

Budget Policies

OPERATING BUDGET POLICIES

Tualatin Valley Fire and Rescue is committed to providing high quality services to the community at an acceptable level of taxation. Specific policies that drive the budget preparation are:

- The District will maintain high service levels in emergency services operations, which includes responses to fire and medical emergencies. These services receive the highest priority for funding.
- The District will avoid adopting budgetary procedures that result in balancing current operational costs at the expense of future years' operations.
- The District will maintain a budgetary control system to ensure compliance with the adopted budget, especially with regard to State of Oregon Budget Law, and will prepare regular reports comparing actual revenues and expenditures to budgeted amounts. The Board receives monthly "budget to actual" financial statements on the funds and programs.
- Performance measurement and productivity indicators shall be integrated into the budget as outlined in stated goals and objectives. The Divisions then must report regularly to the Fire Chief/Administrator on the status of these goals. The budget highlights key performance objectives and performance against the District's prior goals. The budget is designed to educate the community about TVF&R's objectives, priorities, and the goals set for the organization. It is also designed to serve the needs of District employees by providing budgetary accounts and descriptions of funded programs.
- The District's **balanced budget policy** is that a budget is considered balanced when the funds' total resources of beginning fund balance, revenues, and other financing sources are equal to the total of expenditures, other financing uses, and ending fund balance.

THE BUDGET AS A POLICY DOCUMENT

The Budget Process. Prior to the budget process each year, staff updates the multi-year **financial forecast** to identify critical issues and set preliminary goals. Staff analyzed ongoing and long-term capital needs, and future staffing requirements. These forecasts are performed with consideration of future economic variables including labor costs, PERS rate increases, healthcare, interest, and inflation rates.

The local option levy of \$.25/\$1,000 of assessed valuation was approved as a renewal by District voters in November 2008, in order to maintain firefighter and support staffing, and fund technology and capital equipment. This levy authority will be in effect through 2014-15.

The 2010-11 annual budget is designed to reflect the District's **Strategic Plan** for the 2010-11 fiscal year. Reference is frequently made to the performance within the budget document, which is developed to serve as the financial plan to carry out these desired goals and objectives. Staff attempts to focus their performance objectives on significant changes and improvements they wish to make over and above "daily operations."

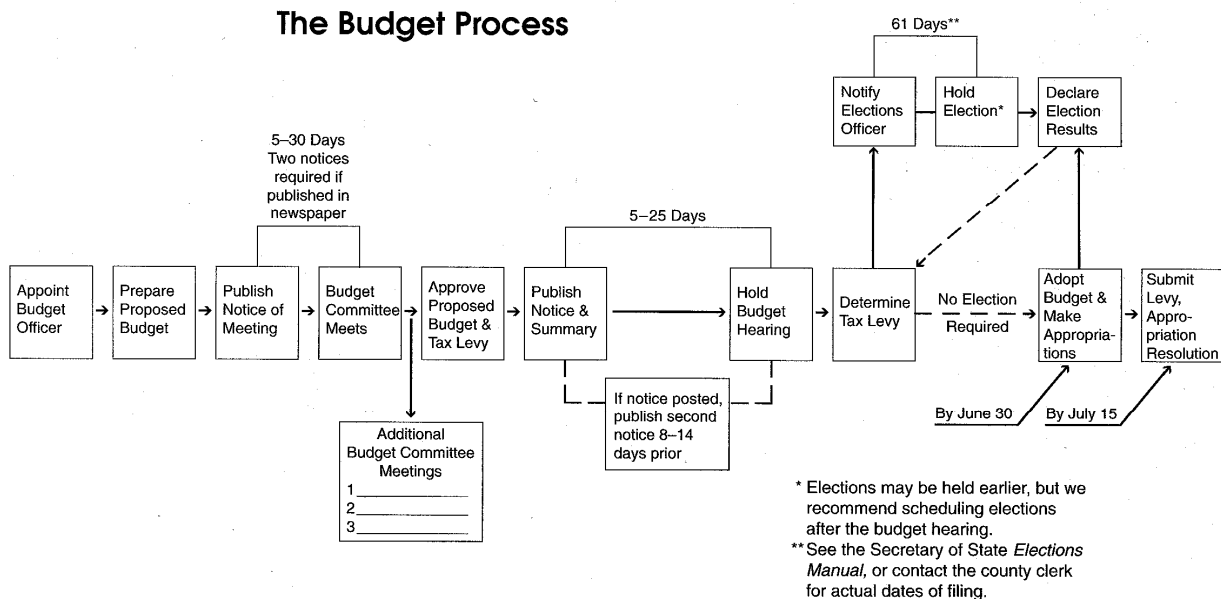
Accounting and budget policies are similar to the prior year. The **strategic goals and outcomes** provide a measurable tool for directing the plans and programs that have been set in place. The most significant plans or programs are outlined within individual divisions or program budgets. During the budget review process staff will analyze performance against the goals and objectives.

Budget Policies, continued

The budget, or financial plan, began in earnest in the late **fall of 2009**, when **planning sessions** were held between Assistant Chiefs, Division Chiefs, Directors, and Budget and Union Managers. Here, programs and plans were outlined, and strategies for implementing these programs were developed. These plans were refined in the following months, and goals and objectives were developed for each worksite location, department, and program. During this time, **forms and budget preparation information** were distributed. The Executive Staff discussed proposed new programs or personnel with the Budget Officer for overall planning and directions.

The worksite manager completed the **budget proposal requests** utilizing an electronic format. The information provided contained the prior year budgeted expenditure amount for each line item, the actual expenditure, and the current year budget. The worksite manager filled in the requested amount and this information was sent to their Division Chief or Assistant Chief, who reviewed and analyzed the budget requests before sending them to the Budget Officer. The department manager also included backup information related to requested line item accounts. The Finance division entered this data into the budget modules and sent the updated budget document back to the requesting party for review. The data is primarily oriented around the ensuing year.

The Chief of the proposed department's budget then **reviewed the requested budget** for his program and/or worksite with the Budget Officer and other staff. The results of the negotiation and review were then presented to the Executive Staff and Fire Chief for review and final approval. A new budget module allowed several named budget versions and thus, the review committee could compare "Requested" budgets with "Budget Officer Recommended" budgets and all available current and prior year data. Revised requests were entered into the data processing budget module and corrected worksite and/or program budgets were sent back to the requesting party. From this revised budget, the Budget Officer and Executive Staff worked through several refinements to ensure the budget met both key strategic goals in program funding and in overall financial health of the District.



BUDGET CALENDAR

September	<ul style="list-style-type: none">▪ Strategic Plan Report Card Assessment
October - December	<ul style="list-style-type: none">▪ Revenue forecasting▪ Capital planning▪ Bond modeling▪ Strategic plan validation▪ Budget forecast to managers
January	<ul style="list-style-type: none">▪ Budget packets and instructions available to Station Captains and Department Heads online at SharePoint site.▪ Budgets, accomplishments, and performance objectives due to Assistant Chief
February	<ul style="list-style-type: none">▪ Internal budget reviews▪ Budget Officer reviews budgets▪ Station and department budgets, accomplishments, and performance objectives reviewed by Assistant Chief and submitted to Budget Officer▪ Finance Division inputs budgets and returns to Department Heads for review
March	<ul style="list-style-type: none">▪ Internal Budget Committee meetings
April	<ul style="list-style-type: none">▪ Budget closed for changes▪ Finance Division prepares draft budget document for Budget Committee Meeting▪ Publish First Notice of Budget Committee Meeting
May	<ul style="list-style-type: none">▪ Budget draft document distributed in early May▪ Publish Second Notice of Budget Committee Meeting▪ Budget Committee Meeting is held
June	<ul style="list-style-type: none">▪ Publish Notice of Budget Hearing▪ Budget Hearing is held to adopt budget and levy taxes
July	<ul style="list-style-type: none">▪ Tax levy certified by court clerks of Washington, Clackamas, and Multnomah counties▪ Budgets delivered to citizens and government agencies

BUDGET ADOPTION

A **final budget** was developed in **April of 2010**. From this adjusted data, the Finance Division prepared the annual budget document, which was then assembled for presentation to the **Budget Committee** after being reviewed by the Fire Chief's Office. Changes to the budget due to new information and Budget Committee recommendations may be incorporated through the **June 22, 2010 adoption of the budget** by the governing Board.

BUDGET AMENDMENTS

The process for **amending the budget** is provided for by Board policy contained in the Board Policy Manual and by state budget laws as outlined in Chapter 294 of the Oregon Revised Statutes. The governing body's spending authority within existing appropriations (set at personnel services, materials and services, and capital outlay by the levels in the adopting resolution on pages **27-30**) may be increased by (1) transferring amounts among appropriations in the same fund, or (2) transferring from an appropriation in the General Fund to an appropriation category in another fund. The governing body must enact a resolution or ordinance providing for the transfer. This enactment must be made before any over-expenditure has incurred. Once a transfer is authorized, increased expenditures can occur.

Budget Policies, continued

SUPPLEMENTAL BUDGETS

By transferring appropriations, the District usually has enough flexibility to carry out the programs prescribed in the adopted budget. There may be times when an adopted budget gives no authority to make certain expenditures or when revenues are received for which the governing body has no previous knowledge. In these cases, it is possible to use a **supplemental budget** to authorize expenditures or spend additional revenues in a current fiscal year. Supplemental budgets cannot be used to authorize a tax levy.

The governing Board of Directors may adopt a supplemental budget through a resolution if the supplemental budget does not exceed ten percent of the fund's original appropriation. For supplemental budgets greater than that, a longer process is required. A special hearing must be held by the governing body and the proposed supplemental budget must be published before this hearing.

The District may utilize budget transfer resolutions during the year as more information becomes available.

THE BUDGET DOCUMENT AS AN OPERATIONAL GUIDE

It has been the philosophy of the Board of Directors to have sufficient resources on hand at the beginning of the fiscal year to carry the District up to the time when tax turnovers are received from the County governments. This tax collection turnover generally begins in the third week of November. The District anticipates that it will receive approximately 94.0 cents of each tax dollar in the current year in which it is levied.

The District's operations are generally accounted for as departments within the General Fund. The District accounts for its program operations under four directorates, which then have department cost centers, which range from individual stations to support departments. The cost centers related to Integrated Operations are grouped by the three Operating Centers for budget presentation purposes. The individual cost centers included in the jurisdiction of each Center are included for day-to-day management by the individual captains and program managers, who are responsible for their assigned budget. Each manager will also manage capital requests from the capital funds ranging from the Apparatus Fund to the Capital Projects Fund. The summary of requirements from these funds is shown in the cost center line item budget, but the budget document explains the capital utilization in the specific fund area of the budget.

THE BUDGET AS A FINANCIAL PLAN

The budget document was developed to serve as the **financial plan** required to carry out the goals and objectives for the ensuing fiscal year. It is intended to provide financial guidelines for programs and functions within the Fire District. Separate summary pages are presented for these areas and each summary page includes data for:

- **Personnel Services** - includes the salaries and fringe benefits of full-time and part-time employees.
- **Materials and Services** - includes supplies, maintenance and repair, rent, utilities, and contracts for professional services, such as for the District's supervising physician, communication or IT professionals, legal counsel, audits, and insurance.
- **Capital Outlay** - includes the costs of land, buildings and improvements, furniture, and equipment.
- **Other Expenditures** - includes special appropriations not included in the above categories such as inter-fund operating transfers, debt service, and contingency funds.

Budget Policies, continued

Funds included in the annual budget document are *governmental, enterprise, and fiduciary trust fund types*. Included in the former are those funds that require a tax levy such as the **General Fund** and the **Bonded Debt Service Fund**. The **Apparatus Fund, Capital Improvements Fund, Emergency Management Fund, Grants Fund, Retiree Medical Insurance Stipend Fund, Property and Building Fund,** and the **Capital Projects Fund**, which are *governmental fund types*, do not require a tax levy. Rather, the sources of revenues for these funds are largely transfers from the General Fund and interest earnings on unexpended cash on hand. The **Pension Trust Fund**, and the **Volunteer LOSAP Fund** are budgeted as *fiduciary trust fund types*. The **Insurance Fund** is an *internal service fund type*.

Important parts of TVF&R's financial system, but which are not parts of the budget process, are the **Capital Assets Account Group** and the **Long-Term Debt Account Group**. Capital assets for the District total over \$52 million at depreciated cost or donated value. The long-term debt account group records the District long-term obligations for compensable time-off accrued by employees as well as long-term debt, such as general obligation bonds.

The District's policy is to annually inventory all capital assets.

Capital expenditures within the **Capital Improvements Fund** were proposed while keeping in mind the effect that these items would have upon operations and operating expenditures. Budgeted within the Capital Improvements Fund are replacement items as well as new capital items to provide District personnel with the tools with which to perform their tasks in an efficient, productive, and cost effective manner. Items budgeted in the capital funds are compared with the long-term capital plan where their replacement and expected lives must be estimated. Not all items in the **Capital Plan** can be funded, but it will also provide a frame of reference for decisions. Because the majority of items are capital replacement, there is usually no significant operating budget effect, which must be planned for. Certain new equipment to be funded as part of the local option levy will require planning as to operating budget effects to incorporate into the District's overall capital replacement plan.

BASIS OF ACCOUNTING

The *governmental fund types* are budgeted and accounted for on the **modified accrual basis** of accounting, whereas revenues are recorded in the accounting period in which they become measurable and available and expenditures are recorded at the time liabilities are incurred, except for:

- Interfund transactions for services, which are recorded on the accrual basis
- Interest expense on general obligation bonds, which is recorded as due

Significant revenues, which are measurable and available at June 30 under the modified accrual basis of accounting, will be property tax revenues, which are collected within sixty days subsequent to year end.

The Pension Trust Fund and Volunteer LOSAP Fund are budgeted on the **accrual basis** of accounting, whereas revenue is recognized when earned and expenses are recognized when incurred.

The bases of accounting described above are in accordance with generally accepted accounting principles.

The purpose of this section and the summary below is to outline the financial structure of the District. Listed are the primary funds, the respective major sources of revenue for that fund, and the types of services provided within the fund.

Budget Policies, continued

GENERAL FUND

The **General Fund** accounts for the basic financial operations of the District, which are not accounted for in other funds. It is considered a major fund.

Sources of Funds	Use of Funds
<ul style="list-style-type: none"> ▪ Property taxes ▪ Interest on surplus cash and investments ▪ Miscellaneous and other revenues 	<ul style="list-style-type: none"> ▪ Board and Civil Service Commission ▪ Emergency Management ▪ Command and Business Operations ▪ Human Resources ▪ Planning ▪ Logistics ▪ Media Services ▪ Finance ▪ Integrated Operations ▪ EMS/Health/Wellness ▪ Training/Safety ▪ Transfers to Other Funds

Property tax revenue provides the primary source of revenue for this fund.

DEBT SERVICE FUND

The **Debt Service Fund** accounts for the accumulation of resources and payment of general long-term debt principal and interest.

Sources of Funds	Use of Funds
<ul style="list-style-type: none"> ▪ Property taxes ▪ Interest on invested funds 	<ul style="list-style-type: none"> ▪ Payment of maturing principal and interest on general long-term debt. Similar to the General Fund, the resources required for operations of this fund are derived from taxes levied.

APPARATUS FUND

The **Apparatus Fund** accounts for the acquisition of emergency response vehicles.

Sources of Funds	Use of Funds
<ul style="list-style-type: none"> ▪ Transfer from other District funds ▪ Earned interest from invested surplus cash ▪ Sales of surplus apparatus 	<ul style="list-style-type: none"> ▪ Purchase of emergency response vehicles, including fire and rescue apparatus and hazardous materials vehicles.

This fund was established to accumulate funds for the purchase of high cost apparatus, which includes fire engines, fire trucks, heavy brush units, hazardous materials as well as other specialized response units such as emergency medical, high angle, water, and cave-in rescue units. Resources are supplied by beginning working capital, transfers from the General Fund with property tax resources provided from the local option levy, sales of surplus apparatus, and interest on invested funds. The District's proposed budget for 2010-11 reflects a shift to the usage of general obligation bond proceeds in the Capital Projects Fund to fund those apparatus, rather than from the Apparatus Fund.

Budget Policies, continued

CAPITAL IMPROVEMENTS FUND

This fund accounts for the resources provided for and expenditures related to capital assets having a useful life of more than one year and a dollar value in excess of a predetermined amount.

Sources of Funds	Use of Funds
<ul style="list-style-type: none">▪ Transfer from other funds▪ Interest on invested surplus cash▪ Revenues from sales of surplus property	<ul style="list-style-type: none">▪ Acquisition of furniture, fixtures, equipment, and automobiles as outlined in the District's capital program.

Nearly all of the resources of this fund are the result of working capital on hand at the beginning of the fiscal year and transfers from other funds. Other revenues are provided by invested surplus cash on hand. Resources are earmarked for the acquisition of furniture, fixtures, and equipment. The District budgets amounts for expected capital replacements as well as ongoing new capital needs. The impact, if any, on the operating budgets due to these purchases are identified in the requesting department's General Fund operating budget.

EMERGENCY MANAGEMENT FUND

Sources of Funds	Use of Funds
<ul style="list-style-type: none">▪ Intergovernmental revenues	<ul style="list-style-type: none">▪ Disaster preparedness

GRANTS FUND

Sources of Funds	Use of Funds
<ul style="list-style-type: none">▪ Grant revenues	<ul style="list-style-type: none">▪ Acquisition of items approved to be funded through the awarded grant

RETIREE MEDICAL INSURANCE STIPEND FUND

This fund was established for the purpose of accounting for post retirement health care stipends to retired or disabled employees.

Sources of Funds	Use of Funds
<ul style="list-style-type: none">▪ Transfers from other District funds	<ul style="list-style-type: none">▪ Post Employment Health Plan▪ Contributions to pre-2000 retirees' post-employment benefits

PROPERTY AND BUILDING FUND

This fund, a *capital projects fund type*, accounts for the expenditures for building site acquisition and construction projects.

Sources of Funds	Use of Funds
<ul style="list-style-type: none">▪ Transfers from other District funds▪ Interest on invested surplus cash▪ Sales of surplus buildings and property	<ul style="list-style-type: none">▪ Major infrastructure repairs and maintenance▪ Future station construction

Budget Policies, continued

CAPITAL PROJECTS FUND

This fund accounts for the resources and expenditures related to the proceeds of the series 2007, 2009 and 2009B general obligation bonds and the respective projects for which the resources are targeted.

Sources of Funds	Use of Funds
<ul style="list-style-type: none">▪ Proceeds from debt issuance▪ Interest revenue	<ul style="list-style-type: none">▪ Land for fire stations, new fire station, and seismic reconstruction of other stations and Command and Business Operations Center, and emergency response apparatus

INSURANCE FUND

This fund was established for the purpose of accounting for revenues and expenses for claims associated with insurance retention and risk management.

Sources of Funds	Use of Funds
<ul style="list-style-type: none">▪ Proceeds from claims handling▪ Interest earned from invested cash	<ul style="list-style-type: none">▪ Satisfy claims presented▪ Claims handling administrative costs▪ Safety requirements

PENSION TRUST FUND

The **Pension Trust Fund** accounts for the activities related to the in-house management of the District's pension plan for its pre-1983 retirees.

Sources of Funds	Use of Funds
<ul style="list-style-type: none">▪ Transfers from the General Fund	<ul style="list-style-type: none">▪ Retiree benefit payments▪ Investment purchases▪ General benefits administration

VOLUNTEER LOSAP TRUST FUND

The **Volunteer LOSAP Trust Fund** accounts for the activities related to the in-house management of the District's length of service award plan for its volunteer firefighters.

Sources of Funds	Use of Funds
<ul style="list-style-type: none">▪ Interest on invested funds▪ Transfers from the General Fund▪ Gains and losses on investments (realized and unrealized)	<ul style="list-style-type: none">▪ Retiree benefit payments▪ Investment purchases▪ General benefits administration

CAPITAL PROGRAM

The District's **Capital Program** and policies encompass the entire area of capital purchasing for the District. The District's Capital Program operates under the purview of four strategic goals:

- Reduce the number and severity of emergency incidents.
- Enhance preparedness for catastrophic and unforeseen events.
- Leverage use of existing resources for the greatest community good.
- Ensure ongoing financial stability and predictability.

Tualatin Valley Fire and Rescue strongly believes in building and funding the primary response system to accomplish its mission of saving lives and preventing emergency incidents. The response system's impact is enhanced by a well thought out supporting infrastructure to the District's primary and most important resource – its people.

While personnel are the District's most important tool in achieving its primary mission to serve the public as their fire and rescue and emergency preparedness agency, those personnel must be equipped with the response and prevention tools to ensure their safety and success. These tools include:

- Standardized and quality fire apparatus and fire equipment;
- A technologically current voice and data communications link to the dispatch agency and other responding agencies;
- Strategically placed fire stations, which allow responding personnel the ability to reach the most citizens possible within targeted timeframes; and
- A well-developed and constantly reevaluated deployment and planning process that considers current and projected demographics, technological changes, and industry trends.

Because the equipment and capital infrastructure to support quality service to the District's citizenry is expensive, staff must plan for its best utilization considering cost of ownership, expected useful life, ease of use and training, and its funding. It is this strategic goal of "**Leverage use of existing resources for the greatest community good**" that drives the objective of standardizing as much of the District's firefighting and support equipment as possible. Standardizing fire apparatus, tools, and support equipment reduces training costs, maintenance costs, inventory support costs, and can reduce initial purchase costs.

Because the strategic goal of "**Ensure ongoing financial stability and predictability**" drives the District's financial planning policies, long-term financial forecasts are regularly prepared that consider funding sources, personnel, and capital infrastructure needs, among other areas. The District has utilized this planning process for apparatus, station construction, and other capital requirements to set aside reserve funds for these ongoing projects. Because of the costs of these items, the capital budget could range from a low of \$4 million a year to over \$10 million a year. Accordingly, the District plans funding on a multi-year plan to ensure citizen needs are met.

Budget Policies, continued

The District, which was formed through the combination of several smaller fire departments, is a regional service provider, serving nine cities and regions in three counties in Oregon. Until 1998, the District had been able to utilize its previous tax base and operating efficiencies achieved from the mergers to set aside reserve funds to fund the majority of its capital needs. However, in 1997, the Oregon voters passed Measure 50, which significantly affected the District's primary revenue source – property taxes. The Measure reduced 1997-98 property tax revenues over 16.5% and restricted the growth of tax collections in future years below prior legal levels. In 1998, voters overwhelmingly approved a \$10,000,000 bond to be issued in two phases to provide capital funding. These funds were utilized through fiscal year 2003-04. In addition, voter approval was achieved to supplement operating requirements through a four year local option tax levy that ended 2004-05, and which has been consecutively renewed through November 2014-15. Proceeds of this levy have been utilized to add additional firefighters, support personnel, and to provide supplemental capital funding. And as the voters were told at that 1998 election, the District anticipated going out for another general obligation bond in November 2006. TVF&R asked its voters for approval of a series of bond issues to be made in 2007 through 2013, to provide construction, station renovation, and response apparatus funding. At that November 2006 general election, the District received voter approval in the amount of \$77.5 million dollars of general obligation bonds authority, which is expected to fund capital projects through 2015.

The District utilizes several **reserve funds**, as defined under Oregon laws for purposes of managing capital purchases. These include the Capital Improvements Fund, Property and Building Fund, Capital Projects Fund, and Apparatus Fund. The **Capital Improvements Fund** has accounted for items or projects generally costing less than \$50,000. This has included automobiles and light trucks, firefighting equipment, fire hose, office equipment and furniture, building equipment that includes appliances as well as physical fitness items, data processing software and equipment, communications equipment, and emergency medical services equipment. Purchases in this fund are also largely items considered to be nonbondable capital items.

The **Apparatus Fund** has been utilized to fund fire engines, fire trucks, special rescue and hazardous materials response apparatus, water tenders, brush units, and other specialized fire response apparatus. Within the **Property and Building Fund**, land acquisitions and improvements were accounted for as well as major building improvements or construction. With the issuances of the Series 2007, Series 2009, and Series 2009B general obligation bonds, the **Capital Projects Fund** has been utilized for these purposes beginning in 2006-07, and reserves will be maintained in the Apparatus and Property and Building funds for future years and projects in between bond sales. In addition, the Property and Building Fund is being utilized for projects not planned within the bond.

POLICY STATEMENT

Effective financial management of available resources requires that budgetary plans for any one fiscal year be consistent with intermediate and long-range plans. Because capital acquisitions and programs generally require a well-developed plan covering a span of several years, a capital program and related budget should be developed. The District has an evolving multi-year capital replacement plan in place that forecasts capital needs and related budget requirements for each projected fiscal year. The District's primary focus is to maintain the vehicle replacement schedule, identify years in which station land purchases and construction should be performed, as well as perform ongoing equipment capital replacement based upon estimation population increases and commercial and planned community developments.

Specific budgetary and operating policies are as follows:

Apparatus Policies:

1. Standardize new vehicle purchases to the maximum extent possible.
2. Utilize a rotation system to maximize the useful lives of apparatus.
3. Purchase response vehicles designed for a specific and planned use.
4. Consider future service, planning, and demographic trends.
5. Consider "life cycle costing" in the initial purchase evaluation.
6. Perform ongoing and regular preventative maintenance on apparatus to maximize the longest effective and useful life.
7. Maintain a fleet with an average age not to exceed 12 years.

Facility Policies:

1. Construct fire stations accordingly to stage of surrounding development:
 - a) Construct 50-year facilities in areas that are largely developed.
 - b) Develop temporary, resalable facilities in areas that are rapidly developing and may have road condition and population shifts as the area develops.
2. Incorporate community rooms into fire stations to assist the communities, cities, and law enforcement agencies with achieving community oriented goals not specific to the fire service.
3. Consider "life cycle costing" in the design of new facilities.
4. Utilize cooperative relationships with other governments, where possible, to jointly site facilities and share in costs of construction.
5. Construct facilities that can house career and volunteer firefighters as well as male and female response personnel.
6. Achieve "good neighbor" relationships when designing, developing, and working out of fire stations.
7. Provide regular preventative maintenance on facilities to ensure longest useful life.
8. Consider apparatus, potential personnel deployment, and response times effect of standardization when designing facilities.
9. Consider environmental policy initiatives in facility design and repair and maintenance.

Equipment Policies:

1. Equip District firefighters with the tools and equipment necessary to maximize the margin of safety and survivability in an inherently dangerous job.
2. Consider safety, training ease, life cycle costing, and length of useful life when evaluating equipment purchases.
3. Standardize equipment where possible to save training costs, increase safety, and support mobile workforce working throughout the fire station system.
4. Provide regular preventive maintenance and provide resources for replacement of equipment with predictable useful lives.

The District's Capital Program identifies capital expenditures necessary to accomplish long-range objectives and meet the needs of the area for which services are provided.

The Capital Program is categorized by the type of capital outlay or expenditure within the individual capital funds alluded to above as follows:

- **Public Safety Vehicles:** Includes automobiles, light trucks, firefighting apparatus, and special purpose units.
- **Equipment:** Includes firefighting, building, and office equipment as well as emergency medical services and voice/data communications equipment.
- **Property & Building:** Includes land acquisition, land improvements, building construction, and major building improvements.

RELATIONSHIP OF CAPITAL BUDGET TO ANNUAL OPERATING BUDGET

In the process of the District's capital replacement program, an evaluation is made on how the capital expenditure decisions will affect annual operations and specifically, the General Fund. The impact on the General Fund is an important factor because the majority of resources in the Capital Improvements, Property and Building, and Apparatus Funds have been from transfers from the General Fund. The District is particularly concerned about the level of recurrent capital expenditures for land, buildings, apparatus, vehicles, and equipment that can be financed on a "pay-as-you-go" basis from operating funds versus the capital expenditures that should be funded from **General Obligation Bond proceeds**. Measure 50 has fundamentally changed the way the District must finance capital to either debt issuances or supplemental tax levy authority.

Budget Policies, continued

The majority of the District's fixed assets are of a type that can be forecast on a **replacement cycle**. Included in these items, however, are the high cost fire engines, fire trucks, brush units, water tenders, special purpose vehicles, and equipment that have high cost per unit. It is in this area that expenditure decisions become more difficult in that these high cost items now require funding over and beyond the fiscal capacity of the District's annual operating budget.

Specific considerations are as follows:

1. Capital expenditures may need to be financed on a "pay-as-you-use" basis. Debt will not be issued to fund purchases with a shorter useful life than the debt repayment schedule.
2. It is recognized that the political and economic impact of the investment in long-term projects or equipment extends far into the future.
3. Long-term capital items or project investment decisions are often irreversible, except at considerable financial cost.

CAPITAL PROJECT SUMMARY

The summary of 2010-11 approved capital projects is as follows. Detailed capital outlay descriptions, as well as the operating impact from each project, can be found within the individual funds.

Fund	2010-11
Capital Improvements Fund	
Training Props	\$277,000
Buildings and Improvements	26,975
Fleet Maintenance & Shop Equipment	113,500
Office Equipment & Physical Fitness Equipment	1,343,102
Firefighters, EMS and Communications Equipment	2,138,274
Data Processing Software	694,120
Office, Building, and Computer Equipment	<u>181,070</u>
Total Capital Improvements Fund	4,774,041
Grants Fund	
Information Technology and HazMat	<u>20,075</u>
Total Grants Fund	20,075
Property and Building Fund	
Building Improvements	<u>818,705</u>
Total Property and Building Fund	818,705
Capital Projects Fund	
Buildings and Improvements	20,283,727
Fire Apparatus	<u>1,449,000</u>
Total Capital Projects Fund	21,732,727
Total Capital Outlay for 2010-11	<u>\$27,346,223</u>

DEBT POLICIES

Debt financing for long-term capital projects or equipment items is based upon the "pay-as-you-use" method, which in its purest form means that every long-term item or project is financed by a serial debt issue with maturities arranged so that the retirement of debt coincides with the depreciated or expected life of that item or project. Under this "pay-as-you-use" method of financing, the interest and debt retirement charges paid by each generation of taxpayers should coincide with their use of the physical assets or improvements and parallel the productivity of the item or improvement.

In contrast to what often occurs under "pay-as-you-go" or "pay-as-you-acquire" financing methods, under "pay-as-you-use," desirable or urgently needed capital items or projects need not be delayed until sufficient funds can be accumulated. Moreover, no one is forced to provide what is essentially free use of capital projects or items for a future generation of users, or taxpayers, or to contribute funding to a governmental unit in which he or she will not live. Furthermore, new members to the District will not be able to enjoy the fruits of capital acquisitions without having contributed to their financing. In actual practice, the District has used a mix of these two basic methods to finance its capital program.

Specific **debt policies** are:

1. Long-term borrowing is confined to meet the needs outlined in the capital program.
2. Long-term capital projects may not be financed by the issuance of debt obligations for periods unless correlated with the projected useful life of the project or item.
3. Revenue sources that will be used to pay long-term debt will be conservatively forecasted to ensure that such debt is adequately financed.
4. Long-term debt will be used only when it has been determined that future generations of citizens and/or taxpayers will derive benefit from the improvement.
5. The District's total general obligation debt will not exceed 1.25% of the true cash value of assessed property.
6. The District will continue to maintain effective communications with bond rating agencies to keep them informed of its financed condition, and to obtain a review of its bond rating when it is indicated that a regard would be prudent.
7. The District will maintain its policy of full financial disclosure on financial reports and any bond prospectus.
8. A separate debt service fund will be maintained for the District's bonded obligation.

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