TOWN OF PARADISE
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Dwight L. Moore, Town Attorney
Joanna Gutierrez, Town Clerk
Lauren Gill, Assistant Town Manager
Craig Baker, Community Development Director
Dennis Schmidt, Public Works Director/Town Engineer
Chris Buzzard, Police Chief
Gina Will, Finance Director/Town Treasurer

Town Council:
Alan White, Mayor
Steve "Woody" Culleton, Vice Mayor
Joe DiDuca, Council Member
Scott Lotter, Council Member
Tim Titus, Council Member

TOWN COUNCIL AGENDA

SPECIAL MEETING – 6:00 pm. – April 12, 2011

Members of the public may address the Town Council only on the items listed on the Special Meeting Agenda, including closed session. If you wish to address the Town Council, it is requested that you complete a "Request to Address Council" card and give it to the Town Clerk prior to the beginning of the Council Meeting.

All writings or documents which are related to any item on an open session agenda and which are distributed to a majority of the Town Council within 72 hours of a Regular Meeting will be available for public inspection at the time the subject writing or document is distributed to a majority of the subject body. The information will be available at the Town Hall in the Town Clerk's Department at 5555 Skyway, Paradise, California, during regular business hours Monday through Thursday from 8:00 a.m. to 5:00 p.m.

1. OPENING

a. Call to Order
b. Pledge of Allegiance to the Flag of the United States of America
c. Roll Call

2. COUNCIL CONSIDERATION

2a. Following presentation, acknowledge receipt of the 2009/2010 Annual Audit.

2b. Consider adopting Resolution No. 11-__, A Resolution of the Town Council of the Town of Paradise Concerning Layoffs Due to the Town's Continued Financial Problems. **(ROLL CALL VOTE)** (Staff report will be distributed as additional agenda material)

2c. Consider adopting Resolution No. 11-__, A Resolution of the Town Council of the Town of Paradise Approving the Town Investigating the Possibility of Contracting Fire Services to CALFIRE. **(ROLL CALL VOTE)**

2d. Consider (1) Approving the Town Manager's appointment of Tony Lindsey, the Town's current 28-hour Assistant Fire Marshal/Assistant Building Official, to the new 32-hour Fire Marshal/Building Official position at an increased cost for the balance of the 2010/11 fiscal year of $4,730.57 and at a savings of $17,903.55 for Fiscal Year 2011/2012; (2) Approving the proposed new job description; and, (3) Re-establish the previous salary pay schedule for the Fire Marshal/Building Official position (at 32 hours per week). **(ROLL CALL VOTE)**

3. CLOSED SESSION

3a. Pursuant to Government Code Section 54957.6, the Town Council will hold a closed session to meet with Charles L. Rough, Jr., Lauren Gill, Gina Will, Dennis Ivey and Crystal Peters, its designated representatives, regarding labor relations with between the Town and the Confidential/Mid-Management Association, the Firefighters' Association, Fire Mid-Management Association, the General Employees Unit, the Management Unit, the Police Mid-Management Association, and the Police Officers Association.

4. ADJOURNMENT

STATE OF CALIFORNIA)
COUNTY OF BUTTE) ss.

I declare under penalty of perjury that I am employed by the Town of Paradise in the Town Clerk's Department and that I posted this Agenda on the bulletin board both inside and outside of Town Hall on the following date:

_____
Town Clerk

TOWN OF PARADISE
Council Agenda Summary
Date: April 12, 2011

AGENDA NO: 2(a)

ORIGINATED BY: Gina Will, Finance Director/Town Treasurer

REVIEWED BY: Charles L. Rough, Jr., Town Manager

SUBJECT: Presentation of Fiscal Year 2009/10 Audit Report

LEGAL REVIEW: yes no N/A

COUNCIL ACTION REQUESTED:

1. Following the Town Councils review of the Fiscal year 2009/10 audit report, staff recommends that the Council receive and file the Report, as submitted; OR

2. Refer the Report back to staff for further clarification.

BACKGROUND:

Moss, Levy and Hartzheim, LLP, Certified Public Accountants have completed the annual audit for Fiscal Year 2009/10. Moss, Levy and Hartzheim, LLP indicated that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paradise as of June 30, 2010.

The Town Management did a thorough analysis of the financial statements and that analysis is included in the financial statements as "Management's Discussion and Analysis" on pages 3 through 11. Council is encouraged to read management's complete discussion and analysis included in the report, but staff has highlighted some key results and elements of the financial statements as follows:

Financial Highlights

- The Town's governmental ending fund balances and proprietary funds net assets increased by 2.8 percent to $4.7 million as the Town made a concerted effort to maintain ending fund balances and assets.
- The General Fund ending fund balance increased $92,727 before prior period adjustments and the ending fund balance was $1.87 million.
    - General Fund Revenues were down $1.06 million across all revenue categories as a result of the recession and as most of the reimbursements resulting from the 2008 wildfires were recouped in the prior fiscal year.
    - Employees agreed to concessions, layoffs and early retirements were necessary, and departments reduced operating expenses. The combined resulted in current expenditure savings of $1.21 million or 11%.

- Debt service principal and interest reflect an increase of $764,819 as the first payment of the Pension Obligation Bond totaling $760,000 became due in 2009/10. The Pension Obligation Bond was issued in 2007 to pay for the unfunded liability related to CalPERS pension benefits.

OPEB (Retiree Health Benefits)

In order to comply with GASB 45 the town hired an actuary to measure the liability associated with the Town's postemployment health benefits (OPEB). The results of that study and the GASB 45 required disclosure and reporting of that obligation in the June 30, 2010 financial statements has immediately strengthened Town Management's commitment to immediately reduce that future obligation to one that is sustainable for the Town.

The study indicates that $3.1 million is the annual OPEB cost for 2009/10 after factoring out the $446,858 already paid for current retiree health premiums. Further, the actuary study indicates that the present value of total projected benefits for current and retired employees as of June 30, 2010 is $45.8 million. That is $30.2 million for current employees and $15.5 million for current retirees or $27.3 million for current and retired safety employees and $18.5 million for current and retired non-safety employees.

While this obligation is not immediately payable, according to GASB 45 it is required to be reported and included as a noncurrent liability of governmental and business-type activities. The Town's assets increased 6.3 percent or $1.48 million during 2009/10; however, net assets decreased 64.5 percent or $1.8 million by recording this obligation.

By implementing a retiree health vesting schedule for new hires as of January 1, 2011, the Town has already taken steps to begin reducing this liability. The vesting schedule requires that a new employee have at least five years of service with the Town and ten years of CalPERs service to be eligible for 50% of retiree health benefits. The new employee is not eligible for 100% of retiree health benefits until they have achieved at least twenty years of service. In addition, the Town can greatly reduce this liability by reducing the amount of current health care premiums paid on behalf of active employees and retirees now and into the future. Finally, the Town can reduce the liability by creating a trust and by beginning to fund this liability. Creating a trust allows the actuary to factor in a discount rate of about 7% because it is assumed that amounts invested will earn interest and compound over time. It will be important for the Town to address and arrest this liability as quickly as possible in order to protect the fiscal solvency of the Town.

Protecting Fiscal Solvency

The Town had a chance to elaborate on its plans to reduce the obligation indicated above as well as to increase the undesignated general fund reserve in Note 17 of the financial statements. Despite the recession and the financial challenges of the Town, the Town has currently completed nine months of the 2010/11 fiscal year without any cash flow shortages and has been able to meet all of its financial obligations on a timely basis because of the actions it continues to take to protect its fiscal solvency.

The Town started another tier of retirement benefits for employees hired after February 2011. This immediately lessens the amount of contribution expense for newly hired employees and lessens the long term liabilities of the Town. These actions add to the momentum started during 2009/10 where the operational expense cuts increased the Governmental funds and net assets of Proprietary ending fund balances of the Town. While not all of these ending fund balances are available for administrative purposes, it helps that as many funds as possible are self sustaining and aren't a further drain on the general fund.

The Town ended the 2010 fiscal year with cash in its governmental and business type funds of $3,494,786 even after the cash advances and loans made to the Paradise Redevelopment Agency (RDA). Further, the Town would have had cash in these operating accounts of $4,066,713, but was waiting for reimbursement of $571,927 from the federal government for the completion of a stimulus project. These funds were received by the Town by October 2010. For comparison, as of June 30, 2009 the Town had cash in its governmental and business type funds of $3,942,284. Healthy cash balances in other funds are important so that the general fund is not advancing cash to other funds in a time where the Town needs to rebuild the undesignated reserves in the general fund.

The Town has an ending general fund balance of $1,865,727 as of June 30, 2010. Related to the amounts set aside for RDA advances and loans, the Town believes this was a fiscally responsible investment for the Town given that prior loans have been repaid without incident and that the Town is receiving 4.5% interest on the loans which is additional income for the general fund during a time when investment income is scarce. The Town will receive principal and interest payments toward these loans of $45,265 during 2010/11 and $304,311 during 2011/12 which will be used to rebuild undesignated reserves. Further, the Town and RDA have officially documented part of the advance in another 4.5% five year loan of $479,613 during 2010/11. Also, the Town has virtually shut down the RDA so minimal advances will continue to be made to the RDA until RDA tax increment recovers and until the fate of RDA statewide is known. The RDA has brought $2.5 million for RDA projects and other local community agencies since its inception.

FINANCIAL IMPACT:

The action to receive and file the 2009/10 audit report does not in itself result in a cost to the Town of Paradise. Recommendations contained in the management letter have no costs associated with implementation. The recommendations are procedural in nature and do not carry an implementation cost.

TOWN OF PARADISE

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MOSS, LEVY & HARTZHEIM LLP

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the Town Council
Paradise, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paradise (Town) California, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Town's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Paradise, California as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Town of Paradise, California, will continue as a going concern. As discussed in Note 17 of the notes to the financial statements, the Town's general fund cash balance has been depleted and there was no unreserved undesignated fund balance amount remaining to fund the ongoing activities of the Town (with a majority of the fund balance being reserved for advances due from the RDA fund) as of the fiscal year ended June 30, 2010. Additionally, the Town had net assets of $1,190,620 in governmental activities, a deficit in net assets of $232,131 in the business-type activities, an annual OPEB cost for the fiscal year ended June 30, 2010 of $3,571,180 and a UAAL amount of $31,318,266 (per information provided in the GASB 45 Actuarial Valuation Report). The annual OPEB cost for the fiscal year ended June 30, 2011 is $3,765,939 (per information provided in the GASB 45 Actuarial Valuation Report). These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 17. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in note 1 of the notes to basic financial statements effective July 1, 2009, the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions;* GASB Statement No. 51, *Accounting and Financial Reporting by Intangible Assets;* GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments;* GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans;* and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies.*

OFFICES: BEVERLY HILLS • SANTA MARIA

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In accordance with *Government Auditing Standards*, we have also issued a report dated March 29, 2011, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on page 3 through 11, the Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual-General Fund, Home Grant Fund, Redevelopment Agency Fund, and CAL Home Rehabilitation Fund, and the Schedule of Funding Progress-Other Post-employment Benefits on pages 65 through 71 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers them to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements as a whole. The Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual-Capital Improvement Fund, the Combining Non-major Governmental Funds Financial Statements, Non-major Funds Budgetary Comparison Schedules, and Fiduciary Funds financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual-Capital Improvement Fund, the Combining Non-major Governmental Funds Financial Statements, Non-major Funds Budgetary Comparison Schedules, and Fiduciary Funds Financial Statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Moss, Levy & Hartzheim, LLP
Beverly Hills, CA
March 29, 2011