an increase in PERS pension expense per GASB 68 valuation reports and

***North Tahoe Fire Protection District
Management's Discussion and Analysis
June 30, 2019***

other post-employment benefits (OPEB) expense per GASB 75 valuation reports. It is also attributed to the CalPERS employer contribution increases as well as health insurance premium increases. The district closed 2019 with \$8,427,780 available in cash and investments, of which \$82,688 is restricted.

General Fund Budgetary Highlights

A budget is prepared annually and includes proposed expenditures and the means of financing them for the upcoming year. This includes estimates for the current year and actual data for the preceding year. The budget is reviewed at a properly noticed Board meeting to obtain taxpayer comment. Prior to June 30th, the budget is legally enacted through passage of a resolution. The District's Board of Directors reviews reports of operations and examines any variance from the approved budget at least monthly. Formal budgetary integration is employed as a management control device during the year. Appropriations lapse at the end of each fiscal year. The District may authorize supplemental appropriations during the year.

Capital Asset & Debt Administration

On June 30, 2019, the District had \$17,341,707 invested in capital assets. There was approximately \$564,339 in fixed asset purchases made and \$146,647 in structural improvements made during the 2018/2019 fiscal year. Fixed asset additions made during the 2018/2019 year consisted of a Type III engine lease, an ambulance lease, extrication equipment, message boards, a power cot and ram fans. Many of these items were grant funded. The structural improvements were made at Station 53. Disposals totaled \$430,668 which consisted of the disposal of a Type I engine, a mini pumper, extrication equipment, and multiple radios.

	2018	2019
Land	\$ 73,455	\$ 73,455
Buildings and improvements	\$ 10,596,918	\$ 10,596,918
Equipment	\$ 6,391,015	\$ 6,524,687
CIP	\$ -	\$ 146,647
Total	<u>\$ 17,061,388</u>	<u>\$ 17,341,707</u>

Long-Term Obligations

At year end, the majority of the District's long-term obligations consist of the financing obligation for the new fire station, long term post-retirement benefits, leases and accrued leave payouts. The total long term liability at June 30, 2019 is \$36,294,643.

Economic Factors

The Fire District completed the Station 51 Public Safety Center construction project in 2012/2013 earning a LEED Gold accreditation. This project was accomplished in part with the

***North Tahoe Fire Protection District
Management's Discussion and Analysis
June 30, 2019***

cooperation of the Tahoe City Public Utility District who made the property available for \$1.00 per year in a long-term lease arrangement. New Station 51 serves both as a Fire Station and as the District's Headquarters, thus centralizing executive, administrative and community services for our customers. Station 51 has been designed to meet the community's needs for the next 50 years to come.

Most of the District's other fire stations were built in the 1950s and 1960s. As such, they were built with volunteer firefighters in mind versus full-time 24-hour staff and could not anticipate the garaging capacity required for today's larger fire equipment/apparatus. These older facilities fail to meet seismic standards, Best Management Practices (BMP) required by TRPA, parking and ADA requirements. In addition, they weren't designed with gender diversity requirements of a 24-hour work force and are operationally expensive to heat and repair. During 2019, the District began a remodel and retrofit of Station 53 (Homewood) that will address these issues less the elevated seismic standards for public safety facilities. This is another big step forward but the ongoing challenge of replacing aging infrastructure will continue to be an important initiative for many years with Station 52 (Kings Beach) and Station 54 (Dollar Point) as priorities.

After the voter-approved special tax increase implemented in the 2005/2006 fiscal year, the District carefully followed a plan of re-building reserves. Funds are internally tracked by categories including "unrestricted", "facilities" and "apparatus". This effort was consistent with the District's campaign pledge to its constituents. Funds from that tax have also been allocated to maintain staffing levels, training and equipment. While no specific reserve levels have been established by the Board Members, the District is at a point in its "unrestricted" category that more emphasis can be placed on establishing funds for re-building its aging infrastructure and increasing unrestricted reserves until we have an adequate "rainy day" fund.

Reserve funds were largely impacted in the past by broad swings in PERS contributions and "raids" on District revenue by the State of California and Placer County Redevelopment Agency. Beginning in the 2008/2009 fiscal year, the District levied a property owner approved Fire Suppression Assessment. Proceeds from this Assessment were used 1) to obtain, furnish, operate and maintain fire suppression services and apparatus including, but not limited to, emergency communication systems, property inspection and chipping programs, fire engines and station equipment, and 2) to pay the cost of firefighting personnel as to assure that there are always enough personnel available to effectively respond to a fire emergency during periods of peak demand. An independent citizen's financial oversight committee was formed to advise the Board on an annual expenditure plan for this assessment and the special tax.

The District's 15-year agreement with the Alpine Springs County Water District for full fire suppression and prevention services stipulates the District's requirement to staff the fire station in Alpine Meadows a minimum of 150 days per year for the term of the agreement. Revenues representing 80% of property tax are provided to offset these new costs. The District has funded a storage building adjacent to the Alpine Meadows fire station to facilitate storage needs of the entire Fire District. The District's 2012 FEMA SAFER grant & subsequent 2015 FEMA SAFER retention grant provide funding for additional Firefighters in order to meet the NFPA 1710

***North Tahoe Fire Protection District
Management's Discussion and Analysis
June 30, 2019***

response assembly standard and keep part-time stations (including the Alpine Meadows station) staffed more regularly. As a result, the District has exceeded the minimum contractual days for staffing this fire station for the past five years.

The District has implemented a voter-approved Community Facilities District (CFD) No. 2012-1 (Ladder Truck O&M). Only larger, taller, buildings/structures and dense developments are required to join the CFD and provide funding. The purpose of this CFD is to provide funding of an aerial apparatus which is designed to provide greater fire suppression capabilities for these types of commercial developments. While the District may use this apparatus during various different types of incidents, its primary function would be to respond to larger, taller, dense properties within the District. The District will begin placing the CFD on the Placer County tax rolls in 2019/2020. The anticipated revenue for 2019/2020 will be approximately \$16,000 based off of an estimated 18 participants.

The District will continue to provide the highest level of fire suppression, rescue and emergency medical services to property owners and visitors to the area. However, current revenues don't address the need for additional staffing, aging infrastructure and specialized equipment such as an aerial ladder truck. It will provide for a gradual replacement of equipment and apparatus through a combination of "Municipal Leasing", "pay as you go" and grant funding techniques.

In April of 2014, the North Tahoe Fire Protection District (North Tahoe) and the Meeks Bay Fire Protection District (Meeks Bay) entered into a mutual aid management agreement, whereby North Tahoe will provide fire services management and related administrative and operational services to Meeks Bay.

The scope of services within the agreement includes a delegation of authority for all duties required by law previously performed by the Meeks Bay Fire Chief including but not limited too; fire suppression operations, fire prevention, rescue services, training, emergency medical services, hazardous materials responses, forest fuels management, defensible space programs, equipment, facilities, supplementary staffing and personnel management. The Meeks Bay Fire Protection District pays the full salary and benefits for one North Tahoe Division Chief, three Captains, and three Firefighters, as well as reimburses the District for direct and indirect costs associated with the management and labor agreements.

The State of California's adoption of the Insurance Services Office (ISO) 2012 Fire Suppression Rating Schedule (FSRS™) placed greater emphasis on Fire Prevention, public education and catastrophic wildfire avoidance. In turn, the District responded with programs that address these priorities in order to protect the economic and environmental interests in the communities we serve.

Fire prevention programs beyond current levels are necessary to avoid the risk of catastrophic fires. To offset the associated costs of such programs, District staff has implemented a cost recovery program that includes plan check and inspection fees to help fund the fire prevention bureau. The District's Capital Facilities and Mitigation Fee Study justifies the need for these fees

***North Tahoe Fire Protection District
Management's Discussion and Analysis
June 30, 2019***

with the most recent update being completed in 2019. These monies are intended to address, in part, the impacts that new projects and developments have on Fire District service delivery.

Significant effort has gone into reducing the threat of catastrophic wildfire through funding for fuels reduction and defensible space. The District employs a full time Forest Fuels Coordinator to oversee this critical program aimed at improved forest health, wildfire resiliency and climate change adaption. The District funds a variety of these activities through our Benefit Assessment. The deliverable capacity of this program is exponentially increased by leveraging outside grant funding sources. To meet this end, the District continues an ongoing aggressive grant writing campaign and has developed strategic partnerships in Forest Fuels management with the North Lake Tahoe Fire Protection District, the Meeks Bay Fire Protection District, the Lake Valley Fire Protection District, and the Tahoe Resource Conservation District. As fire knows no boundaries, so should our prevention activities.

In fall of 2018, the Insurance Services Office (ISO) performed a field visit and review (audit) of North Tahoe Fire Protection District, Meeks Bay Fire Protection District and the Alpine Springs County Water District. This is the first-time that they considered all three jurisdictions together as what they call a Fire Protection Service Area; North Tahoe FPSA. The Districts historical Class 4 (PPC 04/8B) improved to a Public Protection Class 3 (PPC 03/3Y) with notable improvements in many categories, including personnel, training and apparatus. Only 3,409 fire agencies across the country are considered Class 3 fire departments. Many insurance companies use the ISO PPC for establishing fire insurance rates for their customers, often times Class 1 – 3 are banded together as the top tier. Following the last few years of devastating wild fires in California, including the largest in history, the Ranch Fire, and the most deadly and destructive, the Camp Fire, many insurance companies have decided not to renew fire insurance policies in high fire danger areas as we have within the District. So despite the Districts Class 3 ISO PPC rating, many residents continue to have challenges finding suitable fire insurance with affordable premiums.

The District adopted a GASB 45 compliance plan in 2009/2010 that addresses the financial liability the District will face in funding post-employment benefits such as medical insurance. The District sets aside revenue annually, as the budget will allow, to help offset the costs associated with future retirements. The District completes an annual valuation of this Plan in compliance with the California Employers' Retiree Benefit Trust (CERBT) Fund.

GASB 45 was replaced by GASB 75 for fiscal years beginning after June 15, 2017. The primary objective of this statement is to improve accounting and financial reporting for postemployment benefits other than pensions. GASB 75 resulted in a single method of attributing the actuarial present value of projected benefit payments to periods of employee service, as well as immediate recognition in OPEB expenses. As a result of the implementation of GASB 75, several new note disclosures and journal entries were required in these financial statements. The District will continue to complete a bi-annual valuation based on the guidelines established by GASB 75.

The District implemented GASB 68 in fiscal year 2014/2015. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred

***North Tahoe Fire Protection District
Management's Discussion and Analysis
June 30, 2019***

inflows of resources, and expense. For defined benefit pensions, such as ours, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Finally, the District's wage and benefit contracts (MOU) with our employee groups were renewed December 1, 2018. These MOUs are for a five year term (December 1, 2018 – December 31, 2023). These contracts contain pay and benefit packages which are based upon an employee's date of hire and/or entry into CalPERS system. Employees hired prior to December 31, 2012, are classified as "Classic Members" by PERS; as are employees hired before January 1, 2013, who were previously classified as "Classic Members" by PERS, due to their prior services with another PERS agency. Employees hired after January 1, 2013, with no prior service with a PERS agency, are classified as "PEPRA" members by PERS. Salary and Benefit costs associated with PEPRA employees' are considerably less per employee than for Classic Members.

Contacting the District's Management

If you have questions about this report or need additional information, contact North Tahoe Fire Protection District at PO Box 5879, Tahoe City, CA 96145.