

# KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

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## AGENDA

A meeting of the Finance Committee of the Kensington Police Protection and Community Services District will be held **Wednesday June 15, 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 issues 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 Meeting of May 4, 2016. Page 2
4. The Committee will receive a report from the General Manager and consider recommending approval to the Board of Directors a contract with Lamorena & Chang to perform independent auditing services for the District. P-17
5. The Committee will review and discuss a proposal to develop a Budget Reserve Policy for the District. Informational Item. P- 23
6. The Committee will review and discuss a proposal, presented by Committee member Rob Firmin, to include forecasting of scenarios and uncertainties, using leading software and other methods, as an integral part of District budgeting and financial analysis. The Committee may take action to recommend to the Board of Directors to use this model in the future.

## ADJOURNMENT

### 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 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](http://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.

## KPPCSD Finance Committee Meeting Minutes for 5/4/16

A Special Meeting of the Finance Committee of the Kensington Police Protection and Community Services District was held Wednesday, May 4, 2016, at 6:00 P.M., at the Community Center, 59 Arlington Avenue, Main Room, Kensington, California.

### ATTENDEES

<u>Committee Members</u>	<u>Speakers/Presenters</u>
Len Welsh, President	Deborah Russell, CPA
Chuck Toombs, Director	Bharat Trehan
Paul Haxo	A. Stevens Delk
Derek Suring	David Spath
Karl Kruger	
Jim Watt	
Paula Black	
Simon Brafman	
Elena Caruthers	
Rob Firmin	
Linda Lipscomb	
Pat McLaughlin	
<u>Staff Members</u>	
Kevin Hart, Interim General Manager/Chief of Police (IGM/COP)	
Lynn Wolter, District Administrator	
<u>Press</u>	

President Len Welsh called the meeting to order at 6:03 PM and took roll call. President Len Welsh, Director Chuck Toombs, Derek Suring, Karl Kruger, Paul Haxo, Simon Brafman, Jim Watt, Paula Black, Rob Firmin, Elena Caruthers, Pat McLaughlin, Linda Lipscomb, IGM/COP Hart, and District Administrator Wolter were present. Paul Dorroh and Gloria Morrison were absent.

President Welsh apologized for the short notice given for the meeting that had been initially scheduled for the prior week and for any confusion that had arisen by rescheduling the meeting for this night.

President Welsh said he wanted to begin with comments about a misunderstanding with respect to two items in the budget: license plate readers (ALPRs) and body cameras, in Accounts 965 and 966. He said these appeared in the budget just to note that there was a good chance that the Board would get to them as agenda items in fiscal year 2016-17. He said there would be no decision to purchase them until there had been a thorough discussion. He said he understood that some people had civil rights concerns and concerns about police having the capacity to use both these tools. He said there needed to be both a policy and a fiscal discussion about these items and noted that the fiscal impact would be about \$100,000 for both

devices. He said most police agencies were moving toward using these devices and that Kensington was surrounded by agencies, most of which had adopted these. He said that, as the Committee moved toward taking a vote on whether to recommend the budget to the Board, if Committee members thought the items should be removed from the budget, they would be removed. He said he had accomplished the task of letting the community know that the Board likely would be discussing the items within the coming year.

President Welsh also said he wanted to address the press release IGM/COP Hart had put out a few weeks earlier about a police policy regarding ALPRs. He said the policy had been introduced not because the District was purchasing or using ALPRs: Rather, it was because the Kensington Police Department had access to it – Richmond already had ALPRs; and, under certain circumstances, Kensington could access this information. He noted that AB935 had taken effect on January 1<sup>st</sup> of this year and that this bill had done two things:

- If an agency adopted this technology and utilized it directly, then the agency must develop a police policy and procedure for it, and the agency must do so with community input.
- Another part of the bill referred to Kensington's situation, which is that the agency doesn't have the device, but it does have access to information generated by devices in Richmond. Thus, Kensington is required to have a policy about how it would use that information, if at all.

President Welsh noted that Kensington's policy dealt with the aspects associated with the second point. He said some people had complained about the policy because there hadn't been public comment on it. He explained that the reason this had been done was because the bill had taken effect on January 1<sup>st</sup> and that the District had not been aware of the second provision contained in the bill until there had been a closer reading of it. He said that, the District would have been subject to sanction if it hadn't had a policy that defined how it would use the information to which it could have access. He concluded by saying that IGM/COP Hart had developed this policy to avoid possible liability and by saying the policy could be amended.

#### **COMMITTEE MEMBER COMMENTS**

Paula Black said she wanted Agenda Item 6 to precede Agenda Item 5 because the reserve policy recommendation, which had been developed by the Reserve Policy Subcommittee, could have an impact on the budget. President Welsh responded that he thought that, at this meeting, the Finance Committee would only be hearing and having discussions about suggestions that had been developed by the Subcommittee. Director Toombs said that, in the interest of disclosure, he had sent a copy of what the Subcommittee had developed to Adam Benson and that Mr. Benson had provided some comments.

Director Toombs asked if there had been a line for reserves in the proposed budget. President Welsh responded that there was a calculation for this and that the amount in the proposed budget was \$1.7 million.

#### **PUBLIC COMMENTS**

A. Stevens Delk said she wouldn't be able to stay for the meeting but she wanted to comment on ALPRs. She said she had looked at the 3M brochure, which IGM/COP Hart had placed in the Board's April Board Packet. She noted that most of the advertised applications for the devices were for fixed-position cameras, which would be great for traffic problems, toll booths, parking management, HOV lane violations, and for surveillance for a community's entry and exit streets. She said that they could also have applications for stolen vehicles, wanted criminals, Amber Alerts and BOLOs (be on the lookout). She said hers was a voice of dissent because she thought \$54,000 was a lot for enhanced BOLO patrol.

President Welsh said he would reverse the order of Items 5 and 6. IGM/COP Hart clarified that the discussion would be about a recommendation not about approving a policy.

President Welsh addressed Bharat Trehan about concerns Mr. Trehan had expressed the previous day about ALPRs. He reiterated that their cost had been included in the budget only as a placeholder until the Board

went to and received input from the community - likely later in the year. Mr. Trehan said he wanted to make sure that people were aware of what the ACLU's position was. Deborah Russell responded that this was the IGM/COP's budget and that he brought it to the Finance Committee; therefore, it should reflect what he thought was needed. She said that, then, the Finance Committee could make recommendations to the Board. She said that placing body cameras and ALPRs in the budget didn't violate any policy or overstep. President Welsh added that the Finance Committee would decide whether or not to recommend including these two items.

Mabry Benson said that she had concerns that, if the items appeared in the budget, it would convey that it would be okay to spend the money. She added that, if the items were to remain in the budget, they should be footnoted. Linda Lipscomb responded that the Committee would only be making recommendations. It was the Board that would adopt the budget.

David Spath said that, if there was any possibility that body cameras and ALPRs might be implemented, they should be in the budget and that the Board would be making the decision.

Director Toombs said he had been surprised to have seen this as a line item without there having been any prior discussion. He clarified that the Board had not adopted these and that, therefore, there should not be any associated number in the budget.

Paul Haxo raised a point of order and said the Committee should table this item and get back to the agenda.

#### APPROVAL OF MINUTES

Linda Lipscomb said she had a correction for page 6. She said that the word "proscribed" should be "prescribed."

**MOTION: Karl Kruger moved, and Paula Black seconded, that the minutes of April 16, 2016 be approved, as amended.  
Motion passed unanimously.**

#### NEW BUSINESS

The Committee received a report regarding the draft Independent Auditor's Financial Report for the Fiscal Year Ended June 30, 2015. The Committee reviewed and considered voting to recommend the Kensington Police Protection and Community Services Board of Directors approve the report.

IGM/COP Hart thanked Deborah Russell for her work on the audit. He noted her many painstaking phone calls and emails to balance the numbers and to correct information, her trip to Sacramento to work with the auditors, and the complexity of working with this auditor. He noted that the auditor would attend the Board's May meeting to present the audit.

President Welsh noted that a lot of information had been posted on the website and that if, in the future, people wanted hard copies of Committee packets, they should let staff know.

Debbie Russell, CPA provided an executive summary of the audit. She said the good news and most important thing was that this was a clean audit. She said the most important change had been the adoption of a new GASB reporting requirement – GASB 68. She said that this had been incorporated into the financials and into the footnotes. She began with the MD&A (Management Discussion and Analysis) and asked if anyone had any questions. Director Toombs responded that he wanted to know where the District's net position had been reported. Ms. Russell reported it was shown on Page 3 and that the net position for

June 30, 2014 had been \$1,331,584 and for June 30, 2015 was (\$1,249,721). She explained that the difference was due to the new implementation of GASB 68, which required incorporating the deferred pension liability into the balance sheet. Ms. Russell noted that this newly incorporated amount was \$2.6 million, that the calculation was included on pages 8, 30 and 31 of the report, and that this affected the District's net position. She clarified that the liability had always existed but that this was the first year it had been incorporated into the financial reports. She said that the auditor would be able to answer specific questions Committee members had about GASB 68.

Ms. Russell said that, other than the new GASB information, other aspects of the reports looked familiar. She reported that the General Fund ended the year with a net \$143,000.

Director Toombs asked what the \$127,838 of Capital Project Committed Funds was. Ms. Russell responded this was the amount that had been set aside for automobiles. She explained that the money had been set aside many years ago for the purpose of replacing vehicles at the rate of one per year. Pat McLaughlin said the money had always been meant for the purchase of cars, as a rotating fleet. Ms. Russell discussed the other restricted funds, noting that there was a negative balance in the Bay View account because money had been spent out of that account during prior years to cover legal bills and that this amount would be reimbursed to the General Fund out of Bay View revenue during the current fiscal year.

Karl Kruger asked where the District was, with respect to vehicles. IGM/COP Hart responded that the number of vehicles had stayed the same but that one of the vehicles, which had 95,000 miles on it and wasn't safe to drive, had been retired and one new vehicle had been purchased, pursuant to the budget. IGM/COP Hart said he was evaluating the department's two motorcycles to determine whether it would be more cost effective to repair them or to replace one of them.

Mr. Kruger asked about the COPS funding, which had been used to pay for the tenth officer and whether the District would continue to receive it if there were fewer than ten officers. Ms. Russell said that the District had been receiving more than the \$100,000 grant minimum and that the District was not required to have a tenth officer to receive the funds. Director Toombs said that the Board had taken the position that the funds should be used for the additional tenth officer about seven years earlier but that this wasn't a requirement; the requirement was that funds had to be used for police-related expenses. Linda Lipscomb said that the COPS grant money comes from Vehicle Licensing Fees and that the District may not include COPS money in its budgets: It is booked only upon receipt. Ms. Russell and IGM/COP Hart said that the amount reported for the Fiscal Year Ended June 30, 2015 was \$130,000.

Paul Haxo asked that, on page 5, the term "New Park" be replaced with the phrase "The funds are restricted for maintenance of that part of the park purchased with the proceeds of the 1994 Limited Obligation Improvement Bonds." He noted this would be a terminology change to reflect the fact that this part of the park wasn't really new anymore.

Mr. Haxo asked that, on page 8, there be additional information provided about unrestricted funds. Ms. Russell responded that she would provide a footnote. He also suggested that, with respect to the lease commitment discussion on pages 23 and 24, it should be made clear that the District's rent was \$1.00 in the fiscal year ending 6/30/15 and that fiscal year 2016-17 would be the last year of this rent agreement.

With respect to the OPEB calculation, Mr. Haxo asked that the word "years" follow those numbers that corresponded with years and asked that Ms. Russell confirm that the number of years, 25 and 30, were correctly listed.

Ms. Russell noted that the Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual had appeared in the body of the audit in prior years and that the auditor had changed this to appear as a supplemental document at the end of the audit.

Ms. Russell said that KPPCSD didn't operate in a manner typical of government because it didn't rush to spend money before the end of the year. She said that, when the KPPCSD spent money, it spent with a purpose in mind, and she noted that there was a great deal of scrutiny.

Director Toombs said that, as shown on page 33, the District had ended the year with a surplus of \$142,988 and that this was \$411,684 better than had been budgeted. Ms. Russell responded that the actual surplus, which appeared on page 10, was \$143,257 and that this amount took Capital Projects into account.

Rob Firmin suggested that expenses shouldn't be aggregated, as they had been on page 9. He said these expenses should be shown with the same account numbers that appear in the District's budget. Ms. Russell responded that the District could probably order anything, that this was the auditor's document, and that her involvement was to ensure that the numbers were accurate. Ms. Lipscomb asked if this would be a supplemental document, noting that an auditor doesn't subscribe to each individual client's bookkeeping practices: Instead, he or she uses accounting standards. Ms. Russell said this information could be obtained from the District's bookkeeping system, and she could prepare such an income statement and balance sheet in about five minutes time. Mr. Firmin said this would be helpful for the modeling he would like done. Mr. Firmin asked in what format Ms. Russell received the audit. She responded that she received it as a PDF. Mr. Firmin said he would like to receive a copy of this as a searchable PDF. Ms. Russell and IGM/COP Hart responded that they would work to provide this.

Linda Lipscomb said that she hadn't seen anything that dealt with the effect of PEPRA because there had not been any PEPRA employees during the fiscal year ending June 30, 2015 but that the District would begin to see that in the fiscal year ending June 30, 2016. IGM/COP Hart confirmed this.

Jim Watt said there was different information about the District's unrestricted net position on different pages, and he asked for clarification. Ms. Russell responded that she appreciated the scrutiny provided by others said she would research why the amounts didn't match. Mr. Watt asked if it would be possible to get a detail of the \$240,000 legal expenses. President Welsh responded that the District had still been involved in the writ. Ms. Russell said that, with respect to the 2016-17 budget work she had been doing with IGM/COP Hart, she had been trying to get detail for the legal expenses. She said she had wanted to ascertain where the District had been over budget – was it management, was it Board members – but had learned that the Public Law Group didn't track information in this manner. Instead, she said PLG billed by cases or areas of work. She said she was continuing to work to obtain this information.

Linda Lipscomb said Ms. Russell had done a good job.

**MOTION: Paul Haxo moved, and Linda Lipscomb seconded, that the Finance Committee recommend that the Board accept the audit, as proposed to be amended.**

**Motion passed unanimously.**

The Committee received a report from the subcommittee on the development of a Budget Reserve Policy. The Committee considered whether to take action to vote on recommendations from the subcommittee to the Board of Directors.

Rob Firmin provided an overview. He reported the subcommittee had consisted of five people: Paula Black, Karl Kruger, Gloria Morrison, Jim Watt, and himself. He said the group had met twice and had exchanged a number of emails and, in so doing, had come to a consensus on what they would recommend. He said that the subcommittee had looked at other communities and that there had been a lot of variability among them. He said the group had developed a policy that would fit Kensington's particular circumstances. He said the recommendation was that the District maintain a contingency reserve for its operating expenditures of no less than \$500,000 or 16% of the total annual revenues each year, whichever was greater. He quoted the following proposed language: "The reserve may only be utilized in the event of a severe economic downturn or a natural disaster and only after all reasonable expenditure cuts have been implemented in order to meet that reserve policy." He said the Community Center was something about which the community had to do something. He said the recommended policy, with respect to that building, was that the District had a committed park buildings replacement reserve and that this would have a new

name of Community Center Upgrade. He said that the funds currently shown were \$206,977 and that these funds should be augmented by \$150,000 per year for each of the next two years and that the funds be restricted for use on the Community Center only. He recommended that there be another fund, a general capital building fund, and that the amount to be allocated would be based upon 4% of the annual revenues of the County Levy Tax. Jim Watt said that the 4% would equal about \$60,000.

Jim Watt said there were three things going on: a general reserve fund of \$500,000 or 16%; the Community Center; and potential future obligations for other buildings. Mr. Watt said, with respect to the Community Center, the Park Buildings Committee, on which he sits, had received a seismic report that indicated this work would cost approximately \$350,000 in hard costs plus approximately 25% in soft costs plus an amount for contingency. He said this would total approximately \$440,000. He said the Park Buildings Committee had also received an ADA report, which indicated that those costs would be approximately \$148,000 in hard costs plus 35% of soft costs. Thus, he said, this total would be approximately \$200,000. He said that the ADA and seismic work, combined, would total approximately \$640,000. He said the District currently had approximately \$200,000 designated for the Community Center plus \$158,000 of WW funds – noting that, after processing fees, this amount would be approximately \$150,000. He said the difference between this total and the amount needed for the ADA and seismic work would be a shortfall of approximately \$300,000. He said this was where the \$150,000 per year, for two years, had come from. Mr. Watt added that the Kensington Community Council (KCC) had previously indicated that it would contribute \$250,000. But, he said, there were strings attached to this, and the KCC had indicated that it would not pay for things for which it thought the District pay: Rather, it would pay for upgrades. Mr. Watt said that the seismic work did not cover changes to the west wall of the Community Center and that changing this wall, from cinder blocks to glass, would cost approximately \$100,000 in hard and soft costs, combined, according to architect Bart Jones. He said that the KCC would like to see the kitchen upgraded to be a commercial kitchen and that, according to architect Deborah Lane, this would cost \$100,000. He noted that some of the ADA work would occur in the kitchen. Mr. Watt said that the ADA and seismic estimates did not include the cost of any painting, improvement to the floor tiles, the lighting, or cosmetic improvements to the bathrooms.

Director Toombs asked Mr. Watt to confirm that the suggested \$150,000 per year, for two years, was meant to make up the \$300,000 shortfall. Mr. Watt confirmed this.

Mr. Watt said he wanted also to address the Community having its head in the sand, with respect to the costs of the Fire Station. He said there could be costs to the District associated with upgrades to the Fire Station. He said the Annex might be needed, on an interim basis, to house the Police Department during construction. He said that, when Muller Caulfield had done its study prior to Measure L, it had indicated that \$35,000 would be needed to take care of necessary repairs to the Annex in order to use it as an interim place while the Community Center was being rebuilt. He noted that this bare-bones work would have called for portable bathrooms. He said that, based on what he had heard at Fire District meeting, there could be a period of one or two years when the police department would have to move out of the Public Safety Building and that it might need to move into the Annex. President Welsh said that he had spoken with Mr. Dommer about the options that the Fire District Board was considering and that there would be some community forums to inform residents and to obtain feedback. President Welsh said that one option would be to demolish the building, buying an adjacent residential property and demolishing it, and then building a new building on the enlarged footprint. He said that this option would require the Fire District to take out a loan and would leave the KPPCSD without a home for about two years, or perhaps longer. He said that a new building would require new permits, and the cost of these was unknown. He said that another option was to make further seismic upgrades to the current building. He added that he had not heard concerns expressed about the foundation of the Community Center, along the lines of the concerns being expressed about the Public Safety Building. He noted that both buildings were close to the fault. Mr. Watt responded that the seismic engineer had looked at this, with respect to the Community Center. Mr. Watt said the difference between the Community Center and the Public Safety Building was that the Public Safety Building was an essential services building and, thus, needed to be brought up to a standard about 50% higher than the standard that would be sought for the Community Center. President Welsh asked for confirmation that the standard being sought for the Community Center was one that, following a serious earthquake, would enable people to escape but might not leave the building useable; whereas, the standards

sought for the Public Safety Building would have it remain useable. Ms. Russell noted that another issue for the Fire District was the weight of the fire engines and the impact of this on the ground beneath them. President Welsh noted that there had been significant seismic work done eight to ten years earlier but that hadn't been sufficient. Mr. Watt responded that most recent seismic standards were issued in 2013 and the last time the Public Safety Building had been touched had been several years prior to this. He added that, when the work had been done, only certain parts of the building had been addressed. He said the District should start setting money aside. He said the community had been going through several good years, with significant increases in levy tax revenue, and this would not continue forever; therefore, the District needed to set aside money. He noted that the unrestricted fund balance was close to \$1.3 million. Ms. Russell responded that the unrestricted fund balance was actually a negative \$1.3 million because of the new GASB liability. Ms. Russell said that, without the GASB liability, the District's total net position was \$2.59 million but that, with it, the unrestricted net position was negative \$1.26 million. She noted that, at the end of the prior fiscal year the unrestricted net position had been a positive \$1.33 million and that the difference was due to the introduction of GASB 68, which required the District to record the net pension liability of \$2.56 million. She said that, from a cash standpoint, the District was in good shape.

Linda Lipscomb thanked the subcommittee for its work. She said that the District had a very stable source of income and that, unlike neighboring communities, the District was not dependent on less stable revenue sources like sales taxes and redevelopment funds. She said that, because of this, she would rather see 10% rather than 16%, as a contingency. Rob Firmin responded that this was a good point but that there were substantial uncertainties on both sides. He said he had concerns that revenue could decline by 10% and that, at the same time, CalPERS costs could increase. Ms. Lipscomb responded that the impact of CalPERS would likely be mitigated because of the introduction of PEPRA. Jim Watt said he was concerned about expenses, which he noted had been causing a gradual decline in the District's reserves. He noted that there were unknown costs associated with the Community Center and the Public Safety Building and, therefore, the District should put more money aside. Ms. Lipscomb responded that the Public Safety Building had been upgraded several times and asked, if the building were to be rebuilt on a larger footprint, would it be done to accommodate the neighboring jurisdiction or for Kensington's purposes. She said there were requirements associated with rebuilding and some of these could be relaxed if the building retained its current footprint; however, this could change if the work were to exceed a certain dollar amount or if the building were to be completely rebuilt on a new footprint. She questioned whose interests would be served with the hook and ladder building, when Kensington was comprised of mostly two-story houses. She also questioned the need to establish a reserve policy before the community had looked at consolidation.

Paula Black said that there were two elements to look at: a reserve policy for operating expenses to guard against an economic downturn or natural disaster and a capital reserve policy to guard against costs for the Community Center. Ms. Lipscomb responded that the largest component was operating expense and that this closely matched stable revenue and, thus, she didn't want to tie down too much money, as would be the case with 16%. She added that capital expenditures were made on an as-you-can basis.

Paul Haxo said there were three different proposals: a general fund reserve policy; a Community Center commitment policy; and a policy for other capital improvements. He said the major commitment could not be funded through the income stream: It would need to be funded through a bond. He said he had hoped this could wait until the year 2020, at which time the other bond would be paid off. He said that he didn't object to committing some money to be set aside but that he did oppose putting money into a reserve because releasing that money would require a 4/5<sup>th</sup> vote of the Board. He said that, having served on the KPPCSD Board for ten years, he knew it could be very difficult to obtain a 4/5<sup>th</sup> vote. He said he was opposed to anything that would require more than a three to two vote and noted the hazards of a government shutdown. He said he was opposed to the reserve proposal because the Board had to have the right to be flexible. He said that, by not providing flexibility, the Board would be hamstrung. He noted that one of the beauties of special district government was its flexibility.

Director Toombs said that a reserve policy could not restrict the actions of future boards, that this had been something noted by the District's attorneys, and that a reserve policy would need to be flexible.



Jim Watt responded by saying that, before putting anything into final form, the attorneys should take a look at the proposal. He noted that almost every community at which he had looked had some kind of reserve policy. President Welsh responded that the District had a policy right now that said the Board couldn't meet past 10:00 P.M. unless at least 4/5<sup>th</sup> of the Board voted to do so. He added that the Board's prior meeting had come to an early end because there had not been a 4/5<sup>th</sup> vote to continue past that time.

Paul Haxo said he was fairly certain that a reserve policy for the District would require a 4/5<sup>th</sup> vote to effect a change to it. He added that there would be a difference between suggesting that the unassigned amount should not be less than a certain amount and setting aside an actual reserve. He noted that these were legal definitions with specific legal implications. President Welsh responded that the magic was in the way the District would define this; reserve was a troublesome term and perhaps it could be called something else as long as the term used was clearly defined. He said that the issue was how rigid or flexible things should be and that the Committee needed to develop this more.

Jim Watt responded that the Committee needed to act as finance people and that, before the Committee discussed the budget, it should discuss how much should be set aside. He said that, while the District may need things like body cameras, it also needed to take care of the Community Center. He added that children and adults came into the building and that, in the event of a major earthquake, some could die. He added that the Building Committee was about to go out to bid and there likely weren't enough funds to take care of the needed work. He said they could go to KCC and beg, but so far they were saying no. He said he wanted the Committee to put \$150,000 aside this year for the building, then revisit the second \$150,000 next year, and put aside \$60,000 for the other building issue. Director Toombs responded that this would be different from setting a reserve: Mr. Watt wanted to establish a line item in the budget, in the amount of \$150,000.

Director Toombs said he wanted to ask questions of the subcommittee. He asked why the subcommittee had selected 16% of revenue instead of 16% of expenses, noting that expenses sometime fluctuated. Mr. Watt responded that revenues were more stable and said that 17% was the actual recommendation. Director Toombs noted that Adam Benson had suggested 25%. Mr. Watt responded that was the percentage amount he, himself, had wanted. Director Toombs said that, on a typical year, the subcommittee's recommended total reserves would equal \$916,976 (\$500,000 of general fund restriction; and \$206,976 plus \$150,000 plus another \$60,000 for building reserves) out of the District's current \$1.3 million, or 75%. Mr. Watt responded that this was probably correct.

President Welsh said he wanted to evaluate what services might be compromised should the Board choose to follow the recommendation. He also noted that, should the Fire District do major work on the Public Safety Building, the Police Department could be homeless for two or more years and this could be very expensive.

Paula Black noted that the KPPCSD owned the Community Center, the Annex, Building E, and the park and said that all of these would need maintenance in the future.

Karl Kruger asked for clarification about the issue of binding future boards. Director Toombs responded that the purpose could not be narrowly defined. Mr. Kruger said that the District was doing pretty well because revenues had been better than had been anticipated, and the District had set conservative budgets. He said, however, that the District's legal fees continued to be high. He noted that the \$500,000 that the subcommittee had come up with equaled two months of revenue and that this amount would be set aside for extreme emergencies, regardless of what the set-aside would be called. He also said that \$150,000 each year for the Community Center was a reasonable amount.

Paula Black said there had been a wide range of views on the subcommittee, and the numbers had resulted from a lot of back and forth.

Ms. Russell said that Mr. Kruger's point was well taken and that the terminology for set-aside amounts needed to be consistent with the terms used in the audit. She also pointed out that there was a \$127,000 amount set-aside in a cash account for vehicles. Because this hadn't been mentioned, she asked if this

amount would be folded into one of the suggested funds. President Welsh responded that the amount should be pared down. Ms. Russell responded that the District was no longer purchasing one new vehicle per year and that, in those years when the District did buy a vehicle, it was purchased out of the general fund, not out of this set-aside amount.

Pat McLaughlin said she was pleased by the recommendation to set aside money for the Community Center. She noted that the District had not paid adequate attention to the way tax revenues had been allocated: The focus had been on the police. She noted that some of the tax levy money should be spent on the Community Center.

Derek Suring thanked the subcommittee for its work and noted that most of the communities whose policies the subcommittee had looked at were wealthier than Kensington. He asked if the subcommittee had researched whether the policies had been tested and, if so, had they worked. He questioned whether a policy would have much force if it could be changed with a three to two vote. Ms. Black responded that, regardless, it would force a public discussion.

Rob Firmin said that one of the purposes of the proposal was to force expense discipline and that it was morally imperative to act on the Community Center promptly in order to avoid people being injured. Director Toombs responded that that was why the District had worked so hard on Measure L.

Linda Lipscomb responded that the District had had \$300,000 set aside for the Community Center for a long time and that, had the work been done years ago, it probably could have been completed for that amount. She also noted that the WW funds remaining, following the installation of the park restroom, had been sitting there for a long time. She said it wasn't enough to have the money set aside, the work actually had to be done. President Welsh responded that the Park Buildings Committee was working to move things forward.

David Spath said the Park Buildings Committee had done a good job. He said that, before money was committed, all the needed enhancements for the Community Center should be determined. He noted that the issue, with respect to the capital building fund, was that its lack of flexibility would tie the Board's hands. He said that other communities' reserves were not restricted.

Jim Watt noted that the proposed language said general fund reserves could be used "only in a severe economic downturn or a natural disaster and only after reasonable expenditure cuts had been implemented." He clarified that the \$150,000 this year and next year would be used to meet the anticipated costs of a building expected to cost \$650,000, without getting KCC funds. He said that the reserve policy recommendations were intended to show real financial integrity.

Jim Watt recommended that the Committee agree to set aside \$150,000 in Fiscal-Year 2016-17 for upgrades to the Community Center and that the Committee agree to set aside 4% of KPPCSD's levy tax income for a general capital building fund. Ms. Russell asked if the money should come out of regular revenue. IGM/COP Hart asked if the District expected to spend the \$150,000 in Fiscal-Year 2016-17. Mr. Watt responded, "Possibly not."

Paul Haxo asked if an account, similar to what had been created for vehicles, could be created for what Mr. Watt wanted. Ms. Russell said she didn't see why not. She noted this would be a transfer of assets and would not show as an expenditure on the budget. Director Toombs suggested moving the \$150,000 out of the unassigned fund balance to the committed Park Buildings fund balance, instead of taking it out of the revenue stream.

**MOTION: Paul Haxo moved, and President Welsh seconded, that the Finance Committee recommend to the Board that it transfer \$150,000 from the unassigned fund balance to the committed Park Building replacement fund.**

**Motion passed unanimously.**

Jim Watt suggested that the Committee recommend to the Board that it set aside \$60,000 of the levy tax income into a fund committed to the Annex. Linda Lipscomb responded that, years ago, there had been a termite report and a structural report on the Annex and that these showed that the Annex was not worth rebuilding. Therefore, she said, committing \$60,000 to this building would not take care of it and was questionable. Mr. Watt responded that this would be an ongoing commitment - \$60,000 this year, \$60,000 the next year, and so on. He said he visualized needing something for the police department in two to three years, at which point the District would have built up \$120,000 to \$180,000. Ms. Lipscomb noted that the Annex had been determined to need more work than this amount would cover.

Pat McLaughlin said she opposed the idea of doing work on the Annex. She said the notion of using it as a replacement building for the police department was a bad one because of the idea of police cars running up and down, into and out of the park. Mr. Haxo added that this had been considered before and that, when it had, the Community Center had been filled with people opposed to the notion. Ms. McLaughlin said the District should wait to allocate any funds to the Annex until there was a sense of what its use might be.

President Welsh recommended deferring further discussion on the matter to the Committee's next meeting. He said he wanted IGM/COP Hart to weigh in on whether it was even feasible for the police department to use the Annex. He said he also wanted to know what the requirements would be if a new Public Safety Building were to be constructed.

Linda Lipscomb and President Welsh said that there appeared not to be a reason to have a specific fund when there was no certain idea of what was needed.

Paula Black said the subcommittee was not proposing moving money from the unassigned funds; rather the intent had been to have it be a line item expense in the budget each year. Ms. Russell said it didn't work that way unless there was an actual expenditure.

President Welsh asked if there was any use, other than as a temporary home for the police, which the subcommittee had contemplated for the Annex. Ms. Black responded it could be used as a teen or senior center. Ms. Lipscomb responded that the building would then need to be retrofitted.

President Welsh recommended gathering up all the prior work that had been done with respect to the Annex by the Muller Caulfield study and determining what the options and corresponding expenses would be. District Administrator Wolter noted that the Muller Caulfield Report was on the District's website.

IGM/COP Hart said that the records he'd seen indicated that it would cost approximately \$400,000 to address ADA compliance and other issues with respect to the Annex and said this work likely would not be done in Fiscal-Year 2016-17. Director Toombs added that the Annex was part of the Park Buildings Committee's portfolio. IGM/COP Hart noted that recommendations about Annex should come from the Park Buildings Committee to the Finance Committee and then, ultimately, to the Board.

President Welsh said that other elements of the subcommittee's recommendations, on which the Committee had not taken action, should appear of the Committee's next agenda.

The Committee reviewed and considered recommending approval to the Board of Directors the Fiscal Year 2016/17 proposed budget. The Kensington Police Protection and Community Services District Board of Directors would review and possible vote to approve the proposed budget for FY 2016/17 at its Regular Meeting to be held on May 12, 2016.

IGM/COP Hart introduced the item by providing a general overview of the document, noting that a budget was a planning tool. He reported that expenses were budgeted to be \$3.092 million and revenue was budgeted to be \$3.105 million. He added that the line items for Automated License Plate Readers (APLRs) and body cameras were placeholders and noted that police salaries and benefits totaled \$2.205 million. He summarized all other budget category subtotals.

IGM/COP Hart reported that salary expense would increase slightly because the Board had approved a new MOU but that those increases would largely be offset by the officers' concessions under that same MOU. He reported that the police salary and benefits subtotal was budgeted to be \$2.205 million and that the police expenses subtotal, which included items such as CalID – a system similar to ALPRs and that had recently enabled Kensington officers to identify a woman in a stolen vehicle incident, would be approximately \$313,000.

Derek Suring asked why Radio Maintenance, Account 566, had decreased by approximately \$19,000. IGM/COP Hart responded that the Motorola lease/purchase agreement had concluded. Mr. Suring also asked about reserve officers. IGM/COP Hart responded that, when he had been hired, there had been three reserve officers. He added that he had recently hired two reserve officers, that the last remaining reserve officer was in background with another agency, and that he'd like to have five reserves.

Karl Kruger asked if Adam Benson's fees were part of the consulting expenses. IGM/COP Hart confirmed this. Mr. Kruger asked what work Mr. Benson might perform in the upcoming fiscal year. IGM/COP Hart responded that he might be needed to perform some financial analyses. Mr. Kruger asked why the accounting costs had been so high for the current fiscal year. Ms. Russell responded that this had resulted from additional hours spent on the audit, projects, and financial analyses.

IGM/COP Hart summarized recreation expenses and reported that the subtotals were approximately \$31,000 for salaries and benefits and approximately \$88,000 for other recreation expenses. He then summarized District expenses and capital outlays.

IGM/COP Hart summarized the District's police activities revenue, which was budgeted to total \$2,909,219. He reported that recreation revenue was budgeted to be approximately \$68,000, that the District's activities revenue was budgeted to be \$65,000, and that total revenue was budgeted to be \$3,042,419. Ms. Russell noted that this did not include COPS grant money, which could not be included in budgeted revenue. President Welsh responded that this grant would increase total revenue by approximately \$100,000 to \$150,000. IGM/COP Hart reported that net income was budgeted to be (50,219), excluding anticipated COPS grant revenue. He reported that the cash carryover from the Fiscal-Year 2015-16 was projected to be \$2,093,742, and the carryover for Fiscal-Year 2016-17 was projected to be \$2,043,523.

IGM/COP Hart reported that identified fund balances were projected to be \$344,403 and that unassigned fund balances were projected to be \$1,699,120. He noted that the projected unassigned fund balance could be available for contingencies.

Jim Watt noted that, for Fiscal-Year 2015-16, levy tax revenue (Account 401) was \$1.555 million and said that his contact at the County had told him two months earlier that the District would be receiving \$1.537 million in levy taxes. He asked where the additional funds had come from. Ms. Russell responded that, in May of every year, the District had traditionally received between \$30,000 and \$50,000 of "old" money that people hadn't paid plus other supplemental money.

Jim Watt also noted that Franchise Fees, shown as \$65,000, were restricted funds and that the amount was in keeping with his own calculation. Ms. Russell responded that she appreciated Mr. Watt's confirming the estimate because staff had had a difficult time getting revenue information from Bay View Refuse. Paula Black asked how the projected increase in levy tax, to \$1.641 million, had been ascertained. Ms. Russell responded that she had subtracted the extra May money from the Fiscal-Year 2015-16 levy tax amount and then multiplied that amount by 6%. IGM/COP added that the County likely would provide percentage increase information in early July.

IGM/COP Hart reported that Account 502 provided salary information for 10 officers, including one new officer at Step 2 and Step 3 during the fiscal year. Mr. Watt said he appreciated the officers' salary schedule but noted that IGM/COP Hart was shown to receive a raise to \$150,000. Ms. Russell responded that she had worked from what had been budgeted, prior to the medical issue, which she had thought, was over. Mr.

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watt said the amount should be \$145,000. IGM/COP Hart concurred and said it would be taken care of. Ms. Russell noted that the salary schedule reflected the changes resulting from the new MOU.

With respect to Account 504, Jim Watt asked about an officer who might retire in Fiscal-Year 2016-17. IGM/COP Hart responded that, should that happen, the actual amount might be higher than the budgeted amount.

IGM/COP Hart reported on Account 506 (Overtime). Mr. Watt said that overtime had been higher in the prior year and the current year because the department had been short-handed and that, given the fact that the department was now fully staffed, the overtime amount should drop back down. IGM/COP Hart responded that three officers were currently out and one was in training and that it would take only one serious case to quickly drive up overtime costs. Mr. Watt responded that, in normal times, this amount should be in the \$50,000 - \$60,000 range. Linda Lipscomb asked IGM/COP Hart what amount he needed, noting that no one else in the room was a professional police person. IGM/COP Hart responded that, if one looked at the current year's overtime expenditures, the amount spent through March 31<sup>st</sup> was approximately \$57,000 and so he was going to exceed the amount that had been budgeted for the current fiscal year. IGM/COP Hart added that this was not a "spend all you can" kind of budget. Ms. Lipscomb noted that, if the money isn't spent, it goes "back in the pot." Ms. Lipscomb said that this was the IGM/COP's planning tool and asked if this was the amount he needed to get the department through the year. IGM/COP Hart noted that one officer was likely going to retire during the fiscal year and that this could also contribute to more overtime. Ms. Lipscomb said it had been her experience that the Finance Committee had, in the past, attempted to micro-manage the GM/COP's planning and that she appreciated the time that IGM/COP Hart had invested in the budget. Rob Firmin and Mr. Watt responded that it was the Finance Committee's responsibility to look at everything. President Welsh asked if Mr. Watt had found IGM/COP Hart's explanation satisfactory. Mr. Watt indicated he hadn't. President Welsh responded that IGM/COP Hart had already indicated that, because he was short-handed, the amount budgeted for overtime was appropriate. IGM/COP Hart said that, when officers are injured and there was an obligation to provide 24/7 coverage for the District, the remaining officers needed to work overtime. He said that, in addition, if there were to be any special circumstance in addition to this, officers would need to work additional hours of overtime. He noted that this was the nature of police work. Director Toombs asked if the officers on light duty generated overtime. IGM/COP Hart responded that they had worked some overtime because of special assignment work and that he had reassigned officers to minimize overtime. He also noted that, if someone were to take a vacation or call in sick at this time, another officer would need to work overtime to cover those shift hours. Ms. Russell clarified that the officers on light duty weren't causing overtime: rather, the shifts of other officers were being changed to ensure adequate coverage; and then, if any of the officers not on light duty went on vacation or called in sick, other officers would need to cover with overtime.

Celia Concus said that one of the sergeants was spending time operating the video equipment during meetings and asked if it wouldn't be better if someone else could do this for less than \$100 per hour. IGM/COP Hart responded that, most of the time, he adjusted Sergeant Hui's hours. IGM/COP Hart added that the video system was unique and required someone to operate it and that, if the District were to get the new sound system, it would eliminate this position. Ms. Concus asked when the new system would be acquired. IGM/COP Hart responded that extensive research had been done on what was needed. He noted that \$6,000 had been budgeted for the current fiscal year, but that research revealed that a more expensive audio-video system, with an estimated cost of \$21,000, would be needed. He added that the KIC (Kensington Improvement Club) had offered to contribute up to \$5,000, the KCC (Kensington Community Council) had approved an amount up to \$3,000, and the KPOA (Kensington Property Owners' Association) was still considering whether to contribute. He said, based on this information, he would need to go back to the District Board to ask for additional funds. He provided a description of the proposed system, which called for eight speakers, ADA compliant audio, and a secure automated audio-video system. President Welsh asked when IGM/COP Hart thought the system would be operational. IGM/COP Hart responded that he'd like to get the system up and running by June 30<sup>th</sup>, should the Board authorize the needed additional money. IGM/COP Hart noted that most of the work on the system had been done by Sergeant Hui, whose daytime hours were limited, which caused the process to take longer than anticipated. Mr. Watt asked if the anticipated renovation of the Community Center would adversely impact the sound system. IGM/COP Hart responded that the renovation work had been anticipated and that only the speakers might

need to be moved during the work. He concluded by saying that he wanted to move forward with the sound system because it was important to the community but that it was important to get it right because it was expensive. Karl Kruger asked for confirmation that, with the proposed new system, the third highest paid officer would no longer be needed to operate the system. IGM/COP Hart responded that there were only two people knew how to put together the current system: Sergeants Hui and Barrow.

IGM/COP Hart reported on Account 508 (Part-time Non-sworn Employees) and said that he had one full-time equivalent, split by two individuals. Paula Black asked if the proposed CPI increase was contractual. IGM/COP Hart responded it was not: it was the same cost of living increase that the officers had received, and he had put it in the budget for the Board's consideration. Mr. Watt responded that the officers were giving back 2% of their 3% increase. It was noted that non-sworn staff did not receive pension benefits to which the officers' 2% giveback was applied. Mr. Watt responded that he received Social Security but hadn't received an increase this year. Mr. Watt added that he had a bigger issue: District Administrator Wolter was shown as receiving overtime. He said a standard year's work of 2,100 hours, and she was down for 1,560 regular hours and 60 overtime hours. He wanted to know when the overtime had come into play. He said that, when he had been working in private industry, he could get people to do this kind of work for \$25 to \$30 per hour. He said these wages were incredible, and he didn't approve of it at all. Linda Lipscomb responded that more than eight hours worked in a day constituted overtime – it had nothing to do with the length of the week: This was the law. Ms. Russell said that Ms. Wolter was not a dime-a-dozen. Ms. Russell said she had trained five or six people before Ms. Wolter and the District could not get a “keeper.” She added that the District couldn't get accurate payroll, the District had been without insurance for a period of time. Mr. Watt responded that this wasn't a question of a dime-a-dozen: It was \$70 per hour. Ms. Russell responded that this was the overtime amount – at \$4,000 for the year. She noted that this was not Ms. Wolter's regular pay rate. Ms. Lipscomb added that Ms. Wolter was invaluable. Ms. Russell reiterated that she had been through half a dozen people who could not do this job. IGM/COP Hart said that, in the year he had been in Kensington, he had never seen or met anyone who could do the job Ms. Wolter does; with the insurance, with CalPERS, payroll, and all the things she does. He said she does an amazing job and the District is lucky to have her. Pat McLaughlin added that, until Ms. Wolter, none of the previous people had been able to do payroll: the District had been paying Ms. Russell to do payroll, at Ms. Russell's rates. Ms. Lipscomb noted that the \$4,000 budgeted for Ms. Wolter's overtime constituted tiny percent of the District's budget and said that to denigrate Ms. Wolter while she was present was not appropriate. Mr. Watt responded that this was not a denigration of Ms. Wolter; rather, it was that, if one extrapolated this out at 2,100 hours, Ms. Wolter would be at \$100,000 per year. Ms. Lipscomb responded that she would be worth every penny. President Welsh added that he didn't know what world Mr. Watt was living in but people with skills got paid well. He added that people think the town runs itself and that the only things they care about are their own issues. He said Ms. Wolter is in the office every day dealing with problems about which most people had no clue. He said he had a clue because his own phone rings off the hook. He concluded by asking that, before Mr. Watt went off on this path, he should do a little bit more to find out the value of Ms. Wolter's service. Mr. Kruger noted that the hours didn't match. IGM/COP Hart responded that he would fix that.

IGM/COP Hart asked Ms. Russell to report on Accounts 521 A, R, and T. Ms. Russell said she had done a big spreadsheet to ensure that the numbers were accurate, based on currently known rates. She reported that, because of the new MOU, there would be money coming back from the officers, so the net amount would be less for 521A. Mr. Watt said there was a problem because there were only three rate structures listed for medical plans. Ms. Russell responded that the District had an employee who used PORAC, which was less than the Kaiser rates. Mr. Watt asked for confirmation that IGM/COP Hart would be contributing \$85 towards his medical premiums. Director Toombs responded in the affirmative and added that IGM/COP Hart's contract was tied to the officers' MOU in this respect. Director Toombs asked if the 5% projected increase in the Kaiser rates was just a “plug” number. Ms. Russell responded in the affirmative. Ms. Russell reported that 521R was the same formula and that the retired officers would also be contributing the same \$85 that the officers would, per the new MOU. David Spath noted that, as the retirees reached Medicare age, their costs would decline. Ms. Russell confirmed this. Ms. Russell reported that 521R plus 521T would equal the required OPEB ARC payment, which she said was an estimate based on the most recent actuarial report. Mr. Watt said it had been agreed that, after some discussion, there would be a new actuarial report following the adoption of the new MOU. Mr. Watt asked that, at its next meeting,

the Board authorize a new actuarial report. Ms. Russell noted that the text contained an error but that the calculation was correct. Director Toombs questioned the \$50,000 additional funding of the OPEB Trust. Ms. Russell responded that, because the new actuarial report hadn't been done, she had to include some amount. She added that there had been some thought that the current actuarial report's ARC amount had been too low. Director Toombs asked, if a new actuarial report were done, would the District contribute just the amount shown in the report, or would it contribute that amount plus an additional amount. Ms. Russell responded that it should probably be the amount shown in the report – but that would be up to the District. Director Toombs suggested that it be made clear that, during the budget process, this amount likely would change. Ms. Russell asked how long it would take to complete a new actuarial report. IGM/COP Hart responded it would take about two months and would cost \$8,000 - \$10,000.

Jim Watt asked about Account 527 CalPERS Contributions. He noted that the PEPRAs employee's rate was shown at 12.082% and said he thought it should be higher. Ms. Russell responded that the District's PEPRAs employee currently paid 11.5% and the District paid 11.115% for him. Ms. Russell assured Mr. Watt that the budgeted percentage was correct.

Director Toombs asked why there had been such a big increase in Account 530 Workers' Comp. Ms. Russell responded that, because an officer had been out for a long time with a workers' comp. injury, the District needed to, essentially, repay the amount that had been paid out. Director Toombs noted that the District was self-insured.

Jim Watt questioned the amount budgeted for Account 562. IGM/COP Hart noted that he had reduced the gas price from the prior year's budgeted amount. Mr. Watt questioned the 7,000 gallons cited, when the number of miles being driven didn't seem to justify this. He noted that the District was under budget by a considerable amount for this account for the current fiscal year. IGM/COP Hart responded that there would be an upcoming increase in the expenses charged to this account because of recent repairs having been made to the fleet. President Welsh asked where the 7,000 gallons estimate had come from and asked him to take a look at this. IGM/COP Hart responded that he would do so.

IGM/COP Hart reported on Account 830 Legal. He said that he had left this amount the same. He said this was a discussion the Board needed to have. He said that the actual amount for this account would be quite over budget and so, he didn't know what amount to budget. Ms. Russell said she had tried to get detailed information from Public Law Group's accounting department to determine who was running up the bills. Karl Kruger said it didn't help that Board meetings went on for hours and hours and people were hostile toward one another. He added that, if people could just get along, legal costs would be lower. Paula Black asked why the District didn't have in-house legal counsel. President Welsh responded that it was because the District needed more specialists and that, even with a general counsel, that person would end up "farming out" many issues. Jim Watt asked if the Finance Committee should be recommending something and, if so, he would recommend increasing the amount to \$175,000. Mr. Kruger responded that, if it were in the budget, it would be used. President Welsh suggested that the budgeted amount not be changed until more information had been obtained about who and what were generating the costs. Simon Brafman said he thought the hourly rate of \$295 was too high. President Welsh and Director Toombs responded that it was not.

Karl Kruger asked what the legal fee was for Account 890 Solid Waste. Staff responded that the amount had been reduced from \$25,000 to \$19,000 and that, following discussion among IGM/COP Hart, Ms. Russell and staff, it had been determined that it would be wise to have some amount budgeted for legal fees in this account. Ms. Russell said there seemed to be a belief that, if it's in the budget, it will get spent, and she didn't believe that. Mr. Kruger said he didn't think it was a problem to go over budget – as long as there was a legitimate explanation. Rob Firmin said that, according to Gail Feldman, this line item should appear as an "isolated island." Ms. Russell responded that this was, technically, part of the Districts' general fund but that this revenue and expense was reconciled at the end of the fiscal year and appeared, in its cumulative ending balance amount, as one of the Committee Fund Balances.

With respect to body cameras, President Welsh said he wanted to get the issue out there so that people would know the District was looking at this. He said he didn't want to get halfway through the fiscal year

and then have the Board decide it was going to proceed with this and then have the community respond that the item hadn't been budgeted. He said that, now that the issue was out there, he didn't object to removing it from the budget, with the understanding that it would be revisited later, if it were to come to fruition. Karl Kruger said he didn't think the District needed license plate readers but said he did want there to be a discussion about body cameras and a corresponding policy. Director Toombs said he thought an amount should not be decided upon until after the community has met to discuss the issue and therefore, he favored taking both the ALPRs and the body cameras out of the budget. President Welsh said the District needed to talk about its priorities: Was it being state of the art with respect to police services or protecting children from a falling roof during an earthquake? President Welsh said that there had been very different versions of incidents involving residents and police and that body cameras could spare the District a lot of controversy in many situations. Committee consensus was that the ALPRs and body cameras should be removed from the budget. IGM/COP Hart concluded by saying that he had presented the items for purposes of discussion and that he understood the community's perception. He said he would recommend that the community have the discussion and that this probably should occur in August. It was asked if ALPRs would discourage criminals from coming into the community. IGM/COP Hart responded that they certainly could. President Welsh said that he would like to deal with the body camera issue first and that the license plate readers were going to be much more controversial.

Ms. Russell said that, with respect to Account 972, she wanted to point out that it included ADA/seismic upgrades at \$400,000 less the committed funds of 193,931 and WW funds of \$159,000 for a total outlay of \$48,069. Director Toombs asked if the committed funds had declined from \$206,000 to \$193,931 because money had already been spent on consultants. IGM/COP Hart responded in the affirmative. Director Toombs asked if the WW Fund money had been shown as revenue to offset the expense. Mr. Watt responded that the funds would be received only after the work had been completed. Ms. Russell responded that she was accounting for the WW Funds by using the amount to reduce expense. Derek Suring asked if the money would be spent in Fiscal-Year 2016-17. IGM/COP Hart responded that the District could, potentially, start the work this year, but that the WW money likely wouldn't be received until Fiscal-Year 2017-18. IGM/COP Hart added that an RFP was being developed and it likely would be out soon. Ms. Russell clarified that the Committee had recommended placing \$150,000 in a cash account for the Community Center. Mr. Watt asked if \$48,000 was the amount budgeted to be spent on the Community Center. Ms. Russell responded in the negative. She said that would be the net amount: The amount to be spent was budgeted at \$400,000, with offsets from the committed funds and the WW money. Committee consensus was that the \$400,000 should be revised down to \$100,000 for start-up costs, with an offset of \$100,000 from the committed building fund: This would leave a net expenditure of zero. Ms. Russell clarified that, for audit purposes, this transaction would appear as a \$100,000 expenditure because the income had already been reported as such in a prior year.

**MOTION: Derek Suring moved, and President Welsh seconded, that the Finance Committee recommend that the Board adopt the budget with the Committee's proposed amendments.**

**Motion passed unanimously.**

The meeting was adjourned at 10:26 PM

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Lynn Wolter



# KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT

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Date: June 15, 2016  
TO: KPPCSD Board  
KPPCSD Finance Committee  
FROM: Kevin E. Hart, Interim General Manager  
Subject: **Item 4-Review contract for Independent Auditing Services**

The Kensington Police Protection and Community Services District has used Fechter & Company as its independent auditor of the District's financial statements and government activities for the past three years. Our contractual agreement has concluded.

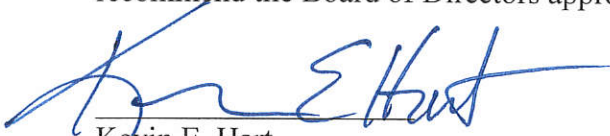
The General Manager recommends changing to another firm at this time. Previous to Fechter & Company, the District used the firm Lamorena & Chang for a number of years. The Kensington Fire District has used them for a number of years with good success, and currently uses them to perform their annual required audit.

The General Manager recommends we employ Lamorena & Chang to perform independent auditing services for the District.

A three year contract for services is included in this staff report.

Cost to the District: \$14,000 annually.

**General Manager Recommendation:** Receive the report, take public comment, deliberate and recommend the Board of Directors approve the contract for services.



Kevin E. Hart  
Interim General Manager

April 5, 2016

To Chief Kevin Hart and Board of Directors  
Kensington Police Protection and Community Services District  
217 Arlington Ave.  
Kensington, CA 94707

Dear Chief Hart and Board of Directors,

I am pleased to confirm my understanding of the services I am to provide Kensington Police Protection and Community Services District (KPPCSD) for the year ended June 30, 2016 and the subsequent two years. I will audit the financial statements general Fund, Special Revenue Fund and Capital Project Fund, including the related notes to the financial statements, which collectively comprise the basic financial statements of KPPCSD as of and for the 12 months ended June 30, 2016. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement KPPCSD's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of my engagement, I will apply certain limited procedures to KPPCSD's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I will not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis.
- 2) Statement of revenue, expenditure and changes in fund balance schedule

I have also been engaged to report on supplementary information other than RSI that accompanies KPPCSD's financial statements. I will subject the following supplementary information to the auditing procedures applied in my audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and I will provide an opinion on it in relation to the financial statements as a whole.

### **Audit Objectives**

The objective of my audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. My audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and will include tests of the accounting records of KPPCSD and other procedures I consider necessary to enable me to express such opinions. I will issue a written report upon completion of my audit of KPPCSD's financial statements. My report will be addressed to KPPCSD's manager and commissioner/board member provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for me to modify my opinions or add emphasis-of-matter or other-matter paragraphs.

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If my opinions on the financial statements are other than unmodified, I will discuss the reasons with you in advance. If, for any reason, I am unable to complete the audit or am unable to form or have not formed opinions, I may decline to express opinions or issue reports, or may withdraw from this engagement.

I will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The report on internal control and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during my audit I become aware that KPPCSD is subject to an audit requirement that is not encompassed in the terms of this engagement, I will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

### **Management Responsibilities**

Management is responsible for the financial statements and all accompanying information as far as all representations contained therein. As part of the audit, I will assist with preparation of your financial statements and related notes. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*. You agree to assume all management responsibilities relating to the financial statements and related notes and any other nonaudit services I provide. You will be required to acknowledge in the management representation letter my assistance with preparation of the financial statements and related notes and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you agree to oversee the nonaudit services by designating an individual, preferably from senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; following laws and regulations; and ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles, for the preparation and fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles, and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to me and for the accuracy and completeness of that information. You are also responsible for providing me with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that I may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom I determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to me in the written representation letter that the effects of any uncorrected misstatements aggregated by me during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing me about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing me of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and grants and for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that I report.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include my report on the supplementary information in any document that contains and indicates that I have reported on the supplementary information. Your responsibilities include acknowledging to me in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to me any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for me previous financial audits, attestation engagements, performance audits or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to me corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or other studies. You are also responsible for providing management's views on my current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

### **Audit Procedures—General**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, my audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because I will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, I will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to my attention. I will also inform the appropriate level of management of any violations of laws or governmental regulations that come to my attention, unless clearly inconsequential, and of any material abuse that comes to my attention. My responsibility as an auditor is limited to the period covered by my audit and does not extend to later periods for which I am not engaged as an auditor.

My procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. I will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of my audit, I will require certain written representations from you about your responsibilities for the financial statements; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

### **Audit Procedures—Internal Control**

My audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that I consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance

matters that have a direct and material effect on the financial statements. My tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in my report on internal control issued pursuant to *Government Auditing Standards*.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, I will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards and *Government Auditing Standards*.

### **Audit Procedures—Compliance**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I will perform tests of KPPCSD's compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants. However, the objective of my audit will not be to provide an opinion on overall compliance and I will not express such an opinion in my report on compliance issued pursuant to *Government Auditing Standards*.

### **Engagement Administration, Fees, and Other**

I may from time to time, and depending on the circumstances, use third-party service providers in serving your account. I may share confidential information about you with these service providers, but remain committed to maintaining the confidentiality and security of your information. Accordingly, I maintain internal policies, procedures, and safeguards to protect the confidentiality of your personal information. In addition, I will secure confidentiality agreements with all service providers to maintain the confidentiality of your information and I will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that I am unable to secure an appropriate confidentiality agreement, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Furthermore, I will remain responsible for the work provided by any such third-party service providers.

I understand that your employees will prepare all cash or other confirmations I request and will locate any documents selected by me for testing.

I will provide copies of my reports to County of Contra Costa and state controller office; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of my reports are to be made available for public inspection.

The audit documentation for this engagement is the property of Lamorena & Chang, CPA and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to County of Contra Costa or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. I will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Lamorena & Chang, CPA personnel. Furthermore, upon request, I may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the County of Contra Costa. If I am aware that a federal awarding agency or auditee is contesting an audit finding, I will contact the party contesting the audit finding for guidance prior to destroying the audit documentation.

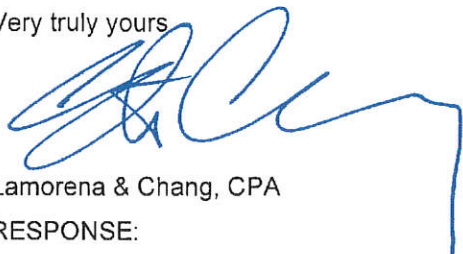
I expect to begin my audit on approximately early September and to issue my reports no later than November 15. Steven Chang is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

My fee for these services will be at my standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that I agree that my estimated flat rate of \$14,000 for each of those three years. My standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. My invoices for these fees will be rendered each month

as work progresses and are payable on presentation. In accordance with my firm policies, work may be suspended if your account becomes 30 days or more overdue and may not be resumed until your account is paid in full. If I elect to terminate my services for nonpayment, my engagement will be deemed to have been completed upon written notification of termination, even if I have not completed my report. You will be obligated to compensate me for all time expended and to reimburse me for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, I will discuss it with you and arrive at a new fee estimate before I incur the additional costs.

I appreciate the opportunity to be of service to KPPCSD and believe this letter accurately summarizes the significant terms of my engagement. If you have any questions, please let me know. If you agree with the terms of my engagement as described in this letter, please sign the enclosed copy and return it to me.

Very truly yours



Lamorena & Chang, CPA

RESPONSE:

This letter correctly sets forth the understanding of KPPCSD

Management signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Governance signature: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

To: Chairman Welsh, Co-Chairman Toombs and IGM/COP Hart

From: Jim Watt

Date: June 12, 2016

**Subject: KPPCSD Budget Reserves Policy**

At the May 4 Finance Committee meeting the recommendations for a reserves policy prepared by a 5-member sub-committee were discussed. These recommendations were contained in the sub-committee's report dated April 19, 2016 (copy attached).

The full committee discussed these recommendations and agreed to recommend that the Board adopt the proposal to add \$150,000 to the Community Center Building Upgrade fund for budget year 2016/2017. The Finance Committee did not take action on the following recommendations by the sub-committee.

1. To add an additional \$150,000 to the Community Center Building Upgrade fund for fiscal year 2017/2018. The purpose of this additional \$150,000 was to bring the total committed District funds for the Community Center upgrade to approximately \$500,000. When the WW grant of \$158,000 is included this will approximately match the estimated costs to complete required seismic and ADA work on the building. We are assuming that an estimated \$300,000 might be forthcoming from the KCC to complete further building enhancements.
2. The sub-committee recommended that the District agree to set aside 4% of annual revenues from county levy tax (code 401) to be used for major capital building improvements with an expected useful life of 15 years. Since code 401 is running about \$1.5 million annually this would be approximately \$60,000 per year. While the sub-committee did not wish to earmark this fund for any specific project, it should be noted that the Fire Board is studying the possibility of the replacement/remodel of the fire station that could result in the need for the District to find temporary quarters for the police department.
3. The final sub-committee recommendation on which the full finance committee did not act was a recommendation that the District agree to maintain a minimum contingency reserve for operating expenditures of no less than \$500,000 or 16% of total annual revenues. (Note: Current annual revenues are about \$3.0 million, so 16% would be \$480,000.) This money was to be used only in the event of a severe economic downturn or a natural disaster and only after all reasonable expenditure cuts had been implemented. Some members of the full finance committee felt this would place undue restrictions on the Board's ability to deal with financial issues.

The full finance committee agreed to consider these issues again at their next meeting. It was recommended that I provide committee members with information on how these recommendations would impact the District's finances and any other information in support of these recommendations.

**Impact of recommendations on the District's Finances**

At the time that the April 19, 2016 sub-committee report was prepared we did not have access to the proposed 2016/17 budget. That budget has now been prepared and provides some very important updates on the District's finances. This information is summarized in the table below.

This table shows the estimated cash carryover into 2016/17 as \$2,093,742 and a fund carryover of \$2,204,958. The District has a number of funds that are earmarked for specific projects and total \$595,864. As shown, these "earmarked" funds include the recommended \$150,000 recommended by the sub-committee to be set aside for the Community Center upgrade. Even after subtracting these funds that have been set aside for specific purposes, it is estimated that the District will be left with an Unassigned Fund Balance for contingencies of \$1,609,094.

As shown in the column on the right, if the recommendations of the sub-committee are followed, the Unassigned Fund Balance will drop to \$1,543,454, and the amount of available cash after withholding \$500,000 for reserves will be \$1,043,454. **In other words, these changes will still leave the District with over \$1.0 million in available cash.**

	-----2016-2017-----	
	<u>From Budget</u>	<u>From Recommendations</u>
Cash Carryovers 2015/2016	\$2,093,742	No Change
Est. Fund Carryovers into 2016/17	\$2,204,958	No Change
<b><u>Fund Balances</u></b>		
Nonspendable --Dist. Bond	92,830	No Change
Restricted -- Vac/Comp	70,000	No Change
Restricted -- Bay View Net Balance	88,413	No Change
Committed- Cap. Proj.(Vehicle Fund)	101,576	No Change
Committed- CC Bldg. Upgrade	150,000	No Change
Committed- Annex renovation	-0-	No Change
Assigned--Park Bldgs Rep. less 16/17 Exp.	93,045	No Change
Committed-General Capital Bldg Fund	<u>Not Includ.</u>	<u>\$65,640*</u>
<b>Total Identified Fund Balances</b>	<b>\$595,864</b>	<b>\$661,504</b>
Unassigned Fund balance available For Contingencies	\$1,609,094	\$1,543,454
Reserve Requirement	<u>None</u>	<u>500,000</u>
Available Cash	\$1,609,094	\$1,043,454

\*4% of \$1,641,000 (code 401 for 16/17) = \$65,640



### **Other Information**

We looked at other nearby communities as an indication of their desire to maintain an adequate reserve policy. While the sub-committee felt that each community has its own unique set of circumstances, we did note that almost every other community has a reserve policy, with ranges from 10% to over 50%. Moreover, Adam Benson believes a reserves policy of 25% is desirable. It was also noted that other communities typically set aside funds for capital improvements. This certainly seems like the best approach to budgeting for large capital expenditures rather than allocating all the funds in the year they are to be spent.

### **Recommendation**

That the full Finance Committee adopt the recommendation contained in the attached April10 2016 proposal.

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To: Chairman Welsh, Co-Chairman Toombs, and IGM/COP Hart

From: Paula Black, Rob Firmin, Karl Kruger, Gloria Morrison, and Jim Watt

Date: April 19, 2016

**Subject: KPPCSD Budget Reserves Policy**

### **Background**

At the Finance Committee meeting on February 1, 2016, Committee members discussed the need to formulate a reserve policy for possible adoption by the Board. To commence the process the Finance Committee unanimously agreed to appoint a 5-member subcommittee to provide recommendations for review by the full Finance Committee. The five-subcommittee members are: Black, Firmin, Kruger, Morrison and Watt.

### **Methodology**

In addition to an exchange of e-mail information on the subject, the subcommittee had two meetings to discuss the appropriate course of action and the areas that should be included as part of an over-arching reserve policy. The subcommittee unanimously agreed that a reserve policy should include not only specifying the reserves necessary to meet day-to-day cash flow needs and unforeseen contingencies, but also major capital reserves necessary to fulfill the District's obligations for the Kensington Community Center and capital improvements for other District owned and operated buildings.

We looked at reserve policies in other communities, and found significant variations by community. Therefore, we concluded that any final decision by Kensington has to fit its own unique circumstances. Those circumstances include the fact that Kensington has a fairly stable revenue base and that the daily cash flow needs can be met with somewhat minimal reserves. Subcommittee members felt it was imperative that we adopt a systematic approach to building up our reserves to complete necessary capital improvements.

The attachments identified as "Source Material" were beneficial in formulating our recommendations.

### **Recommendations**

That the following three funds be established by Board resolution.

**General Fund Unallocated reserve** – That the District maintain a contingency reserve for operating expenditures of no less than \$500,000 or 16% of total annual revenues, whichever is greater, in order to maintain the sound financial operation of the District. This reserve may only be utilized in the event of a severe economic downturn or a natural

disaster and only after all reasonable expenditure cuts have been implemented, as determined by final Board approval.

**Community Center Building Upgrade** - That the category currently designated in the Budget under the heading Fund Balances as "Committed – Park Bldgs. Replacement" be redesigned as "Community Center Upgrade". That the funds currently shown as \$206,976 be augmented by an additional \$150,000 in FYE 16/17 and an additional \$150,000 in FYE 17/18. The purpose of these additional "Committed" funds shall be to set aside sufficient capital to meet the possible capital required to retrofit the building. Upon completion of these Community Center improvements, any surplus funds shall be assigned to the newly created General Capital Building Fund – see following.

**General Capital Building Fund** – That this new capital building fund be created with the purpose of setting aside annual restricted funds for the purpose of completing necessary capital improvements to District owned and operated facilities. The initial amount to be included in this fund shall be based upon 4% of the annual revenues from the County levy tax (code 401), and shall commence with budget year 16/17. The initial 4% may be increased, but not decreased, at the time each annual budget is approved. The money in this account may only be used for major capital building improvement with an expected useful life of 15 or more years.

The following would be the recommended changes to the line items shown under Fund Balances – see attached complete page from the budget.

**Fund balances, in audit terms (see definitions included)**

Nonspendable – District Portion of Bond	
Restricted – Est'd vacation/comp liability	
Committed – Park Bldgs Replacement	<b>DELETED</b>
Committed – Community Center Bldg Upgrade	<b>ADDED</b>
Committed - Annex Renovation Expenditure	<b>DELETED</b>
Committed – General Capital Bldg. Fund	<b>ADDED</b>
Committed – Bay view Net Balance	
<b>Total Identified Fund Balances</b>	

**Conclusion**

This proposed recommended reserves policy has been thoroughly vetted by the sub-committee, with concessions made by all members in the interest of providing the full committee with a recommended policy that has the unanimous approval of the sub-committee.

Revised 08/14/15

KPPCSD  
Projected Revenue and Expense  
2015/2016

ATTACHMENT

<b>Budgeted Revenues 2015/2016</b>	
400 · Police Activities Revenue	
Total 400 · Police Activities Revenue	\$2,791,952
Total 420 · Park/Rec Activities Revenue	71,500
440 · District Activities Revenue	
448 · Franchise Fees	48,800
456 · Interest-District	0
Total 440 · District Activities Revenue	<u>48,800</u>
Total Revenues	\$2,912,252
<b>Budgeted Expenditures 2015/2016</b>	
500 · Police Sal & Ben	
Total 500 · Police Sal & Ben	\$2,053,670
Total 550 · Other Police Expenses	325,268
Total 600 · Park/Rec Sal & Ben	31,147
Total 635 · Park/Recreation Expenses	96,716
Total 800 · District Expenses	271,119
Total 950 · Capital Outlay	<u>81,000</u>
Total Expenditures	<u>\$2,858,920</u>
Excess of Revenue over Expense 2015/2016	\$53,332
<b>Previously Allocated Funds</b>	
Total Allocated Funds Used	0
Excess Funding over Expenses 2015/2016	<u>53,332</u>
Cash Carryovers 2014/2015	<u>\$1,480,663</u>
Estimated Fund Carryovers into 2015/2016	\$1,533,994
<b>Fund Balances, in audit terms (see definitions included)</b>	
Nonspendable - District Portion of Bond	\$92,830
Restricted - Est'd Vacation/Comp Liab	80,000
Committed - Park Bldgs Replacement less FY 15/16 expenditures	206,976
Committed - Annex Renovation Expenditure In Current Year	0
Committed - Bay View Net Balance	<u>-7,977</u>
Total Identified Fund Balances	\$371,829
Unassigned Fund Balance available for Contingencies	\$1,162,166
Percentage of Total Expenditures	40.65%

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## 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?

SOURCE MATERIAL PMG Analysis

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### 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.<sup>1</sup> 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*.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup> 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.<sup>5</sup> 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.<sup>6</sup> 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:

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## Appropriate Level of Unrestricted Fund Balance In the General Fund | Government Finance Officers Association

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 if a 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.

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**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

## SOURCE MATERIAL

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Unassigned fund balance is typically the primary subject of a reserve policy. However, committed and assigned fund balance may also be thought of as part of a reserve policy as the governing board or management, respectively, has some control over the balances. Conversely, restricted fund balances or nonspendable fund balances are fundamentally constrained, making it unnecessary to place parameters on them through reserve policy in order to achieve prudent savings and expenditures of public resources.

It is recommended that every district establish policies regarding minimum fund balance and spending priorities in order to communicate to users the importance of a reserve for economic uncertainties, why it consists of amounts that are unassigned and that it is not available for spending.

Districts' policies should specify the order in which fund balances are spent when more than one amount is available for a specific purpose. Where such policies do not exist, GASB 54 prescribes that the default order in which these amounts should be spent is committed, assigned, and then unassigned.



### **GASB 54**

According to the Governmental Accounting Standards Board, statement No. 54 was issued after, "...research revealed that the existing standards guiding fund balance reporting were being interpreted inconsistently by different governments. Consequently, the fund balance information reported by many governments also was inconsistent. It also became clear that the understandability of fund balance information was affected and that financial statement users were unable to readily interpret reported fund balance information."

*GASB fact sheet about Fund Balance Reporting and Governmental Fund Type Definitions*



### **Sample Policy Language**

The "X" district maintains a minimum unassigned fund balance of not less than "X" percent of budgeted general fund expenditures and other financing uses as a reserve for economic uncertainties. The district believes a reserve of this level is prudent to maintain a high bond rating and to protect the district from the effects of fluctuations in property tax revenues to which special districts are vulnerable. Because amounts in the nonspendable, restricted, committed and assigned categories are subject to varying constraints on their use, the reserve for economic uncertainties consists of balances that are otherwise unassigned.