



June 2015

This document serves to outline the various actions taken by the Board of Directors to address and reduce financially related liabilities. The Board believes that fiscal accountability to the District and the residents is one of its primary responsibilities.

Executive Summary

- **Fire Station Remodel and Project Funding Financing** - In 2014 the Board negotiated a reduction of interest rate from 4.65% to 3.40%. This refinancing generated a total debt service savings to the District of \$175,133 resulting in an average annual savings of \$17,513. This is in addition to the 2010 prepayment resulting in a combined debt service saving of approximately \$850,000.
- **OPEB (Other Post Employment Benefit) Obligation Liability** – The Board funded \$200,000 in fiscal year 2013-14 and \$200,000 again in 2014-15 to the CalPERS Trust to cover future medical insurance premiums for retirees . Current funded ratio is above 50%. The District is on track to have this obligation 100% funded in five years.
- **CalPERS Pension/Retirement Program** - The Miscellaneous category has been tiered and a \$120,000 unfunded liability paid off in 2014. The Safety category has been effectively tiered by PEPPA reforms. Contribution payments of the Safety side-fund to CalPERS in 2013 in the amount of \$250,000 and in 2015 in the amount of \$680,000 were submitted to reduce District liability to less than \$500,000.
- **Grant Opportunities** –In 2014 the District received \$ 158,000 from FEMA for breathing apparatus and \$4000 from the State for protective clothing; this year \$10,550 has been secured from FireSafe Marin for vegetation management. The District Board will continue to foster support for grant opportunities that support the District’s mission. This philosophy has resulted in several hundred thousand dollars saving to District taxpayers.
- **Fiscal Best Practices Review** – The Board has updated and adopted several policies and will annually review recommendations presented by the independent auditor. Accounts payable, monthly records reconciliation and journal entry review, as well as transaction documentation imaging improvements are examples of these improvements.

Item (1) Fire Station Remodel and Project Funding

In 2009 the District completed a fire station modernization project , of which \$4,030,000 was financed through a private placement bond. This transaction carried an interest rate of 4.65% with a fifteen year amortization period. The annual debt service was \$376,158 payable biannually. In 2010 the District pre-paid approximately \$500,000 toward the principal of this obligation, effectively reducing the annual debt service to approximately \$327,800, a saving of \$49,000 annually. In 2014, the District saw an additional opportunity to effectively reduce this debt again. The District approached the original loan broker requesting an analysis of the existing market relative to the terms of the original transaction. A net saving analysis indicated that an opportunity for a significant reduction of interest rates was available. In May 2014 the Board took action and negotiated a reduction of interest rate from 4.65% to 3.40%. The original amortization period (to 2023) remained. This refinancing generated a total savings to the District of \$175,133 resulting in an average annual savings of \$17,513.

In 2007 the United States Internal Revenue Service approved an allocation application for the District to issue \$250,000 in Clean Renewable Energy Bonds (CREBS) to finance a proposed 25 kW AC photovoltaic generation system at the fire station. The installation of this system was coordinated with the planned fire station modernization project. In 2008 the District negotiated a contract with a licensed contractor to install the system designed to produce 14.44 kW AC power. The CREBS bonds were issued for \$153,845 with virtually no interest cost to the District. The annual debt service is approximately \$11,800. The thirteen year amortization period runs through 2020. However, a potentially greater significant savings factor is the long term reduction of electrical power required to be purchased from Pacific Gas & Electric Company.

Item (2) OPEB (Other Post Employment Benefit) Obligation Liability

OPEB Pre-funding Program

In September 2008, and in compliance with GASB 45, the District authorized an actuarial valuation to determine financial liability of the District in providing OPEB benefits to the members. Kentfield Fire District retirees receive "Other Post- Employment Benefits (OPEB)", in addition to pension benefits, in the form of medical insurance coverage. Since 1988 the District annually budgeted this cost on a "pay as you go" basis.

In compliance with governmental accounting standards, the District measured and reported this OPEB liability and annual required contribution (ARC). The actuarially accrued liability was calculated at approximately \$2 million dollars. The District decided to pre-fund future OPEB costs through the CERBT program, administered by CalPERS. The District has been making contributions to the CERBT fund, a trust fund irrevocably dedicated to pre-funding employer OPEB liabilities. This trust account value today is approximately \$ 1.3 million. The District is well on its way to retiring this liability within the next five

years if annual contributions of \$200,000 continue. These assets (contributions and investment return) held in the CERBT fund will be used to pay the future OPEB costs. Biennial actuarial reports confirm that the District is reducing this liability well ahead of schedule.

The CalPERS Board of Administration sets CERBT investment policy and strategy and, through CalPERS Investment Office staff, manages CERBT investments. CERBT assets are invested in public market securities using an asset allocation strategy approved by the CalPERS Board. The Kentfield Fire District Board periodically reviews available investment strategies and makes calculated adjustments, as warranted.

Item (3) CalPERS Pension/Retirement Program

The Kentfield Fire District contracts with the California Public Employees' Retirement System (CalPERS) to provide pension benefits to District retirees. The District Board of Directors has addressed several underfunded liabilities in this area and has made contract changes to substantively reduce future liabilities.

The District employees are classified into one of two CalPERS categories. The Safety Plan includes all fulltime, permanent firefighters and officers as well as those relief or seasonal firefighters working more than 1000 hours in one year. The Miscellaneous Plan includes the Administrative Assistant. In 2011 the District initiated Tier Two in the Miscellaneous category. This contract amendment slightly reduced the pension benefits while significantly reducing District expense. In 2012 the PEPRA pension reform measures were adopted state-wide, reducing defined benefits payable to future Safety and Miscellaneous retirees of this system while subsequently reducing District long term and short term expenses.

In 2014 the District moved to pay off the entire unfunded liability attached to the Miscellaneous Tier 1 Plan of \$120,000. In 2013, and again in 2015, the District Board moved to reduce the Safety Plan "side-fund" liability. Payments to CalPERS in 2013 in the amount of \$250,000 and in 2015 in the amount of \$680,000 were submitted to reduce this liability. By the end of fiscal year 2015-16 this liability will have been reduced to approximately \$260,000. GASB 68 requirements relative to reporting pension liabilities on the District's financial documents take effect with the June 30, 2015 reporting period and may be addressed by the Board at that time.

Item (4) Grant Opportunities

The Kentfield Fire District has had the opportunity to apply for, and successfully manage, several grants. The District managed and received funds from FEMA/Homeland Security for a disaster preparedness program and developed "Get Ready, Marin". Successful applications for a fire station emergency power generator, diesel smoke scrubbers for the apparatus, a roof mounted emergency siren, firefighter

protective clothing, communications equipment and self-contained-breathing-apparatus (SCBA's) and most recently funding to assist with vegetation management projects round out the list. These grants supported Kentfield Fire District equipment and programs in excess of \$400,000.

Item (5) Fiscal Best Practices Review

In 2014 the District Board established a sub-committee of two Directors and staff personnel to review the District's policies and procedures relative to day-to-day financial responsibilities. Fiscal policies designed to provide improved transparency, oversight and separation of duties were implemented.