KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

AGENDA

A Special Meeting of the Finance Committee of the Kensington Police Protection and Community Services District will be held **Monday February 1, 2016,** ***at 6: 00 P.M.,*** at the Community Center, 59 Arlington Avenue, Kensington, California.

1. **Call to Order/Roll Call 6:00 P.M.**

2. **Public Comments-** Members of the public may address the Committee on any issue not listed on the agenda that are within the purview of the Committee. Comments on matters that are listed on the agenda may be made at the time the Committee is considering each item. Each speaker is allowed a maximum of five (5) minutes per Board Policy 5030.41.

3. **Approval of the Finance Committee Minutes.**

    a. Minutes of the Finance Committee Special Meeting of December 17, 2015. Page 3

4. The committee will receive a presentation from the IGM/COP to increase the FY 15/16 Budget- Capital Outlay Item 965, by $18,000. This amount is off-set by new revenue from Asset Forfeiture Funds. Possible action: Recommend to the Board of Directors to approve. Page 7

5. The committee will review and discuss the possible development of a Budget Reserve Policy for the District. The committee may discuss and recommend to the board a sub-committee be formed to develop a reserve policy plan. Page 8

6. The committee will receive a presentation regarding the review of Actuarial Study for Retiree Health Liabilities as of July 2015, and consider recommending to the Board increasing the amount of the Annual Required Contributions (ARC) District contributes. Page 22

7. The committee will receive a presentation regarding the cost of extending the Interim General Manager/Chief of Police contract by 3 months. Informational only. Page 27

8. The committee will review the current billing statements for our legal and consulting services and possibly recommend to the Board an increase to the budget. Possible action: Recommend to the Board to increase the budget for legal and consulting services. Page 29

General Information-Accessible Public Meetings

NOTE:UPON REQUEST THE KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT WILL PROVIDE WRITTEN AGENDA MATERIALS IN APPROPRIATE ALTERNATIVE FORMATS, OR DISABILITY-RELATED MODIFICATION OR DISABILITIES TO PARTICIPATE IN PUBLIC MEETINGS. PLEASE SEND A WRITTEN REQUEST, INCLUDING YOUR NAME, MAILING ADDRESS,PHONE NUMBER AND A BRIEF DESCRIPTION OF THE REQUESTED MATERIALS AND

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PREFERRED ALTERNATIVE FORMAT OR AUXILARY AID OR SERVICE AT LEAST 2 DAYS BEFORE THE MEETING. REQUESTS SHOULD BE SENT TO:

Interim General Manager Kevin. E. Hart, Kensington Police Protection & Community Services District, 217 Arlington Ave, Kensington, CA 94707. POSTED: Public Safety Building-Colusa Food-Library-Arlington Kiosk- and at www.kensingtoncalifornia.org.

Complete agenda packets are available at the Public Safety Building and the Library.

All public records that relate to an open session item of a meeting of the Kensington Police Protection & Community Services District that are distributed to a majority of the Board less than 72 hours before the meeting, excluding records that are exempt from disclosure pursuant to the California Public Records Act, will be available for inspection at the **District offices, 217 Arlington Ave, Kensington, CA 94707** at the same time that those records are distributed or made available to a majority of the Board.

The deadline for agenda items to be included in the Board packet for the regular monthly meeting is the Wednesday before the regular scheduled Thursday meeting the following week.

KPPCSD Finance Committee Meeting Minutes for 12/17/15

A Special Meeting of the Finance Committee of the Kensington Police Protection and Community Services District was held Thursday, December 17, 2015, at 6:30 P.M., at the Community Center, 59 Arlington Avenue, Main Room, Kensington, California.

ATTENDEES

Committee Members	Speakers/Presenters
Len Welsh, President	Deborah Russell, CPA
Chuck Toombs, Director	Adam Benson, Renne Sloan Holtzman Sakai
Paul Dorroh	
Derek Suring	
Karl Kruger	
Jim Watt	
Paul Haxo	
Simon Brafman	
Gloria Morrison	
Staff Members	
Kevin Hart, Interim General Manager/Chief of Police (IGM/COP)	
Lynn Wolter, District Administrator	
Press	

President Len Welsh called the meeting to order at 6:37 PM and took roll call. President Len Welsh, Director Chuck Toombs, Paul Haxo, Derek Suring, Karl Kruger, Paul Dorroh, Gloria Morrison, Simon Brafman, Jim Watt, General Manager Hart, and District Administrator Wolter were present. Elena Caruthers, Pat McLaughlin, Linda Lipscomb, and Paula Black were absent.

PUBLIC COMMENTS

None

COMMITTEE MEMBER COMMENTS

Paul Haxo commended District Administrator Wolter on the minutes.

Karl Kruger asked about the status of the MOU. Director Toombs replied that a meeting with the officers was scheduled for January 5th.

Jim Watt said the minutes mentioned that a discussion of a reserve policy was supposed to have come back to the Committee this meeting. Director Toombs responded that he hoped a subcommittee would bring this back to the next meeting.

IGM/COP Hart said that he, Adam Benson, and Deborah Russell would need completed MOU information in order to do the Five-Year Plan.

President Welsh said that a reserve policy, along with whether or not to appoint a subcommittee, would appear on the next month's agenda.

Paul Haxo noted that, in January, the Board President would be making appointments/re-appointments to committees. President Welsh and Director Toombs said they hoped all the members of the Finance Committee would continue for another year.

APPROVAL OF MINUTES

MOTION: Karl Kruger moved, and Gloria Morrison seconded, that the minutes of October 21, 2015 be approved.

Motion passed unanimously.

NEW BUSINESS

The Finance Committee reviewed and discussed the Kensington Police Protection and Community Services District Draft Actuarial Study of Retiree Health Liabilities as of July 1, 2015.

IGM Hart introduced the draft report. He noted highlights that included:

- The District's pay-as-you go amount for the year was $187,551 – based on 14 retirees (individuals).
- The remaining unamortized balance of the initial unfunded AAL was $2.6 million.
- The Actuarial Value of Plan Assets was $630,000. He reported that the assumption for the medical trend rate was 4%.

IGM/COP Hart reported that, in January, District Administrator Wolter would confirm information about retirees, their spouses, and their dependents, with respect to medical insurance coverage.

IGM/COP Hart said that, soon after he began working for the District, he had discovered a medical insurance premium error in the amount of $10,000 – not in the District's favor – and that this error had been resolved and the amount repaid.

IGM/COP Hart also reported that, when retirees reach Medicare age, PERS transfers them to Medicare. Thus, their medical insurance premium costs go down, with the individuals paying supplemental costs. IGM/COP Hart said he would confirm that the District doesn't pick up supplemental costs.

Gloria Morrison asked if the District was meeting its obligation. The District's CPA, Deborah Russell, responded in the affirmative and said that the 521 Trust account plus the 521 Retiree account equaled the amount due to the OPEB for the year. IGM/COP Hart confirmed that the District was meeting its obligation.

Derek Suring suggested developing different scenarios with different discount rates and wondered if Adam Benson could do this.

Jim Watt handed out a document he had prepared. He said he had called the District's actuary and that the actuary had said Mr. Watt should bring up his information at the Finance Committee meeting. Mr. Watt summarized his analysis:

- The medical cost trend was greater than 4%, and the District's actuary said he could go with 5%.
- The amount contributed in the early years was key to success in later years.
- The District was, potentially, going to underfund the trust.
- If the District did what he recommended, it would be to the District's benefit in the long run.

Director Toombs noted that Adam Benson had an actuarial contact and said he'd like to ask Mr. Benson to contact this professional about suggestions that had been made.

Discussion ensued about the difference in rates of return between PERS medical and PERS retirement.

Paul Haxo noted that the actuarial document met the District's legal requirement and that it was a guestimate of what the future might hold. He said that members of the Committee might disagree with some of the assumptions but that Director Toombs had been correct in saying the actuary was licensed to perform this particular work and members of the Committee were not.

Paul Dorroh asked if there was a basis for assuming a trend rate greater than 4%.

Simon Brafman said he'd like to see scenarios that would reflect a worst case, best case, and likely case. President Welsh responded that there was some overlap with this report and Mr. Benson's work, and he asked if Mr. Benson would be able to provide such analyses.

Director Toombs said he would like another actuary to review the report and to weigh in on whether 4% was a reasonable rate. He said it troubled him that the actuary had said he would go with a 5% rate: He wondered why the actuary had assumed a 4% rate. IGM/COP Hart responded that Mr. Benson said that he was fine with either a 4% or a 5% rate.

Jim Watt said he was concerned about the next three to five years.

- CalPERS year-to-date return had been a negative 1.4%.
- Costs likely would go up a lot.
- Retiree medical costs were a "big can or worms."

Director Toombs said that a smoothing regime was in place with CalPERS to avoid spikes and that he was looking for a reasonable approach to be able to afford all the community's many needs.

President Welsh said having more information was reasonable

Director Toombs said there had to be some basis for making a decision and asked, if one couldn't trust the actuary, why do the study. CPA Russell said 4% should be defensible on the actuary' part. Paul Haxo reiterated that the document was meant to allow the District to legally meet its requirement.

Ms. Russell noted that, if the Board adopts the actuarial report, the report's information would appear in the audited financials as an expense. She also said that, if the District were to contribute more to the Trust, it would not change the budget but that, if the actuary were to re-do the actuarial report and the numbers were to change, the budget would change.

Mr. Watt said he thought the report should be redone. He noted that the study reported nine employees, not ten, which the District currently has. He said this would have a significant impact over twenty years. Ms. Russell responded that nine officers might be defensible, based on history.

MOTION: Paul Haxo moved, and Gloria Morrison seconded, that the Finance Committee recommend passing the Actuarial Report onto the Board for adoption in order to meet its legal requirement for the next two years and asking Adam Benson to prepare two alternative scenarios with a 5% medical cost trend and a 6% discount rate.

Motion passed 8 – 1.

Director Toombs asked how the 521-T and 521-R account amounts had been determined. Ms. Russell responded that the amount had been derived from the second year's amount contained in the actuarial report that had been completed two years earlier.

It was the consensus of the Committee that IGM/COP Hart and Director Toombs should be in touch with Mr. Benson.

MOTION: Paul Haxo moved, and President Welsh seconded, that the meeting be adjourned.

Motion passed unanimously.

The meeting was adjourned at 7:48 P.M.

KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

Date: February 1, 2016

TO: KPPCSD Finance Committee members

FROM: Kevin E. Hart, Interim General Manager

Subject: **Item 4-Budget Increase request-Capital Outlay/Asset Forfeiture funds**

Police Agencies that participated in the West Contra Costa County Narcotics Enforcement Team, (WEST-NET) recently received Asset Forfeiture funds that were generated by the unit. This resulted because most of the criminal cases have been adjudicated and, therefore, some funds are ready for distribution to police agencies. Last week, $18,525.71, was disbursed to KPPCSD as part of our share for involvement in the task force. I anticipate more asset forfeiture funds as other cases are adjudicated. A new revenue line item has been created to account for this in the budget.

The Board approved its FY 15/16 budget for Capital Outlay at its regular meeting in August 2015. Line item 965 was approved for $10,000, to purchase weapons for use by each Kensington Police Officer while on duty.

Extensive research has been done to identify the best type of weapon, model, holster, lighting source, and ammo holders to suit Kensington's needs. The results of the research revealed the costs to purchase weapons and associated equipment would exceed the budgeted amount significantly.

In addition, the District currently does not issue body armor for its police officers. The cost associated with the purchase of body armor is more in line with the budgeted amount approved for weapons of $10,000.

I recommend the $10,000 originally approved for the purchase of weapons be allocated for the purchase on body armor for each Kensington Police Officer. KPD previously submitted a grant request to purchase body armor and was denied. We have renewed our grant proposal, and if successful, this request may offset the cost.

I recommend the Finance Committee forward to the Board of Directors, a recommendation to accept the Asset Forfeiture funds and increase the FY15/16 year budget by $18,525.71, and recommend the board approve the expenditure for weapons and associated equipment for an amount not to exceed $18,000. This would increase line 965 from a budgeted $10,000 to $28,000.

General Manager Recommendation: Take public comment, deliberate, and recommend that the Board of Directors approve the budget increase, reallocate $10,000 previously approved for weapons towards body armor, and approve the expenditure of up to $18,000 for the purchase of weapons and associated equipment.

K E Hart

Kevin E. Hart
Interim General Manager

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Kensington Police Protection and Community Services District

Date:	February 1, 2016
TO:	KPPCSD Finance Committee members
FROM:	Kevin E. Hart, Interim General Manager
Subject:	**Item 5-Budget Reserve Policy Discussion**

At the last meeting of the Finance Committee on December 17, 2015, it was suggested by at least one member of the Finance Committee that the District develop a Budget Reserve Policy.

Adam Benson has researched and reviewed Budget Reserve Polices from other communities and will present his findings to the committee.

The Finance Committee may recommend a subcommittee be formed for further review and discussion.

General Manager Recommendation: Take public comment, deliberate, and possibly recommend that the Board of Directors give direction to develop a Budget Reserve Policy.

Kevin E Hart

Kevin E. Hart
Interim General Manager

Reserve Levels

Developing a Policy Framework

- The adequacy of fund balance should be assessed based on an agency's own specific circumstance – there is no universally accepted "right level"
  - ***Revenue Source Stability:*** How stable is the District's tax base in the face of adverse economic conditions? How broad are the District's revenue sources? Are any revenue sources at risk due to State or Federal actions?
  - ***Expenditure Volatility:*** What are the District's contractual obligations and how much will they mandate ongoing expenditure levels? Are there new programmatic areas that the District will undertake?
  - ***Extreme Circumstances:*** What is the risk of natural disaster or other one-time outlay (i.e., earthquake, fire, etc.)? How much (if any) of this risk can be insured against?
  - ***Liquidity:*** What are the District's cash flow needs (i.e., when are property tax revenues received relative to when expenses are incurred)? How have reserves fluctuated in the past and what is the general trend?
  - ***Leverage:*** What are the City's unfunded liabilities and ongoing capital needs? Pension? OPEB?

PMG Analysis

Appropriate Level of Unrestricted Fund Balance in the General Fund

Type: Best Practice

Approved by GFOA's Executive Board: September 2015

Background:

In the context of financial reporting, the term *fund balance* is used to describe the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis.[1] While in both cases *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund; it is essential that differences between GAAP *fund balance* and budgetary *fund balance* be fully appreciated.

1. GAAP financial statements report up to five separate categories of fund balance based on the type and source of constraints placed on how resources can be spent (presented in descending order from most constraining to least constraining): *nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance*, and *unassigned fund balance*.[2] The total of the amounts in these last three categories (where the only constraint on spending, if any, is imposed by the government itself) is termed *unrestricted fund balance*. In contrast, budgetary fund balance, while it is subject to the same constraints on spending as GAAP fund balance, typically represents simply the total amount accumulated from prior years at a point in time.
2. The calculation of GAAP fund balance and budgetary fund balance sometimes is complicated by the use of sub-funds within the general fund. In such cases, GAAP fund balance includes amounts from all of the subfunds, whereas budgetary fund balance typically does not.
3. Often the timing of the recognition of revenues and expenditures is different for purposes of GAAP financial reporting and budgeting. For example, encumbrances arising from purchase orders often are recognized as expenditures for budgetary purposes, but never for the preparation of GAAP financial statements.

The effect of these and other differences on the amounts reported as *GAAP fund balance* and *budgetary fund balance* in the general fund should be clarified, understood, and documented.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund.

Recommendation:

GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.[3] Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.[4] In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.

Appropriate Level. The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.[5] The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.[6] Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;
4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

Use and Replenishment.

The fund balance policy should define conditions warranting its use, and ifa fund balance falls below the government's policy level, a solid plan to replenish it. In that context, the fund balance policy should:

1. Define the time period within which and contingencies for which fund balances will be used;
2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;
3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

Generally, governments should seek to replenish their fund balances within one to three years of use. Specifically, factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;
2. Recovering from an extreme event;
3. Political continuity;
4. Financial planning time horizons;
5. Long-term forecasts and economic conditions;
6. External financing expectations.

Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

Unrestricted Fund Balance Above Formal Policy Requirement. In some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed. Additionally, an education or communication strategy, or at a minimum, explanation of large changes in fund balance is encouraged. In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.

Committee: Accounting, Auditing, and Financial Reporting
Governmental Budgeting and Fiscal Policy

Notes:

1. For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.
2. These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
3. Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.
4. See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).
5. In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.
6. In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues and/or expenditures, that decision should be followed consistently from period to period.

Download Best Practice

City of El Cerrito
Comprehensive Financial Policy

Approved November 11, 2015
Resolution: 2015-70

PURPOSE:
To establish a comprehensive set of financial policies for the City that will serve as a guideline for operational and strategic decision making related to financial matters.

POLICY:
The following financial policies are intended to establish a comprehensive set of guidelines for use by the City Council and staff on decision-making that has a fiscal impact. The goal is to maintain the City's financial stability in order to be able to continually adapt to local, regional and national economic changes. Such policies will allow the City to maintain and enhance a sound fiscal condition.

This financial policy will be reviewed annually by the Financial Advisory Board and any proposed substantive revisions will be submitted to the City Council for approval. The City's comprehensive financial policies will be utilized when preparing the Annual Operating Budget and shall be in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

1. OVERVIEW & LONG-TERM FINANCIAL PLANNING

1.1. A Five-Year Year Financial Plan will be prepared at a minimum for the General Fund, and Integrated Waste Management Funds. The City's Five-Year Financial Plan is the long-term picture of the City's finances and will be updated annually as part of the annual budget process.

1.2. The City shall seek a balance in the overall revenue structure between more stable revenue sources (e.g. Property Tax and Utility Taxes) and economically sensitive revenue sources (e.g., Sales Tax).

1.3. The City shall develop and maintain methods for the evaluation of future development and major fiscal impacts on the City budget.

1.4. The City shall develop and implement a financial plan to address its funding needs for issues like deferred maintenance and unfunded liabilities.

1.5. The City shall address issues related to cash flow requirements and any short term borrowing requirements on a timely basis.

1.6. The City shall require any annexation agreements to have a long- term beneficial financial impact on the City.

2. BUDGET POLICIES

2.1. The City Manager shall prepare a proposed annual budget to be reviewed by the Financial Advisory Board and presented to the City Council within all statutorily prescribed deadlines. The City Council will adopt the budget at a public hearing by June 30 of each year.

2.2. A Budget will be adopted by Resolution of the City Council annually, which will contain the budget amendment process, budget amendment authority, and spending authorities.

All departments are responsible for meeting the City's financial policy goals and ensuring the City's long-term financial health. Budget control is maintained at the fund level. The City Manager is authorized to transfer budgeted amounts within departments and within funds. In addition, amendments that are made to authorize spending of increased or new special purpose revenues may be approved by the City Manager. Budget modifications between funds or increases or decreases to a fund's overall budget must be approved by the City Council.

2.3. It is the City's policy to adopt a balanced General Fund budget where operating revenue is equal to, or exceeds, operating expenditures. In the event a balanced budget is not adopted, due to a deliberate reduction of accumulated fund balance or if the cause of the imbalance is expected to last for no more than one year, as with the case of a one time settlement or large purchase, the planned use of reserves to balance the budget is permitted as long as the reserve is consistent with the amounts described in Section 3., General Fund Balance Reserve Policy.

2.4. The operating budget shall serve as the annual financial plan for the City. It shall serve as the City's management plan for implementing goals and objectives of the City Council, City Manager and departments and will define service levels.

2.5. During the annual budget development process, the existing budget shall be examined to assure removal or reduction of any services or programs that should be eliminated or reduced in cost.

2.6. The annual review process shall include an assessment to determine if funds are available to operate and maintain proposed capital facilities and other public improvements.

2.7. Any year-end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and will be available for capital projects and/or one-time expenditures upon approval of the City Council/.

2.8. Where practical, the City's annual budget will include performance measures of workload, efficiency, and effectiveness.

2.9. **Revenues:**

2.9.1. The City will estimate annual revenues using an objective, analytical process; specific assumptions will be documented and maintained. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies, and/or reliable economic forecasters when available.

2.9.2. Specific revenue sources will not be dedicated for specific purposes, unless required by law or Generally Accepted Accounting Principles (GAAP). All non-tax increment, non-restricted revenues will be deposited in the General Fund and appropriated through the budget process. On-going revenues will fund on-going expenditures.

2.9.3. A diversified and stable revenue system will be maintained to the extent possible to protect programs from short-term fluctuations in any single revenue source.

2.10. **Appropriations:**

2.10.1. The City shall, to the extent possible, pay for current year expenditures with current year revenues. Where authorized activities or equipment remain incomplete and/or unpurchased, revenues and/or fund balance may be carried forward at the City Manager's direction to the next fiscal year to support such an activity/purchase.

2.10.2. The City shall avoid budgetary procedures which rely on financial strategies that defer payment of current operating expenses to future years.

2.10.3. Department Heads are responsible for ensuring that department expenditures stay within the department's budgeted appropriation.

2.10.4. A City Council Resolution is necessary to increase any total fund appropriation where no corresponding revenue offset exists that is restricted for that purpose.

2.10.5. The City Manager may adjust appropriations among departments within a fund.

3. GENERAL FUND RESERVE POLICY

3.1. The purpose of the reserve policy is to set aside funds to insure against events that would adversely affect the financial condition of the City and jeopardize the continuation of necessary public services. The reserve is designed to provide adequate cash flow, protect bond ratings, and offset economic downturns and revenue shortfalls. The reserve is also available to provide for one-time funding in the event of an emergency situation such as a natural disaster or unanticipated liability.

3.2. It is a goal of the City to achieve a general fund annual operating reserve of 15%, with a minimum of 10%, of projected General Fund operating expenditures in each fiscal year. As part

Approved November 11, 2015
Resolution: 2015-70

of the annual budget process, the City Council shall consider a Five-Year Plan that attempts to maintain the minimum reserve balance of 15%. The City Council may adopt a deficit budget to deal with the uses discussed in Section 3.5 so long as the projected reserve does not go below 10% in any year of the Five-Year Plan. Should the General Fund reserve fall below 10%, each budget year the City will adopt a plan to restore the reserve percentage to 10% within five years and 15% within 10 years.

3.3. **NEW** It is a goal of the City to achieve and maintain a minimum cash balance equal to 15 days of authorized operating expenses in order to meet anticipated City obligations without reliance on borrowed funds. Should the cash balance fall below the minimum due to unanticipated circumstances, the minimum cash balance should be restored as soon as practical.

3.4. The portion of the reserve below 10% should be utilized only for a financial emergency (as determined by the City Council), natural disaster or significant unanticipated liability. If this portion of the reserve is utilized for such an event, the Ten-Year Plan presented with the Annual Operating Budget must be developed so that the 10% base threshold is replenished within five years.

3.5. The unreserved fund balance in an Internal Service Fund may be transferred to the General Fund only for a fiscal emergency or for one-time uses such as natural disasters or unforeseen liabilities.

3.6. The reserves between the 10% and 15% level are designed to be used by the City to deal with revenue fluctuations that arise as a result of changes in the economy and provide opportunities to maintain services and programs where funding may be difficult. Also, a portion of any operating reserve in excess of 10% of annual revenues resulting from the previous fiscal year's operations could be committed to capital improvement projects or used to retire existing debt, fund future liabilities or potential legislative actions, establish or replenish equipment replacement funds, and/or establish or replenish deferred maintenance funds as long as the amount is considered in the adopted Ten-Year Plan to achieve a balance of 15% within ten years.

3.7. One-time revenues will not be used to fund ongoing City programs. Any one-time revenue receipt during the fiscal year should be recognized and recorded in a "non-recurring revenue source" category. One-time revenue windfalls include: sales of City-owned real estate, CalPERS rebates, lump sum (net present value) savings from debt restructuring, litigation settlement, unexpected revenues, and other similar sources of revenue as designated by the City Council.

3.8. **NEW** The operating reserve should be itemized as cash or cash equivalents and be separately stated on the financial statements.

4. FINANCIAL REPORTING POLICIES

4.1. Accounting Standards:

4.2. The City's accounting and financial reporting systems shall be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA). The City will make every attempt to implement all changes to governmental accounting practices at the earliest practicable time.

Annual Audit:

4.2.1. An annual audit will be performed by an independent public accounting firm with an audit opinion to be included with the City's published Comprehensive Annual Financial Report (CAFR). The

CAFR will be submitted annually to the Government Finance Officers Association for peer review with the goal of continuing receipt of the Certificate of Achievement for Excellence in Financial Reporting.

4.2.2. The independent firm will be selected through a competitive bidding process at least once every five years. The contract may be for an initial period of three years with two additional one-year options at the City Council's discretion. The current firm may be allowed to participate in the bid process. The need for rotation of the audit staff or audit firm will be considered in the bid process. The Finance Director will review the qualifications of prospective firms and make a recommendation to the City Council. The audit contract will be awarded by the City Council.

5. OPERATIONAL MANAGEMENT POLICIES

5.1. The City shall endeavor to avoid committing to new spending for operating or capital improvement purposes until an analysis of all current and future cost implications relating to those programs and projects is completed.

5.2. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and program initiatives will be developed to reflect current policy directives, projected resources and future service requirements.

5.3. Departmental requests for increases in staffing will be thoroughly analyzed; only those that meet adopted program initiatives and policy directives will be considered. To the extent feasible, personnel cost reductions will be achieved through attrition.

5.4. **User Fees and Charges and Development Impact Fees:**

5.4.1. Where direct services to users can be measured, as set forth in the Master Fee Schedule, the City should use appropriate fees, charges or assessments rather than general tax funds. All user fees and charges will be examined or adjusted annually to determine the direct and indirect cost of service. User fees and charges for services shall be established at a level related to the cost of providing such service except where the City Council has determined there is a public benefit to subsidize the service with tax based revenue. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the City Council following public review.

5.4.2. The City may identify the costs associated with new development as a basis for establishing development impact fees but the long-term benefit of the development to the City should be considered in establishing such fees.

5.5. **Grant Management:**

5.5.1. The City shall actively pursue federal, state and other grant opportunities when deemed appropriate. Before accepting any grant, the City shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant and present that report for approval by the City Council.

5.5.2. The term of Grant funded positions for programs should be clearly identified and presented to the City Council for approval. It is mandatory to disclose if General Fund revenues will be needed to fund a position during or after the Grant or program expires.

5.5.3. Grant funding will be considered to leverage City funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, City resources may be substituted only after all program priorities and alternatives are considered.

5.5.4. The cost of all externally mandated services for which funding is available shall be fully evaluated, including overhead, to allow for complete reimbursement of expenses.

5.6. **Revenue Collection Policy:**

5.6.1. The City will pursue revenue collection and auditing to assure that monies due the City are received in a timely manner.

5.6.2. The City will seek reimbursement from the appropriate agency for State and

Federal mandated costs whenever possible.

5.6.3. The City will centralize accounts receivable/collection activities so that all receivables are handled consistently.

5.6.4. Accounts receivable management and diligent oversight of collections from all revenue sources are imperative. Sound financial management principles include the establishment of an allowance for doubtful accounts. Efforts shall be made to pursue the timely collection of delinquent accounts. When such accounts are deemed uncollectible, they will be written-off from the financial statements in accordance with established policies.

6. FINANCIAL MANAGEMENT POLICIES

6.1. Staff shall keep City Council apprised of financial opportunities available and shall develop appropriate recommendations.

6.2. All requests for City Council action shall include an analysis of the immediate and future fiscal impact of such action. No appropriation for new or expanded programs or staffing levels shall be approved without identifying the amount and source of available funds.

6.3. All externally mandated services for which funding is available shall be charged to allow for complete reimbursement of expenses including overhead.

6.4. **Cash Management Investment:**

6.4.1. Cash and investment programs will be maintained in accordance with California Government Code Section 53600 et seq. and the City's adopted investment policy and will ensure that proper controls and safeguards are maintained. Pursuant to the Investment Policy, the Financial Advisory Board, at least annually will review, and the City Council will affirm, a detailed investment policy.

6.4.2. Reports on the investment portfolio and cash position will be developed and presented to the Financial Advisory Board and the City Council in conformity with the California Government Code.

6.4.3. Funds will be managed in a prudent and diligent manner with emphasis on safety of principal, liquidity, and yield, in that order.

6.4.4. The quarterly report shall include a statement in compliance with government code 53646.

7. CAPITAL IMPROVEMENT PROJECT POLICIES

7.1. A Ten-year Capital Improvement Plan will be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction which result in a capitalized asset and have a useful (depreciable) life of two years or more.

7.2. Each Capital Improvement Project will identify, where applicable, current operating maintenance costs and funding streams available to repair and/or replace deteriorating infrastructure and to avoid significant unfunded liabilities.

7.3. The City will develop and implement a post-implementation evaluation of its infrastructures condition on a specified periodic basis, estimating the remaining useful life, and projecting replacement costs.

7.4. The City shall actively pursue outside funding sources for all Capital Improvement Projects. Outside funding sources, such as grants, shall be used to finance only those Capital Improvement Projects that are consistent with the Ten-year Capital Improvement Plan and/or local governmental priorities, and whose operating and maintenance costs will be included in future operating budget forecasts.

7.5. Capital improvement lifecycle costs will be coordinated with the development of the Operating Budget. Future operating, maintenance and replacement costs associated with new capital improvements will be forecasted, matched to available revenue sources, and included in the Operating Budget. Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.

7.6. The City must carefully seek and analyze the appropriate type of financing instrument appropriate for financing capital projects. Several options may be available – general obligation debt, fee-supported debt, fund reserves, tax increment, etc. All debt financing mechanisms shall be carefully considered and analyzed for fiscal benefit and cost effectiveness. Long-term borrowing shall be restricted to projects too large to be financed from current revenues (pay-as-you-go). Where possible, special assessment, revenue or other self-supporting bonds shall be used in lieu of general obligation bonds.

8. DEBT MANAGEMENT POLICIES

8.1. **Issuance of Debt:**

8.1.1. The City will not use long-term debt to pay for on-going operations. The use of bonds, certificates of participation or capital leases will only be considered for significant capital and infrastructure improvements.

8.1.2. New debt issues, and refinancing of existing debt, must be analyzed for compatibility within the City's overall financial planning within the Ten-Year Financial Plan. The review shall include, but not be limited to, cash flow analysis and the maintenance of the City's bond rating. Annual debt service shall not produce an adverse impact upon future operations.

8.1.3. Debt financing should not exceed the useful life of the infrastructure improvement with the average (weighted) bond maturities at or below twenty years.

8.1.4. Total debt will not exceed two percent (2%) of the total assessed value of property in the City and General Fund Debt Service will not exceed 5% of operational appropriations.

8.2. **Credit Rating:**

8.2.1. It is the City's goal to acquire an AAA/Aaa credit rating from all three major rating agencies in order to minimize costs and preserve access to credit.

8.2.2. The City may pay the bond insurance which is considered as part of the rating, however, the rating agency will evaluate the structure of the bond to validate the bond rating. To support this policy, the City will continue to maintain its position of full financial disclosure and proactive fiscal planning.

9. EQUIPMENT REPLACEMENT FUND

9.1. The City may maintain a dedicated fund to provide for replacement of vehicles and certain equipment. Unreserved fund balance will be available for transfer to the General Fund only in the event of a fiscal emergency as described in Section 3.4.

10. ENTERPRISE FUNDS

10.1. All Enterprise Funds user fees will be examined annually to ensure that they recover all direct and indirect costs of service, provide for

10.2. capital improvements and maintenance, and maintain adequate reserves.

10.3. Rate increases shall be approved by the City Council following formal noticing and a public hearing. Rate adjustments will be based on the projected expenditures in the Ten-Year Financial plan.

Town of Atherton
Fund Balance Policy for the General Fund
Exhibit A

Purpose

To help the Town of Atherton provide quick response to weather economic uncertainty, unexpected situations such as natural disasters, provide sufficient cash flow to avoid the need for short-term borrowing. The policy establishes the appropriate level of reserves which the Town will strive to maintain in its General Fund balance; how the target fund balances will be funded; and the conditions under which fund balances can be used.

For purposes of this Policy, the definition of "reserves" is limited to the portion of fund balance that is *unreserved*. Unreserved is to mean not set aside for existing legal obligations of the Town.

1. Amounts Held in Reserve

The Town will strive to hold the amounts listed below in General Fund balance, expressed as a percentage of the Town's annual operating expenditures of the General Fund. These amounts are expressed as goal ranges to recognize that fund balance levels can fluctuate from year to year due to the normal course of Town government operations.

- 15-20% - Budget Stabilization Reserve for economic uncertainty, possible State borrowing of Town's fund, known or anticipated future obligations.
- 15-20% - Emergency Disaster Reserve for unforeseen events such as natural disasters, catastrophic accidents.
- 5-10% - Working Capital to provide sufficient cash flow.

2. Funding Target Fund Balance

Funding of General Fund balance targets will generally come from excess revenues over expenditures or one-time revenues. The reserves will be funded in the following priority order:

- Budget Stabilization
- Emergency Disaster

- Working Capital
- Self-insurance Reserve
- GASB 45 unfunded post-employment benefits other than pensions (retiree health-care)
- Capital improvement projects

3. Conditions for Use of Reserves

The use of reserves shall be limited to unanticipated, non-recurring needs, or anticipated future obligations. Fund balances shall not be used for normal or recurring annual operating expenditures.

The City Manager is authorized to make recommendations to the City Council for use of reserves. A majority vote of the City Council will be required to use reserves. Any recommendation shall be accompanied by a proposal for the replenishment of the reserves to the City Council.

In no circumstances shall the total General Fund reserve balance drop below 15% of the Town's annual operating expenditures for the General Fund.

Fremont

Pension and Post-employment Benefits

The City provides pension and medical benefits for its public safety and non-safety employees through two contracts with CalPERS. The contracts include benefit levels negotiated by the City with its employee units and for which it has executed contract amendments. The plans also include some benefit levels approved by the State Legislature without contract amendment and funding mechanisms approved by the CalPERS Board of Administration. The City also provides post-retirement benefits in the form of limited contributions toward health insurance costs for certain retirees based on the provisions of labor agreements in effect at the date of the employees' retirement.

Reserve or Stabilization Accounts

Reserves accumulated during years when revenues exceeded expenditures cushion the City's transition to a lower revenue base and allow the City to adjust spending in response to economic downturns and State revenue takeaways. The General Fund maintains three reserves: the Contingency Reserve, the Program Investment Reserve, and the Budget Uncertainty Reserve. The City also maintains reserves for fee-based cost center operations and certain other special revenue funds, including the following:

- Development Cost Center Contingency Reserve
- Development Cost Center Technology and System Improvement Reserve
- Integrated Waste Management Disposal Differential Reserve
- Integrated Waste Management Post-Disaster Debris Removal Reserve
- Urban Runoff Clean Water Program Contingency Reserve
- Recreation Cost Center Contingency Reserve
- Recreation Cost Center Operating Improvement Reserve

General Fund Contingency Reserve

Contingency Reserve funds help mitigate the effects of unanticipated situations such as natural disasters and severe, unforeseen events. The Contingency Reserve also serves as back-up liquidity to the Risk Management Fund if this need were to arise. The Contingency Reserve was previous funded at a level at least equal to 12.5% of annual operating expenditures and transfers out. For FY 2009/10, this level will drop to 10% and the difference will be transferred to the Budget Uncertainty Reserve. All uses of the Contingency Reserve must be approved by the City Council. Any such uses are to be repaid to the Contingency Reserve over a period of no more than three years. (Adopted by the City Council on June 9, 2009)

12.5% target

20

General Fund Program Investment Reserve

The Program Investment Reserve provides a source of working capital for the following:

a. New programs or undertakings that have the potential for receiving significant funding from outside sources.

b. Organization retooling, process improvement, and strategic entrepreneurial opportunities.

The Program Investment Reserve is funded at a level at least equal to 2.5% of annual operating expenditures and transfers out. All uses of the Program Investment Reserve must be approved by the City Council. Any such uses are to be repaid to the Program Investment Reserve over a period to be determined by the City Council at the time of usage approval, with a target repayment period of no more than three years. (Adopted by the City Council on June 4, 1996)

General Fund Budget Uncertainty Reserve

The General Fund Budget Uncertainty Reserve is targeted to offset quantifiable revenue uncertainty in the multi-year forecast. The long-term funding level for this reserve is determined by measuring the level of financial risk associated with the following three areas of uncertainty:

1. Revenue risks: Revenues falling short of budget projections may cause shortfalls. Transitional funding is also necessary to respond to reductions in major revenues due to local, regional, and national economic downturns (estimated to take one to three years).

2. State budget risks: There is a strong possibility that the State may implement budget solutions that legislatively reallocate intergovernmental revenues from local jurisdictions to the State (in the absence of guarantees or constitutional protection of these revenues). These include property taxes, sales taxes, vehicle license fees, gas taxes, grants, and reimbursements.

3. Uncontrollable costs: The City requires a source of supplemental funding for further increases in CalPERS retirement rates that result from CalPERS investment performance that falls short of actuarial assumptions. In addition, there may be other cost increases that are beyond the City's control (e.g., various fuel and utility charges).

All uses of this reserve must be approved by the City Council. If the risk factors described above are eliminated as a result of new revenue sources, legislation, or major changes in economic conditions, the basis for the reserve will be reviewed and the funding level may be adjusted accordingly. In the event the reserve has accumulated funding beyond the established level reasonably required to offset the risks above, excess funds will be designated for capital projects, budgeted for service enhancement, or returned to the General Fund available fund balance. (Adopted by the City Council on June 4, 2002, and modified on June 10, 2003)

21

KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

Date: February 1, 2016

TO: KPPCSD Finance Committee members

FROM: Kevin E. Hart, Interim General Manager

Subject: **Item 6-Review of Actuarial Study for Health Liabilities**

Adam Benson will present his review and analysis of the Actuarial Study for Retiree Health Liabilities as of July 1, 2015.

After discussion and review, the committee may consider recommending increasing the amount of the Annual Required Contributions (ARC) District contributions.

General Manager Recommendation: Take public comment, deliberate, and possibly recommend that the Board of Directors give direction to increase the Annual Required Contribution during the development of the FY16/17 fiscal budget.

Kevin E. Hart
Interim General Manager

Renne Sloan Holtzman Sakai
Public Law Group™
350 Sansome Street, Suite 300
San Francisco, CA 94104
t: 415.678.3800
f: 415.678.3838

Memorandum

To: Len Welsh, President, Board of Directors
Kensington Police Protection & Community Services District

From: Adam Benson, Senior Consultant
Public Management Group

Date: January 28, 2016

Re: Review of Actuarial Study for Retiree Health Liabilities as of July 1, 2015

You asked that I review key assumptions in the July 1, 2015 Retiree Health Actuarial Study and outline alternative options for the Board's consideration, including the potential financial impact of such alternatives.[1] This memorandum responds to that request.

This analysis is not intended to replace the current actuarial study, which satisfies the requirements of the Governmental Accounting Standards Board ("GASB") for the accounting and financial reporting of Other Post-Employment Benefits ("OPEB") and conforms to actuarial standards. Rather, this memorandum seeks to identify key assumptions that drive the District's Annual Required Contributions ("ARC") and provide an order-of-magnitude estimate of the costs associated with using alternative assumptions, should the Board decide to pursue a course of action that accelerates pay-down of the unfunded liabilities.

It is important to note that nothing prohibits an employer from contributing more than the ARC, regardless of the assumptions being used. The decision to do so is a matter of policy and should be made in the context of financial forecasts, cash flow, current reserve levels, other unmet needs, and existing plan assets. Because the District's resources are limited – like all public agencies in California – the Board must balance pre-funding retiree medical benefits against all other competing priorities.

All actuarial valuations – whether for pensions or OPEB – are based on estimates of future results at a particular point in time and include both economic and non-economic assumptions. Economic assumptions include items such as general inflation, investment return rate (or discount rate), medical inflation, and payroll growth. Non-economic assumptions include mortality rates,

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[1] The Public Management Group provides human resources, labor relations, employee benefit, and financial consulting services to public agencies in California. We are not an actuary, nor do we provide actuarial services. The analysis presented herein provides order-of-magnitude estimates to help the Board make informed financial decisions. The District should consult with an actuary prior to implementation of any specific actions.

retirement rates, and plan participation. Collectively, all of these assumptions allow the actuary to project the ARC.

The ARC consists of two main components: 1) the normal cost and 2) the amortization of the unfunded actuarial accrued liability ("UAAL"). The normal cost reflects the value of the benefits earned by active employees over the term of the measurement period. The UAAL is the difference between the plan's actuarial value of assets ("AVA") and the actuarial accrued liabilities ("AAL"). In simplified terms, the UAAL is the difference between the assets set aside in trust relative to the cost of providing the benefit. The UAAL is then amortized over an average working career, typically anywhere from 20-30 years. In many jurisdictions, the ARC will be reflected as a percentage of payroll.

In the case of Kensington, the ARC is $173,677, of which $53,559 is attributed as normal cost and $120,118 is the amortization of the UAAL (for simplicity I have combined the initial and residual UAAL). In arriving at these figures, the District's actuary uses the following key economic assumptions (which can be found in more detail on pages 15-19 of the Actuarial Study):

	Current Assumption
Inflation	2.75%
Discount Rate	7.00%
Medical Trend Rate	4.00%
Payroll Growth	2.75%
Actuarial Value of Asset	5-Year Smoothing (20% MV Corridor)

A change to any of these assumptions can change the ARC, either positively or negatively. Two of these assumptions in particular have been raised by the Finance Committee as potential areas for further review, including the Discount Rate and the Medical Trend Rate:

- The Discount Rate (or investment return rate) assumption is currently 7.0% per year. This reflects the assumed long-term rate of return on plan assets. This assumption is consistent with the long-term expectations for CERBT Strategy 1 based on the asset allocation of the portfolio. Further, the 7.0% discount rate is similar to what other public employers with similar funding levels are using currently. Nonetheless, the overall trend is downward with many plans reducing their return assumptions in line with broader market performance. On the pension side, for example, CalPERS recently enacted reforms that are expected to reduce its discount rate from 7.5% to 6.5% over a long-term period (keep in mind that CalPERS pension and health are separate trusts).

- The Medical Trend Rate assumption is currently 4.0% per year. This reflects the assumed growth rate in medical premiums year-over-year. Over the last 10 years, measured from

2006 through 2016, Kaiser Bay Area premiums for single coverage have a compound annual growth rate of 7.5%, well above the assumption being used. In more recent years, however, Kaiser Bay Area premium growth has been consistent with the assumption (single premiums decreased by -3.8% in 2015 and increased 4.5% in 2016). Many actuaries use a more conservative medical trend rate. At least in the short-term, I have seen medical trend rates anywhere from 7.0% to 10.0% per year, ramping down to a 4.0% to 5.0% range after 5 to 10 years. Such an approach balances the current realities in the healthcare marketplace against prolonged premium growth rates that are unsustainable from a macroeconomic perspective.

A third issue not raised by the Finance Committee, but that could have a significant impact on the District's retiree health liabilities, is known as the Implicit Subsidy. In general, younger individuals (i.e., active workers) tend to have lower healthcare costs, while older employees and retirees have higher healthcare costs due to greater utilization. When the experience of active employees and retirees in a health plan are combined to develop a single premium (such as PEMHCA), there is said to be an Implicit Subsidy. In other words, the actual premiums being charged to active employees are greater than their actual claims cost. Retirees, on the other hand, are being charged less than their actual claims cost.

In most cases, Actuarial Standard of Practice (ASOP) 6 requires actuaries to include the cost of the Implicit Subsidy in the valuation. The District's actuary discusses ASOP 6 at length in the actuarial valuation and provides rationale for excluding the Implicit Subsidy in the valuation, which is permitted under limited circumstances. However, there is some disagreement among actuaries on whether this exception can and should be invoked in the case of PEMHCA. If the District were to include the cost of the implicit subsidy in its actuarial valuation, its OPEB costs would be substantially higher.

Further, actuaries are generally required to incorporate improvements in life expectancy in valuations (commonly referred to as "longevity" or "mortality"). The current valuation does not provide a rationale for the selected mortality rates. If the District were to incorporate longevity improvements (and the results of the most recent CalPERS mortality study), the ARC would be significantly higher.

Without recommending specific modifications to these actuarial assumptions and after consulting generally with an actuary, I developed a range of potential costs if the District were to make changes. All figures should be considered estimates and the District should consult with its actuary prior to making modifications to the assumptions in the future. For purposes of this analysis, the impact of modifying the Discount Rate was excluded.

Current Annual Required Contribution		$173,677
Potential Modifications	Low	High
Reduce Discount Rate	--	--
Mortality Improvements	$15,500	$21,000
Increase Medical Trend Rate	$12,000	$16,500
Include Implicit Subsidy	$17,500	$27,000
Sub-Total	*$45,000*	*$64,500*
Additional Costs (%)	*26%*	*37%*
Modified Annual Required Contribution	$218,677	$238,177

As shown above, the District could expect to pay anywhere from $45,000 to $64,500 above the current ARC if modifications to the actuarial assumptions were implemented. The magnitude of additional costs is dependent on the degree to which each assumption is changed, with more drastic increases resulting in substantially higher costs and minor modifications less so. Such accelerated pay-down, however, comes with its own set of risks – including the potential for market losses – that the Board should consider.

The District's FY2015-16 Adopted Budget reflects a total retiree health care expenditure of $199,136 (sum of Budget Code 521R and 521T), which includes both pay-as-you-go costs and the District's expected contribution to the OPEB Trust. From a budget perspective, the District would need to set aside an additional $19,541 to $39,041 above the current budgeted level to begin to address these potential modifications to the actuarial assumptions. Regardless, the Board should consider incorporating these assumptions in the District's next OPEB actuarial valuation.

Again, nothing prohibits an employer from contributing more than the ARC. Such action would accelerate pay-down of the unfunded OPEB liabilities, but it is not required. While the existing actuarial valuation report satisfies the District's obligations under GASB, in the future, the District may wish to make modifications to reflect its assessment of market conditions, medical inflation, and other assumptions being used. If the District were to have available resources to put toward unfunded retiree health liabilities, an amount in the range presented would be reasonable.

cc: Kevin Hart, Interim General Manager/Chief of Police
Charles Toombs, Director

KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

Date: February 1, 2016

TO: KPPCSD Finance Committee members

FROM: Kevin E. Hart, Interim General Manager

Subject: **Item 7-Review of the cost to extend the IGM/COP contract for 3 months**

Adam Benson will discuss his review of the cost of extending the General Manager/Chief of Police contract by 3 months from a "total compensation" perspective.

As shown in the attached analysis, the total cost of the 3-month contract extension is $50,197, ($16,732 per month). From a budgetary perspective, the 3-month contract extension does not reflect any "new" costs to the District as the FY2015-16 Adopted Budget assumes the GM/COP position would be filled for the full fiscal year.

General Manager Recommendation: Take public comment, deliberate, and possibly recommend the Board of Directors take action.

Kevin E. Hart
Interim General Manager

Full Year 2016

	GM/COP HART	Description
Annual Salary	$145,000	Annual Base Wage
Active Health Benefits	$17,915	Annual Active Medical Premium (2-Party, Kaiser Bay Area)
Retiree Health Benefits	$0	Not applicable
District's Pension Cost	$26,860	18.5% normal cost in FY2015-16
Distrct's Share of EPMC	$8,700	6% EPMC
Life Insurance/Disability	$794	Budget estimate
Uniforms	$800	Budget estimate
Cell Phone Allowance	$720	Budget estimate
	$200,789	

$200,789	<= Full Year Total Compensation
$16,732	<= Monthly Total Compensation
$50,197	<= Cost of 3-Month Extension

Date: February 1, 2016

TO: KPPCSD Finance Committee members

FROM: Kevin E. Hart, Interim General Manager

Subject: **Item 8-Review of the billings statements for legal and consulting services**

Legal and consulting services to the District are provided by Renne Sloan Holtzman Sakai, LLP.

The FY 15/16 approved budget for these services is $99,530 for legal services and $15,000 for consulting, for a combined total of $114,530.00.

The services provided are broken down into four categories.

1. Consulting
2. KPOA Negotiations
3. Labor Advise
4. General Counsel

Based on the mid-year projections, along with actual expenditures, I believe that we are in jeopardy of exceeding our budgeted amount for the fiscal year.

I summit the attached billing statements and ask the Finance Committee to review and possibly provide direction for the Board to consider.

General Manager Recommendation: Take public comment, deliberate, and possibly recommend the Board of Directors take action.

Kevin E. Hart

Kevin E. Hart
Interim General Manager

Selection Criteria

Clie.Classification	Open
Clie.Selection	Include: KENSINGTON/15 Consulting; KENSINGTON/15 KPOA Negs; KENSINGTON/15 Labor Advice; KENSINGTON/15 MOU Analysis; KENSINGTON/15 Mediation; KENSINGTON/General; KENSINGTON/General Counsel-FF
A/R.Transaction Date	7/31/2015 - 12/31/2015

ID	Date	Invoice #		Fees	Costs	Interest	Total
Client: KENSINGTON/15 Consulting							
34219	8/31/2015	28980	Billed:	$1,332.50	$12.23	$0.00	$1,344.73
KENSINGTON/15 Consulting			Paid/Adj.:	$1,332.50	$12.23	$0.00	$1,344.73
2910/006			Due:	$0.00	$0.00	$0.00	$0.00
36223	12/31/2015	30000	Billed:	$3,362.00	$0.00	$0.00	$3,362.00
KENSINGTON/15 Consulting			Paid/Adj.:	$0.00	$0.00	$0.00	$0.00
2910/006			Due:	$3,362.00	$0.00	$0.00	$3,362.00
35700	11/30/2015	29711	Billed:	$1,701.50	$0.00	$0.00	$1,701.50
KENSINGTON/15 Consulting			Paid/Adj.:	$1,701.50	$0.00	$0.00	$1,701.50
2910/006			Due:	$0.00	$0.00	$0.00	$0.00
35167	10/31/2015	29466	Billed:	$1,332.50	$600.00	$0.00	$1,932.50
KENSINGTON/15 Consulting			Paid/Adj.:	$1,332.50	$600.00	$0.00	$1,932.50
2910/006			Due:	$0.00	$0.00	$0.00	$0.00
34926	9/30/2015	29337	Billed:	$840.50	$0.00	$0.00	$840.50
KENSINGTON/15 Consulting			Paid/Adj.:	$840.50	$0.00	$0.00	$840.50
2910/006			Due:	$0.00	$0.00	$0.00	$0.00
33829	7/31/2015	28758	Billed:	$3,669.50	$5,692.81	$0.00	$9,362.31
KENSINGTON/15 Consulting			Paid/Adj.:	$3,669.50	$5,692.81	$0.00	$9,362.31
2910/006			Due:	$0.00	$0.00	$0.00	$0.00
Total: KENSINGTON/15 Consulting			Billed:	$12,238.50	$6,305.04	$0.00	$18,543.54
			Paid/Adj.:	$8,876.50	$6,305.04	$0.00	$15,181.54
			Due:	$3,362.00	$0.00	$0.00	$3,362.00

ID	Date	Invoice #		Fees	Costs	Interest	Total
Client: KENSINGTON/15 KPOA Negs							
34220	8/31/2015	28981	Billed:	$678.50	$0.00	$0.00	$678.50
KENSINGTON/15 KPOA Negs			Paid/Adj.:	$678.50	$0.00	$0.00	$678.50
2910/007			Due:	$0.00	$0.00	$0.00	$0.00
34667	9/30/2015	29189	Billed:	$324.50	$0.00	$0.00	$324.50
KENSINGTON/15 KPOA Negs			Paid/Adj.:	$324.50	$0.00	$0.00	$324.50
2910/007			Due:	$0.00	$0.00	$0.00	$0.00
35172	10/31/2015	29467	Billed:	$826.00	$0.00	$0.00	$826.00
KENSINGTON/15 KPOA Negs			Paid/Adj.:	$826.00	$0.00	$0.00	$826.00
2910/007			Due:	$0.00	$0.00	$0.00	$0.00
33830	7/31/2015	28759	Billed:	$3,953.00	$0.00	$0.00	$3,953.00
KENSINGTON/15 KPOA Negs			Paid/Adj.:	$3,953.00	$0.00	$0.00	$3,953.00
2910/007			Due:	$0.00	$0.00	$0.00	$0.00
36228	12/31/2015	30001	Billed:	$147.50	$0.00	$0.00	$147.50
KENSINGTON/15 KPOA Negs			Paid/Adj.:	$0.00	$0.00	$0.00	$0.00
2910/007			Due:	$147.50	$0.00	$0.00	$147.50
Total: KENSINGTON/15 KPOA Negs			Billed:	$5,929.50	$0.00	$0.00	$5,929.50
			Paid/Adj.:	$5,782.00	$0.00	$0.00	$5,782.00
			Due:	$147.50	$0.00	$0.00	$147.50

ID	Date	Invoice #		Fees	Costs	Interest	Total
Client: KENSINGTON/15 Labor Advice							
34217	8/31/2015	28982	Billed:	$3,392.50	$0.00	$0.00	$3,392.50
KENSINGTON/15 Labor Advice			Paid/Adj.:	$3,392.50	$0.00	$0.00	$3,392.50
2910/003			Due:	$0.00	$0.00	$0.00	$0.00
35163	10/31/2015	29468	Billed:	$2,104.50	$3.78	$0.00	$2,108.28
KENSINGTON/15 Labor Advice			Paid/Adj.:	$2,104.50	$3.78	$0.00	$2,108.28
2910/003			Due:	$0.00	$0.00	$0.00	$0.00
35698	11/30/2015	29712	Billed:	$1,677.50	$0.00	$0.00	$1,677.50
KENSINGTON/15 Labor Advice			Paid/Adj.:	$1,677.50	$0.00	$0.00	$1,677.50
2910/003			Due:	$0.00	$0.00	$0.00	$0.00
33832	7/31/2015	28764	Billed:	$4,661.00	$0.00	$0.00	$4,661.00
KENSINGTON/15 Labor Advice			Paid/Adj.:	$4,661.00	$0.00	$0.00	$4,661.00
2910/003			Due:	$0.00	$0.00	$0.00	$0.00
36220	12/31/2015	30002	Billed:	$1,159.50	$0.00	$0.00	$1,159.50
KENSINGTON/15 Labor Advice			Paid/Adj.:	$0.00	$0.00	$0.00	$0.00
2910/003			Due:	$1,159.50	$0.00	$0.00	$1,159.50
Total: KENSINGTON/15 Labor Advice			Billed:	$12,995.00	$3.78	$0.00	$12,998.78
			Paid/Adj.:	$11,835.50	$3.78	$0.00	$11,839.28
			Due:	$1,159.50	$0.00	$0.00	$1,159.50

32

ID	Date	Invoice #		Fees	Costs	Interest	Total
Client: KENSINGTON/General Counsel-FF							
34218	8/31/2015	28983	Billed:	$7,389.50	$12.94	$0.00	$7,402.44
KENSINGTON/General Counsel-FF			Paid/Adj.:	$7,389.50	$12.94	$0.00	$7,402.44
2910/004			Due:	$0.00	$0.00	$0.00	$0.00
34673	9/30/2015	29202	Billed:	$10,369.00	$0.00	$0.00	$10,369.00
KENSINGTON/General Counsel-FF			Paid/Adj.:	$10,369.00	$0.00	$0.00	$10,369.00
2910/004			Due:	$0.00	$0.00	$0.00	$0.00
35122	10/31/2015	29452	Billed:	$9,425.00	$2,930.58	$0.00	$12,355.58
KENSINGTON/General Counsel-FF			Paid/Adj.:	$9,425.00	$2,930.58	$0.00	$12,355.58
2910/004			Due:	$0.00	$0.00	$0.00	$0.00
33833	7/31/2015	28766	Billed:	$6,563.50	$0.00	$0.00	$6,563.50
KENSINGTON/General Counsel-FF			Paid/Adj.:	$6,563.50	$0.00	$0.00	$6,563.50
2910/004			Due:	$0.00	$0.00	$0.00	$0.00
35699	11/30/2015	29713	Billed:	$5,000.00	$35.64	$0.00	$5,035.64
KENSINGTON/General Counsel-FF			Paid/Adj.:	$5,000.00	$35.64	$0.00	$5,035.64
2910/004			Due:	$0.00	$0.00	$0.00	$0.00
36222	12/31/2015	30003	Billed:	$14,115.50	$600.38	$0.00	$14,715.88
KENSINGTON/General Counsel-FF			Paid/Adj.:	$0.00	$0.00	$0.00	$0.00
2910/004			Due:	$14,115.50	$600.38	$0.00	$14,715.88
Total: KENSINGTON/General Counsel-FF			Billed:	$52,862.50	$3,579.54	$0.00	$56,442.04
			Paid/Adj.:	$38,747.00	$2,979.16	$0.00	$41,726.16
			Due:	$14,115.50	$600.38	$0.00	$14,715.88
Grand Total			Billed:	$84,025.50	$9,888.36	$0.00	$93,913.86
			Paid/Adj.:	$65,241.00	$9,287.98	$0.00	$74,528.98
			Due:	$18,784.50	$600.38	$0.00	$19,384.88