TO:	Donald Wescott Fire Protection District Board of Directors
FROM:	Amanda Castle, Assistant Director of Finance and Accounting Pinnacle Consulting Group, Inc.
SUBJ:	Necessary Mill Levy Calculation
DATE:	5/17/2017

Issue

In the coming years, it is projected that Donald Wescott Fire (the "District") will lose more than 65% of property tax revenue due to annexations of large amounts of property within its current boundaries. The Board of Directors contracted with Pinnacle Consulting Group, Inc. to review the mill levy increase required to allow continuants remaining in the District to sustain the same level of service they had prior to the annexations. Based on the work performed, Pinnacle Consulting Group, Inc. recommends that the District consider a 14.9 mill increase, for a total of 21.9 mills levied. The results of Pinnacle's analysis are documented below.

Assumptions

The following assumptions were used in the creation of the District 10 year projections –

1. REVENUES

    a. 2% increase in commercial assessed value (AV)– Commercial property is expected to continue to increase in value. As such, Pinnacle projected the increase at 2%. All other revenues and expenditures were projected at a 2% increase, and as such this projection is appropriate.

    b. Residential AV remains flat – In the coming years residential property values are anticipated to rise across the state. As residential rates rise, the State will decrease the residential assessment rate due to the Gallagher Amendment. Rates in the District are not anticipated to climb as fast as other areas of the state. As such, the possible continued decrease in the residential assessment rate may cause the Districts revenues to dip, or remain flat. Therefore, the District projected residential assessed values to remain flat through the years.

    c. The District excluded the AMR contract revenues from the projections. Based on the current contract, and contracts with the City, the District does not believe this will be a continued source of revenue. As such, it was removed.

    d. Remaining grant revenue was included for funds receivable from the Build America Bonds (BABS) note the District currently holds.

    e. Specific ownership tax was estimated at 8% of property tax revenue, which is consistent with trends in prior years.

    f. All other increases were projected at 2%

2. EXPENDITURES

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a. Debt of the District was included based on the current debt schedule, with the final payoff in 2025.

b. The District excluded the purchase of capital assets from the model. Any new assets required would be required due to new construction. The District will be able to assess an impact fee on any new construction, thereby funding any future capital that would be required to serve new constituents.

c. All other increases were projected at 2%

3. ENDING FUND BALANCE

a. TABOR – As required, the District restricts 3% of ending fund balance as a reserve for emergencies.

b. Unassigned – The District estimates that an unassigned reserve of $300,000 is necessary. This allows the District to continue to survive should unexpected expenses arise.

c. Operational Reserve – The District projects 25% of expenditures as an operational reserve. Property taxes for the District do not come in until the beginning of the second quarter of the year. As such, the District requires a reserve balance to utilize until funds are available.

d. Reserve for future years spending – This represents remaining fund balances over or (under) within the model.

Findings

Pinnacle Consulting Group, Inc. used the above assumptions to project balances for the next 10 years based on the 2017 budget, historical information, and assessment data from the county. It is the goal of the District to assess a mill levy strong enough to allow the District to sustain current levels of service for at least 8-10 years. Based on the assessment performed, it was concluded the District would require a 14.9 mill increase to sustain service levels within the District, putting the District on par with similar sized Districts in the area.

Based on this level of increase, the District could maintain the fund balance requirements noted above until 2024, at which time the District would no longer be able to contribute to a reserve for future years spending, and instead would need to utilize reserve balances.

Additionally, based on a 14.9 mill levy increase, the District may need to consider additional financing options in 2026, should property tax values remain flat.

Pinnacle also took time to review a proposal suggesting a 7 mill increase to the District, as opposed to 14.9. Based on our review of the information provided, we do not believe the District could survive with an additional 7 mills. By increasing 7 mills the District would be asking constituents to pay more taxes for a decreased level of service. Such a decrease could result in a decrease in the District ISO level, resulting in increased homeowner's insurance expenses for the constituents. Additionally, the District would be required to find additional sources of revenue within a few short years.

Finally, this solution is dependent upon the sale of station 2. Selling this asset does not make sense, as Station 2 is strategically located in a wildfire interface area. Additionally, the District anticipates commercial growth that would ultimately require the use of the station. If the District sold the Station, it would need to build a new station in the future, costing far more than it would to maintain station 2.

Conclusion
In our professional opinion, a mill levy increase of 14.9 mills would allow the District to sustain current levels of service for the next 8-10 years. It provides the necessary funds to maintain services, without allowing for extraordinary or unnecessary purchases. Assumptions used were conservative, and it is our professional opinion that anything less than 14.9 mills would require a fundamental change in the level of service provided.