CITYGATE ASSOCIATES, LLC

Folsom (Sacramento), CA

Management Consultants

Fiscal Review

Lakeside Fire Protection District

August 4, 2014

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EXECUTIVE SUMMARY

The Lakeside Fire Protection District (the District) retained Citygate Associates, LLC to perform a Standards of Response Cover (SOC) study. As part of this study, Citygate was engaged to perform a fiscal review of the District. For this fiscal review, presented as a stand-alone report (separate from the 3-Volume SOC Report), the District staff provided budget documents and supplemental budget information. Citygate also reviewed the District's audited financial statements for FY 2009/10, FY 2010/11, FY 2011/12, and FY 2012/13 to develop an understanding of recent financial trends and fiscal performance. These documents provided the fundamental financial information needed to evaluate the District's assets, liabilities, and equity position.

The review also included interviews with key District staff to answer questions and provide a deeper understanding of the past and current financial and policy issues.

On April 22, 2014, the Board received a financial briefing and presentation. Citygate staff provided a review and findings related to the District's current financial position as well as long-range projections, significant financial trends, and financial best practices relevant to the District.

The review and analysis provided in this report discusses the District's key financial components and emphasizes the primary financial elements that play a significant role in the District's long-term financial sustainability. This report is organized into the following areas:

- Executive Summary
  - Summary of Observations
- Fiscal Review
  - Overview
  - Review of Fund Balances, Cash, and Liabilities
  - Cash Position
  - Liabilities
  - Revenue Outlook
  - Expense Outlook
  - Long-Range Outlook
- Findings and Recommendations
  - Summary of All Findings and Recommendations.

Below Citygate summarizes the observations of our financial review.

SUMMARY OF OBSERVATIONS

The Lakeside Fire Protection District made decisions that mitigated the financial impacts of falling property tax revenues that resulted from the housing and economic meltdown of 2008 and the impact of increasing employee costs. Even with those efforts, the projected revenue growth assumed in the forecast will be outpaced by expenditure increases over time. At its current rate of increase, revenue growth will **not** catch up with expenditure growth. This structural imbalance between revenues and expenditures will ultimately erode away the District's existing reserve levels over time.

Below we provide our summary of observations and findings:

- The District has made significant financial progress in the past
- Still, projected costs exceed projected revenue
- Property tax revenue is expected to slowly recover
- The projected revenue-to-expense shortfall will slowly erode unrestricted Fund Balance levels
- Cash levels remain adequate due to restricted Fund Balances
- The impact of PEPRA will provide some relief but the rate of employee attrition is not highly predictable
- The cash flow impact of PEPRA will be offset by OPEB costs
- New revenue sources are needed as long as their inclusion does not significantly increase ongoing operating costs
- Business/financial planning is critical for long-term financial sustainability
- A capital and asset replacement strategy is needed
- Analysis of a debt financing alternative is needed
- Continued development of internal strategic financial analysis is vital, including both staffing levels and expertise
- Financial systems and analytical tools will provide significant results, including reduced risk and increased strategic opportunities
- Succession planning will assure strategic and financial continuity of services in the long-term.

For the District's business plan to be successful it must capture enough revenue to meet its annual ongoing financial requirements. These include cash flow requirements for operating costs for staffing, supplies, professional service contracts, associated fees, and annual capital expenditures.

The District must also maintain an adequate reserve level to meet its short-term cash flow needs and fund an annual share of its capital asset depreciation/replacement requirements. The business plan will ultimately falter without meeting these two primary plan elements.

If an agency has past financial or operational liabilities that have not been adequately funded, a plan for "catch-up" funding needs to be initiated to restore adequate reserve levels for long-term cost programs. Some of these costs can certainly be debt financed; however, this strategy will necessitate increased costs related to interest, debt issuance, and debt management expenses. Obviously, this is an option that should be carefully evaluated and reviewed annually.

The more volatile the revenue sources the greater the need is to capture reserve levels that will allow the agency to "ride out" the bad years. Reserve levels should be evaluated carefully on a periodic basis. They need to be able to meet both the operating expense cash flow and to provide enough funding for emergencies and opportunities.

Even given the above challenges, the District has made significant progress, and many opportunities exist for continued success in the future.

SECTION 1—FISCAL REVIEW

1.1 OVERVIEW

The Lakeside Fire Protection District is a stand-alone independent special district under California law with a directly-elected Board of Directors. The primary role of the District is to provide fire protection services to a defined geographic area. The primary funding source for fire protection services is property taxes, which are shared with other local jurisdictions.

The housing and economic meltdown of 2008 significantly impacted the assessed value of property in the jurisdiction as it did throughout the state and nation. That reduction in assessed value had a corresponding impact on property tax revenues and significantly decreased the annual income for District. Assessed values and resultant property taxes are beginning to recover. Some income relief has come in the form of additional property tax revenue related to the dissolution of California Redevelopment Agencies.

Fire protection service delivery costs are primarily driven by employee costs. Those costs increased over the same period of time that property tax revenues decreased. The cost of employee benefits, especially those related to pension and health care, have increased and will continue to increase into the future.

The District made decisions that mitigated some of the financial impacts of falling property tax revenues and increasing employee costs. It reduced budgets and controlled employee salary and benefit costs. Even with those efforts, the projected revenue growth assumed in the forecast provided in this report is projected to be outpaced by expenditure growth. This assumes a stable and fundamental business plan with full funding of long-term liabilities and basic infrastructure maintenance provisions. At its current rate of increase, projected revenue growth will not catch up with expenditure growth without significant changes in the local economy or an infusion of an additional ongoing funding source. This structural imbalance between revenues and expenditures will ultimately erode away the District's existing fund balance levels over time.

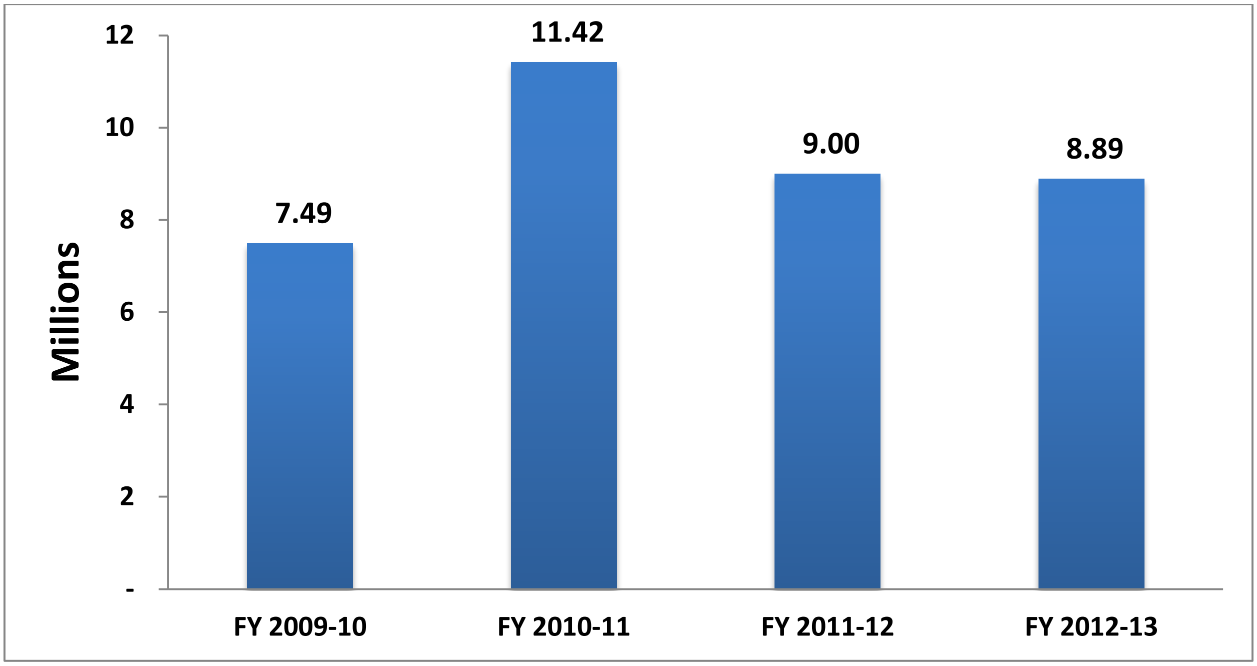
The next few pages will provide a summary of the primary elements reviewed in the fiscal analysis.

1.2 REVIEW OF FUND BALANCES, CASH, AND LIABILITIES

For the District to be a viable public service provider in the long-term, the business plan needs to take into consideration the relative position of its assets, liabilities, and equities (fund balances). These important financial/business plan elements should be reviewed and evaluated on an annual basis with thoughtful consideration being paid to their fiscal implications.

The District should maintain fund balances and reserve levels that are sufficient to meet the ongoing operations and long-term business requirements of the agency. These fund balance and reserve levels should be the subjects of consistent and continual policy review on a periodic basis as part of the budget and fiscal analysis and review process.

Figure 1—Total Fund Balance



The above chart shows the overall fund balance level of the District. Fund balance levels can vary from year to year based on a variety of conditions. For example, elevated fund balances may exist when a District is holding debt proceeds for capital infrastructure construction purposes. Clearly understanding the adequacy of fund balance levels required a review of source and use of fund balance component. The table below provides a three-year view of the District's fund balance levels.

Table 1—Ending Fund Balance

Ending Fund Balance by Availability	FY 2010-11	FY 2011-12	FY 2012-13
Non-Spendable	-	-	4,698
Restricted	3,381,601	-	-
Contingencies	-	-	900,000
Capital Reserve	2,150,000	2,100,000	1,559,400
Leave Accrual Reserve	1,075,479	1,200,000	1,025,000
OPEB Reserve	3,242,962	3,250,000	2,268,000
SDG&E Mitigation			546,000
Unassigned	1,565,309	2,446,506	2,582,084
Total	**11,415,351**	**8,996,506**	**8,885,182**

Restricted fund balances as shown in Fiscal Year 2010/11 are generally funding sources that can only be spent for a specific purpose such as bond proceeds for capital constructions or grant expenditures. These fund balances can be held either at the District's investment pool level or at the Trustee level where the funding is drawn down as construction occurs.

Capital reserves typically provide the funding mechanism to set aside resources for either existing capital asset maintenance or replacement purposes. As capital assets such as vehicles and equipment depreciate, this figure should provide enough resources to maintain critical operating assets. Debt financing strategies can also be used to meet this objective but ultimately replacement costs will be higher than the pay-as-you-go approach. Typically some combination of both approaches is used. Keep in mind that capital assets can only be financed for their useful lifecycle.

Fund balances for leave accruals and Other Post Employment Benefits (OPEB) represent long-term liabilities of the District. These liabilities will be expensed at a future date. These represent significant long-term costs for the District and are the subject of analytical procedures to estimate the future cost and, just as importantly, the amount the District should be setting aside each year to fully fund the future costs. At its height, future retiree health care costs (OPEB) will constitute a significant expense for the District. The District should be setting aside the Annual Required Contribution (ARC) necessary to meet its OPEB liabilities.

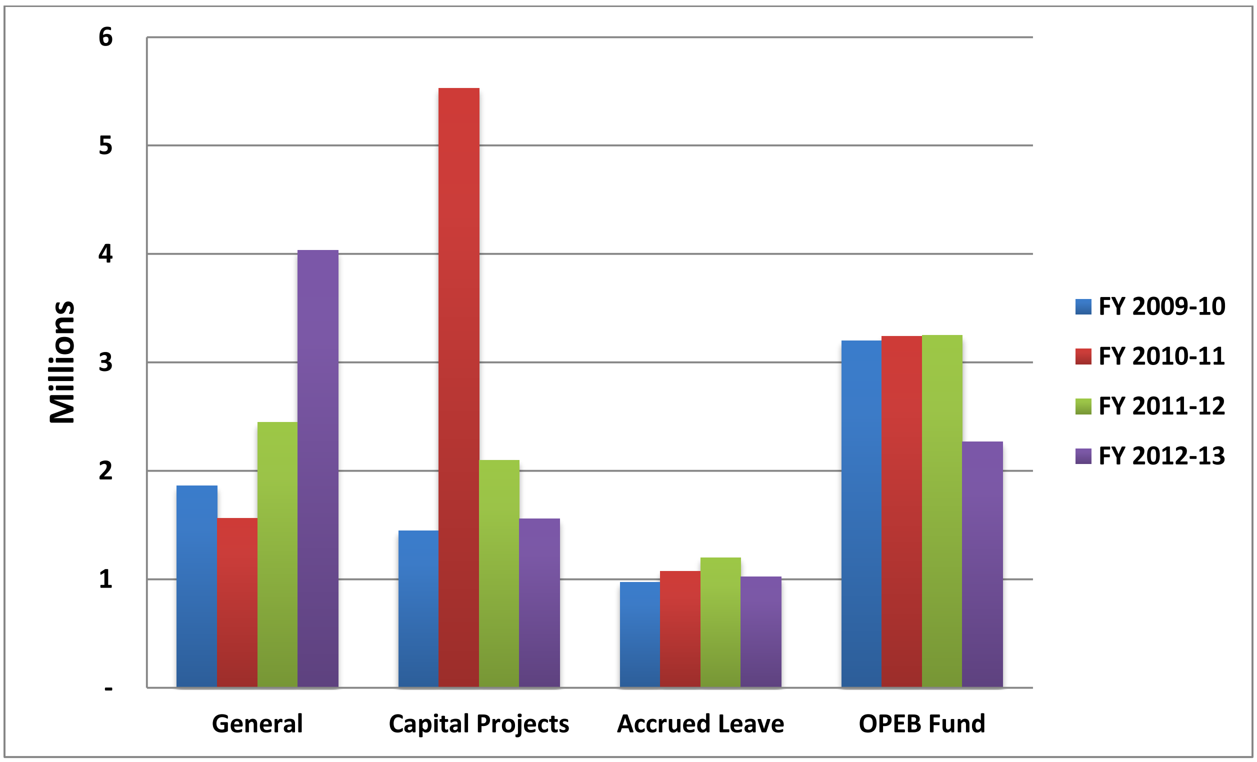
The dip in OPEB fund balance is a function of reduced transfers from General Fund and the continued expenditures for retiree health costs. This moving target will continue to be the subject of much budget policy discussion and deliberation.

Finding #1:	Current fund balance levels reserved for long-term business liabilities associated with capital asset replacement and retiree medical benefits (OPEB) are under-funded at this time.

Recommendation #1:	A strategy should be developed to adequately fund these important long-term business elements. This strategy can be a phased multi-year approach.

The chart below shows the fund balance trend over the last four fiscal years.

Figure 2—Fund Balance by Fund



The District's General Fund is the primary operating fund for the District. It provides the major revenue stream for District operations. The table below shows the General Fund's balance by category over the past three years (actual).

Table 2—General Fund Ending Fund Balance

General Fund	FY 2010-11	FY 2011-12	FY 2012-13
Unassigned	1,565,309	2,446,506	2,582,084
Contingency			900,000
SDG&E Mitigation			546,000
Non-Spendable			4,698
Total	**1,565,309**	**2,446,506**	**4,032,782**

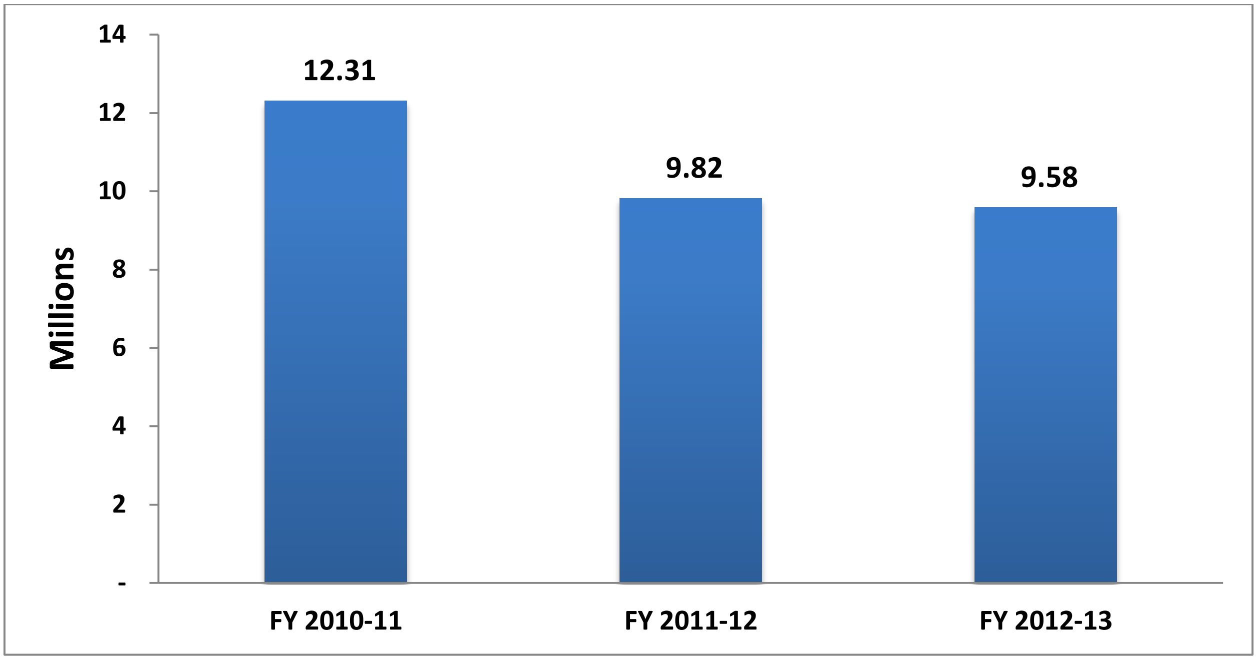
This table and the previous fund balance chart show an increase in the General Fund's balance from $2.4 million in Fiscal Year 2011/12 to $4.0 million in Fiscal Year 2012/13. This increase is primarily due to one-time revenue increases in SDG&E Mitigation revenue, one-time Redevelopment catch-up revenue, and a reduction in the OPEB transfer.

1.3 CASH POSITION

A key component of the District's asset base is the amount of cash it has available. When reviewing a balance sheet the assets are arranged from the most liquid at the top to the least liquid at the bottom. The District's cash position is a critical element in understanding the long-term viability of the District. Most of the District's revenue is received in December and May. The expenditure trend is paid out in a more even monthly cycle. Therefore, the District must maintain enough cash on hand to pay expenses from the second property tax payment in May until the next December. This creates a dry financing period where reserves must sustain the necessary cash flow for operating expenses. Although the District's cash balances for OPEB, Capital Funds, and accrual liabilities have high balances, these cash sources are restricted and should not be used to supplement general operations from one fiscal year to another. This pooled cash can be used within a fiscal year for cash flow purposes but the restricted cash balances need to be restored before the fiscal year closes.

At June 30, 2013, the date of the last published financial statement, the District's cash balance was approximately $9.6 million. This figure represents a slight decrease from the prior fiscal year and approximately a $3.5 million decrease from Fiscal Year 2010/11. The decrease from Fiscal Year 2010/11 was primarily due to capital construction. The table below shows the cash position for the past three fiscal years.

Figure 3—Cash Position (Total Cash)



Cash flow is an important component of any business operation. To monitor cash flow an understanding of the month-to-month timing of revenue receipts and expenditure patterns is required. At this time, the District's current cash position appears to be at levels that are adequate for operation purposes. The table below shows the relative cash levels by category.

Table 3—District Cash Position

Cash	FY 2010-11	FY 2011-12	FY 2012-13
LAIF	7,487	7,527	7,552
Deposit Held in Financial Institution	59,734	35,509	58,977
Cash with Fiscal Agent	3,967,443	582,888	553,024
Cash with County	8,273,620	9,193,820	8,963,933
Petty Cash	500	500	500
Total Cash	**12,308,784**	**9,820,244**	**9,583,986**

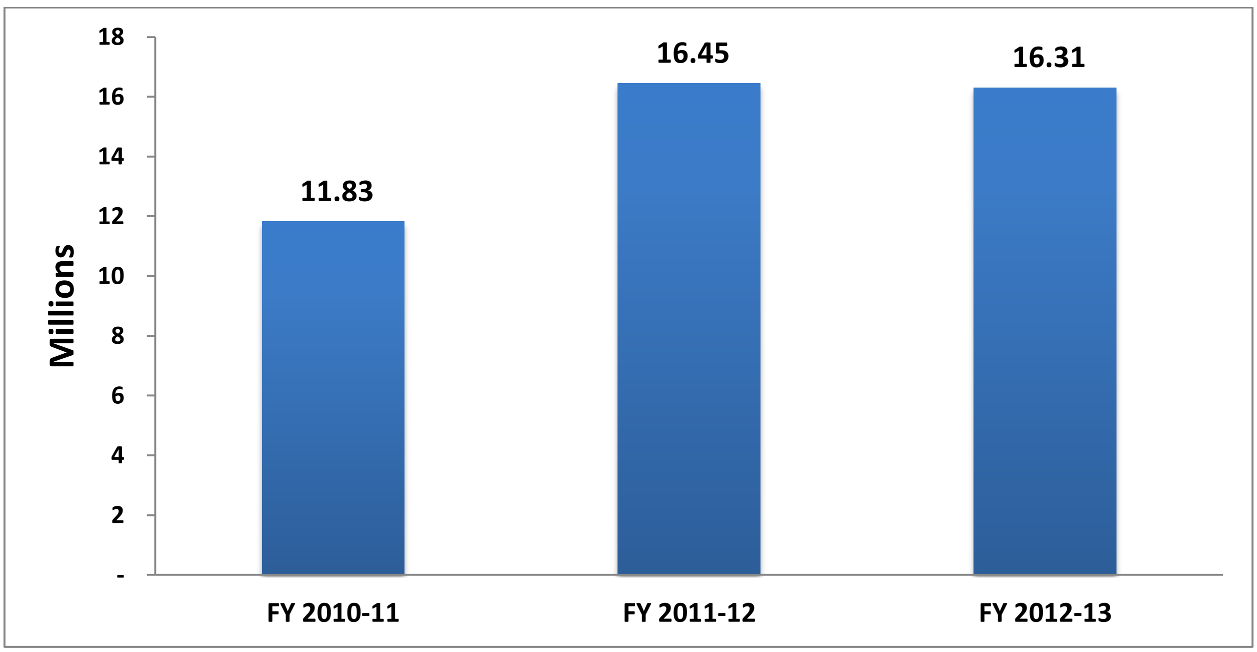
Finding #2: Although audited cash balance levels have declined over the past three years, they are currently adequate to meet operating cash flow because of the availability of pooled cash reserved for specific purposes. The decline is primarily due to capital expenditures.

Recommendation #2:	Cash requirements associated with operating expenditures and infrastructure replacement should be reviewed as part of any proposal to consider modification of fire protection staffing or service levels or provisions related to new funding sources.

1.4 LIABILITIES

Liabilities are an estimate of the obligations that the District will be required to pay at some time in the future. The chart below shows the increase in liabilities over the past three years.

Figure 4—Total Liabilities



These liabilities include items such as long-term debt, pension bonds, employee leave accruals, and OPEB. The table below shows the District's liabilities by category. The most problematical and potentially volatile liability is OPEB. The District's ability and commitment to funding the ARC is an important budgetary issue. The ARC is currently estimated at approximately $0.8 million per year. Every year that the ARC is not funded, a significant funding shortfall is created that will eventually have huge consequences as the actual cost of retiree health care increases. This continued growth in medical costs is another uncertainty associated with this liability. To the District's credit, it has made progress on OPEB reforms via reductions retiree health benefits for new employees. A periodic actuarial study to update the cost of OPEB is a best practice in financial management that the District should continue to utilize.

Table 4—Liabilities

Liabilities	FY 2010-11	FY 2011-12	FY 2012-13
OPEB	3,646,000	4,865,805	5,627,777
Long-term Debt	7,095,000	6,825,000	6,550,000
2012 Pension Bond	-	3,526,000	2,846,000
Accrued Interest	11,839	80,298	67,052
Leave Accruals	1,075,480	1,157,167	1,218,903
Total	**11,828,319**	**16,454,270**	**16,309,732**

Another potential liability that needs attention is the District's program to fund the depreciation of assets including facilities, equipment, and vehicles. These capital assets cannot generally be funded through developer fees, which are earmarked for new development-related infrastructure only. Establishing and maintaining reserve funds for these important business assets are a best business practice.

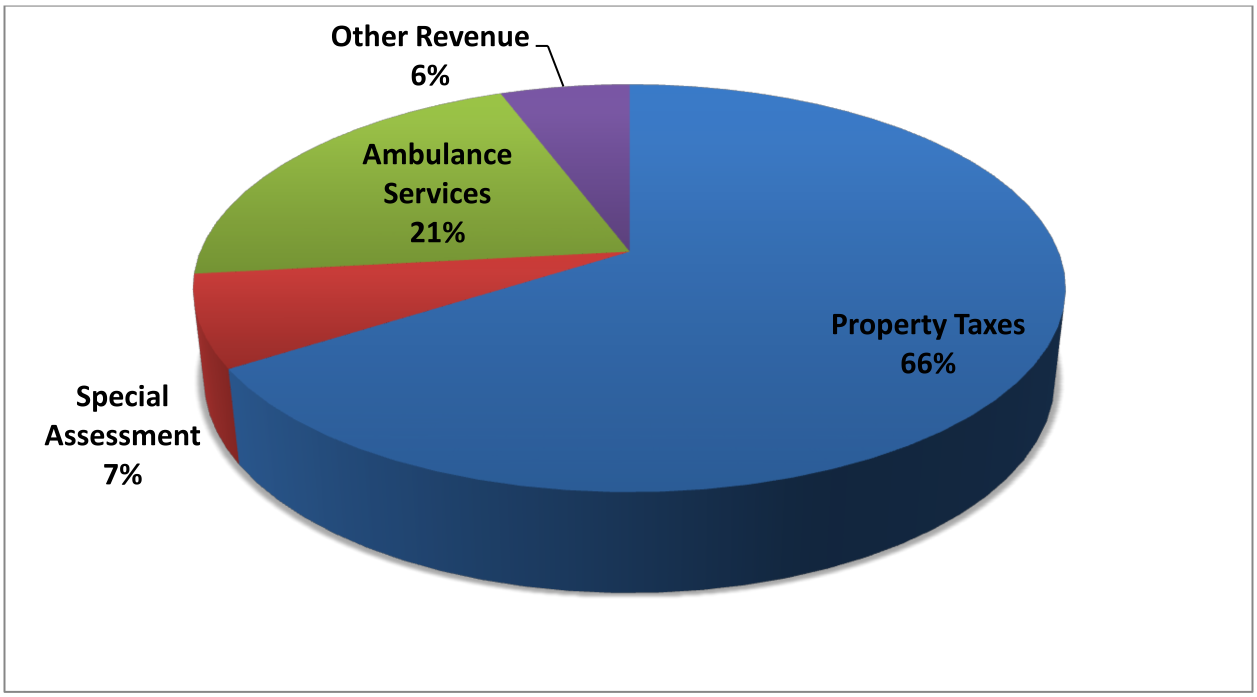
Finding #3: Understanding the relationship between the existing liabilities and the current level of fund balance that is reserved for that liability is critical. This is particularly significant with OPEB. The existing liability is $5.6 million and the level of fund balance reserved for OPEB is $2.7 million. Understanding the gap between these two important business elements will allow the District to develop financial plans to close the gap.

Recommendation #3:	The District should budget enough funding to meet the cost of current retiree health care and to close the gap between the existing liability and fund balance reserved for OPEB. This can be done as a multi-year financial recovery plan.

1.5 REVENUE OUTLOOK

Property taxes are the primary revenue sources supporting the District. This source of funding is the typical means for supporting special district public safety related activities including fire protection services. Property taxes are ad valorem taxes based on a 1 percent tax rate on the assessed value of the land and improvements. The District receives a portion of the 1 percent tax rate. The chart below shows the distribution of the District's General Fund revenues.

Figure 5—General Fund Revenue – Actual FY 2012-13



Property tax revenue represents the most significant revenue source for the District at 66 percent of all revenue.

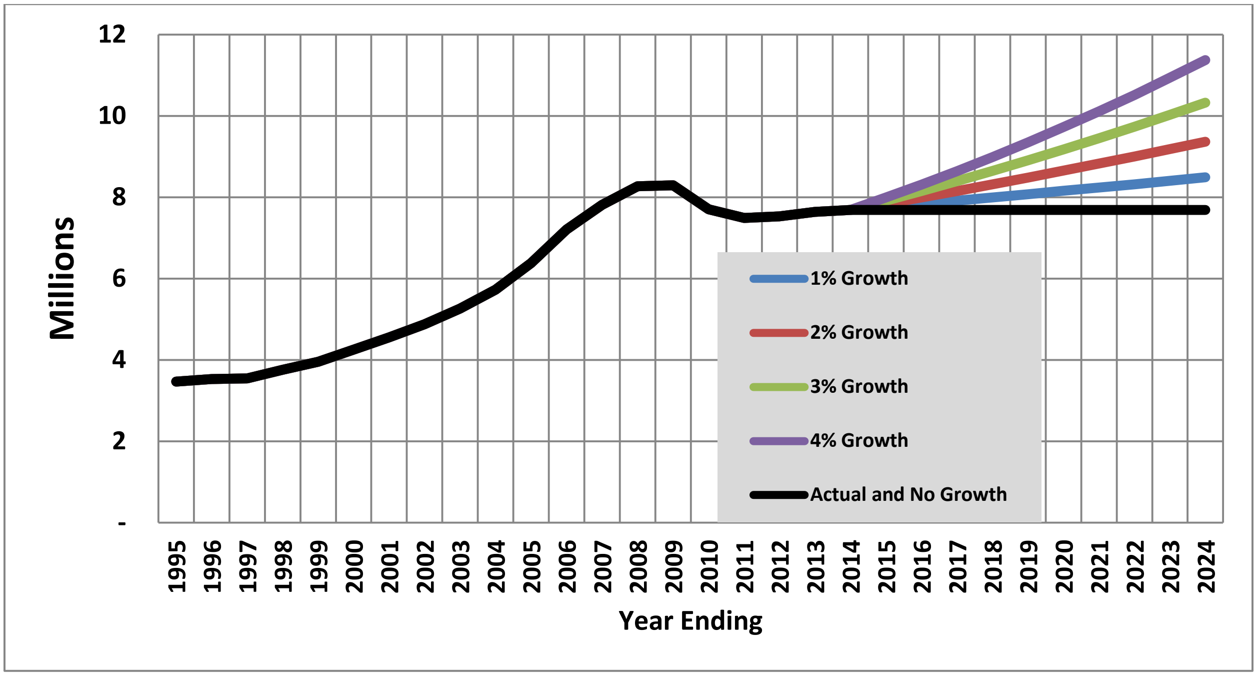
Assessed value is the taxable value of property, which includes the land and any improvements made to the land, such as buildings, landscaping, or other developments. The assessed value of land and improvements is important because the 1 percent rate and voter-approved debt rates are levied as a percentage of this value, meaning that properties with higher assessed values owe higher property taxes.

Under the tax system in California, the assessed value of most property is based on its purchase price. The county assessor determines the value of "real property" (land, buildings, and other permanent structures) within their jurisdiction. Proposition 13 established the process that the county assessor's office uses to determine the value of real property. When real property is purchased, the county assessor assigns it an assessed value that is equal to its acquisition value. Each year thereafter, the property's assessed value increases by 2 percent or the rate of inflation, whichever is the lower value. This process continues until the property is sold. At that point in time the county assessor again assigns it an assessed value equal to its most recent purchase price. In other words, a property's assessed value resets to market value when it is sold. Note that voters have approved various constitutional amendments that exclude certain property transfers from triggering this reassessment.

When real estate values decline or property damage occurs, a property's market value may fall below its assessed value as set by Proposition 13. Absent any adjustment to this assessed value, the property would be taxed at a greater value than it is worth. In these events, county assessors may automatically reduce the Proposition 13 assessed value of a property to its current market value. If they do not, however, a property owner may petition the assessor to have his or her assessed value reduced. These decline-in-value properties are often called "Prop 8 properties" after Proposition 8 (1978), which authorizes this assessment reduction to market value.

The District experienced substantial decreases in property tax followed by flat growth in recent years. The chart below shows the recent trend in property tax revenue. The point at which the line separates into multiple lines indicates the impact of a projected 1-4 percent growth level. This provides an indication of the impact of possible growth trends on property tax revenue.

Figure 6—Revenue – Property Taxes



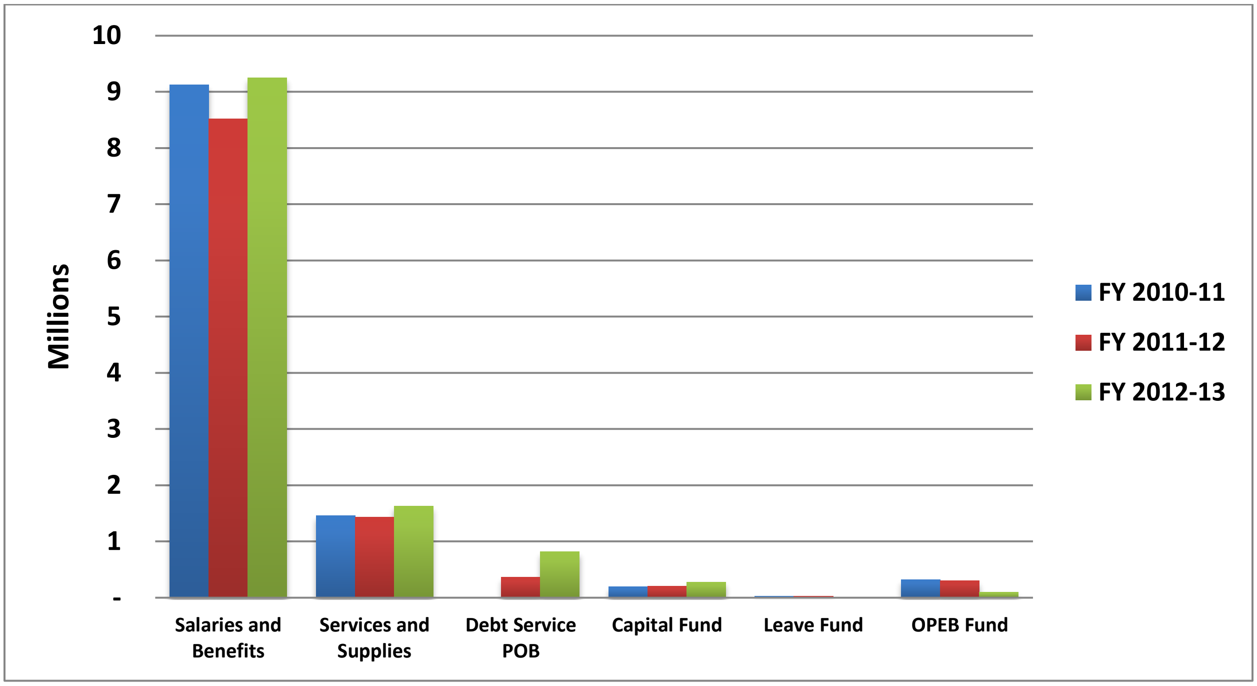
Finding #4:	The existing property tax base, as currently projected, is not sufficient to adequately provide funding for existing operating expenses, existing liabilities for capital replacement, and OPEB. Without new funding sources, improved economic conditions, or increased development activity, revenue growth will be outpaced by expenditure growth resulting in a structural budget imbalance.

Recommendation #4:	Any increase in staffing or increased service level cost increase should be reviewed within the context of projected revenue growth. It should also be evaluated within the context of other competing priorities. Increased costs should be accompanied by new revenue sources or increased existing revenue sources with a projected income level at least as great as the new cost in addition to any increases in incurred liabilities.

1.6 Expense Outlook

Like most public safety service delivery operations, fire services are primarily provided by employees. Therefore the majority of the operating costs are related to employee expenses. The chart below shows the operating expenditure trend over the past three years.

Figure 7—General Fund Expenditures/Transfers



Most of the employee costs are related to fire safety personnel. Administrative and business systems support staff represent a small portion of the overall employee costs.

1.7 Long-Range Outlook

The District's primary purpose is the delivery of fire services. The District revenue stream is primarily property tax revenue and expenses are primarily driven by employee related costs. These costs have short-term and long-term elements that drive the District's financial plan. Short-term costs include current salaries, annualized pension payments, and health benefits. Long-term costs are driven by prior liabilities associated with pension, vacation accruals, sick leave accruals, Other Post Employment Benefits (OPEB) for this District such as retiree medical coverage, and capital asset replacement.

This section of the report will provide a financial projection based on the following assumptions:

Table 5—Expense and Liabilities Projection – Inflators

Category	Escalator
Salary	2%
Classic Safety CalPERS	7%
Classic Misc. CalPERS	5%
PEPRA Safety CalPERS	1%
Health	5%
Other Benefits	2%
OPEB	ARC
Leave Accrual	$30K
Asset Replacement	$1.2M

Table 6—Revenue Projection – Inflators

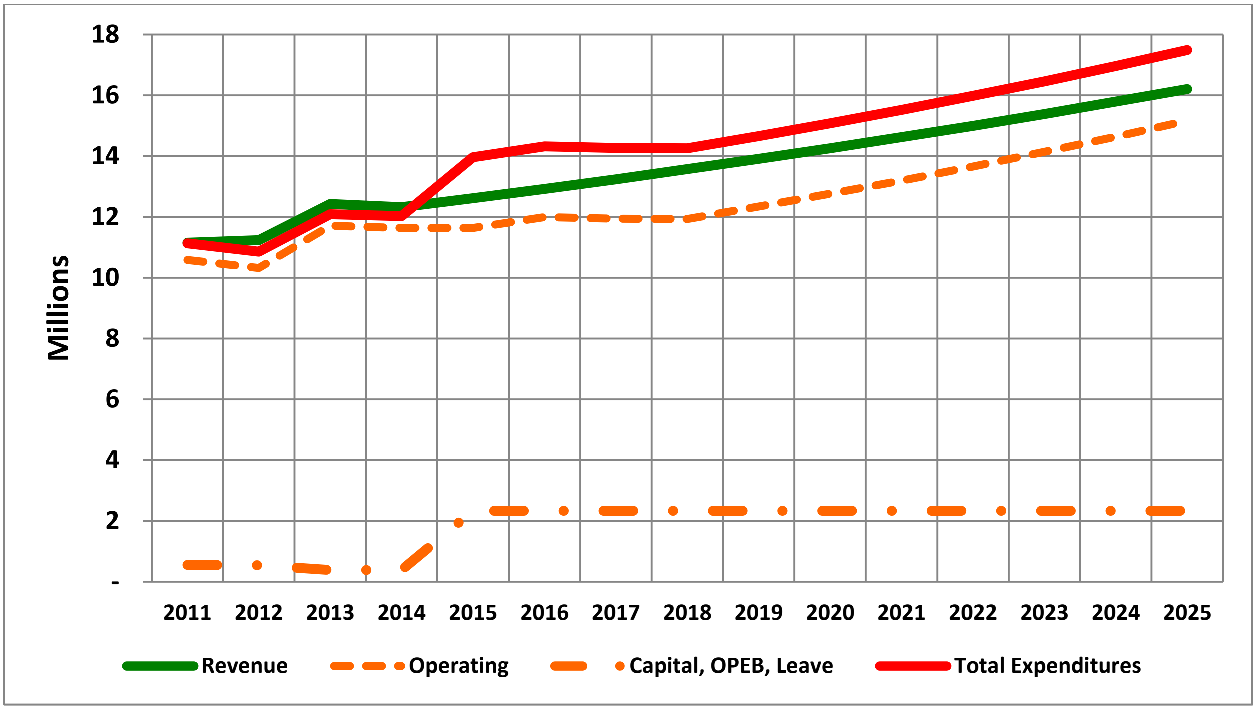
Category	Escalator
Property Taxes	2%
Redevelopment Increment	2%
Special Assessment	flat
Ambulance Services	5%
Other Revenue	flat
New Revenue Scenario	$300K

These expense growth assumptions provide a reasonable estimate of expenditure growth over time. Although District management has little control over revenue growth patterns that are related to a variety of less controllable factors, such as the general and local economy, expenditure levels can be more controllable over time. In essence, policy makers and management have the ability to reduce service levels if needed. This can be done by cost containment approaches including slowing or freezing the hiring process. The most important factor in utilizing an expenditure cost containment program is the ability to understand and monitor the short- and long-term financial plan and its impact on operational performance.

Three different projection scenarios were developed using the above assumptions. Each scenario provides a slightly different variation using the primary assumptions:

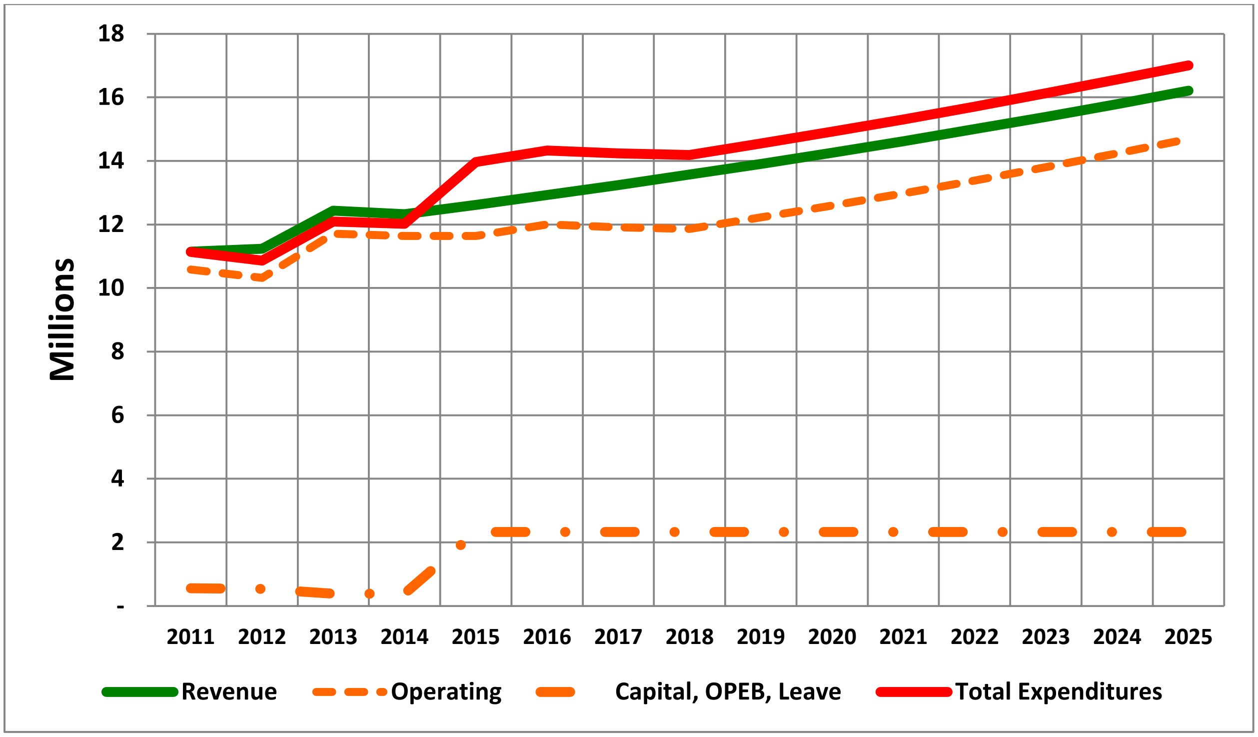
Base Business Plan Scenario – This projection shows the basic business model for the District. It provides funding for current service levels, including funding for liabilities that include OPEB at the Actuarially Required Contribution (ARC) level necessary for full future funding, and estimated maintenance and replacement. Property taxes are projected at a 2 percent growth factor. The projection shows a declining fund balance position.

Figure 8—Base Business Plan Scenario



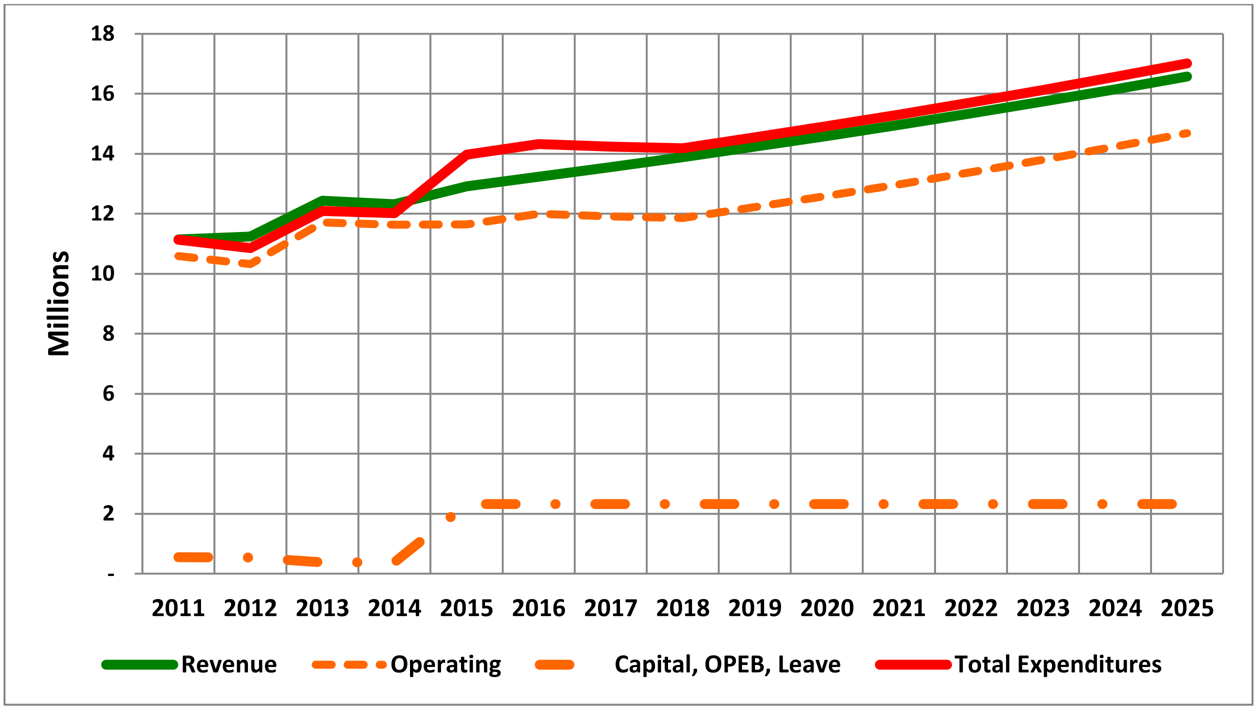
PEPRA Impact Scenario – This projection shows the impact of PEPRA changes for new employees. There is an improvement in the financial position but it is gradual.

<u>**Figure 9—PEPRA Impact Scenario**</u>



New Revenue Impact Scenario – This next projection shows the combined impact of PEPRA, no change in staffing level as a result of some realignment of stations, and an additional $0.3 million of new revenue. Although the decline in projected fund balance eventually turns negative (shown in Figure 11), the slope of the fund balance decline to zero is greatly improved. Thus, if the early years of revenue for this projection can exceed costs, the model could eventually become balanced.

Figure 10—New Revenue Impact Scenario

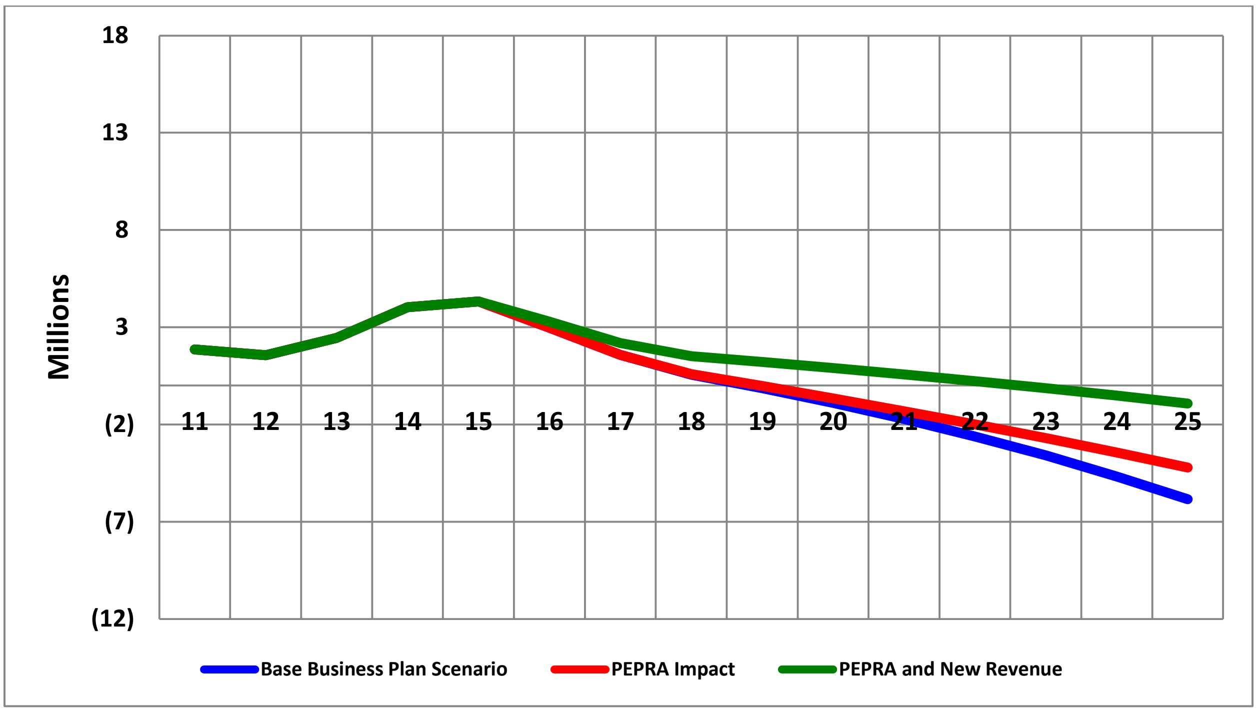


Finding #5:	The District has made decisions that mitigated the financial impacts of falling property tax revenues that resulted from the housing and economic meltdown of 2008 and the impact of increasing employee costs. Even with those efforts, the projected revenue growth assumed in the forecast will be outpaced by expenditure increases over time. At its current rate of increase, revenue growth will not catch up with expenditure growth in all three of these scenarios. This projected structural imbalance between revenues and expenditures, if left unmitigated, will ultimately erode the District's existing fund balance levels over time.

Recommendation #5:	The District should continue to evaluate alternative financial and strategic planning approaches to correct the long-term structural budget imbalance. Long-range projections should be employed to evaluate alternative budget plans and strategies. The long-range projections should be updated on a periodic basis to provide the Board of Directors with an understanding of the long-range financial trends and potential issues.

The chart below shows the projected fund balance trend for all three scenarios.

Figure 11—Fund Balance – Three Scenarios



Finding #6:	The District is a sizable public agency entrusted with millions of dollars of public tax revenue. Public sector governmental budgeting and accounting processes require specialized systems and processes that meet governmental standards. The District has outgrown its existing financial/accounting system.

Recommendation #6:	Investment in a modern governmental financial system will pay significant dividends. This would provide improved financial system performance and enhanced analytical tools. Increased focus on financial and budgetary monitoring and planning will help the District to understand and manage its long-term financial and business risk. Increased emphasis on development of business planning strategies is vital. Providing the Board of Directors with alternative approaches and pathways to resolving long-term business and financial issues is critical.

SECTION 2—FINDINGS AND RECOMMENDATIONS

2.1 SUMMARY OF ALL FINDINGS AND RECOMMENDATIONS

Below Citygate provides a list of our findings and recommendations:

2.1.1 Fund Balance

Finding #1: Current fund balance levels reserved for long-term business liabilities associated with capital asset replacement and retiree medical benefits (OPEB) are under-funded at this time.

Recommendation #1: A strategy should be developed to adequately fund these important long-term business elements. This strategy can be a phased multi-year approach.

2.1.2 Cash Position

Finding #2: Although audited cash balance levels have declined over the past three years, they are currently adequate to meet operating cash flow because of the availability of pooled cash reserved for specific purposes. The decline is primarily due to capital expenditures.

Recommendation #2: Cash requirements associated with operating expenditures and infrastructure replacement should be reviewed as part of any proposal to consider modification of fire protection staffing or service levels or provisions related to new funding sources.

2.1.3 Liabilities

Finding #3: Understanding the relationship between the existing liabilities and the current level of fund balance that is reserved for that liability is critical. This is particularly significant with OPEB. The existing liability is $5.6 million and the level of fund balance reserved for OPEB is $2.7 million. Understanding the gap between these two important business elements will allow the District to develop financial plans to close the gap.

Recommendation #3: The District should budget enough funding to meet the cost of current retiree health care and to close the gap between the existing liability and fund balance reserved for OPEB. This can be done as a multi-year financial recovery plan.

2.1.4 Revenue Outlook

Finding #4: The existing property tax base, as currently projected, is not sufficient to adequately provide funding for existing operating expenses, existing liabilities for capital replacement, and OPEB. Without new funding sources, improved economic conditions, or increased development activity, revenue growth will be outpaced by expenditure growth resulting in a structural budget imbalance.

Recommendation #4: Any increase in staffing or increased service level cost increase should be reviewed within the context of projected revenue growth. It should also be evaluated within the context of other competing priorities. Increased costs should be accompanied by new revenue sources or increased existing revenue sources with a projected income level at least as great as the new cost in addition to any increases in incurred liabilities.

2.1.5 Long-Range Outlook

Finding #5: The District has made decisions that mitigated the financial impacts of falling property tax revenues that resulted from the housing and economic meltdown of 2008 and the impact of increasing employee costs. Even with those efforts, the projected revenue growth assumed in the forecast will be outpaced by expenditure increases over time. At its current rate of increase, revenue growth will not catch up with expenditure growth in all three of these scenarios. This projected structural imbalance between revenues and expenditures, if left unmitigated, will ultimately erode the District's existing fund balance levels over time.

Recommendation #5: The District should continue to evaluate alternative financial and strategic planning approaches to correct the long-term structural budget imbalance. Long-range projections should be employed to evaluate alternative budget plans and strategies. The long-range projections should be updated on a periodic basis to provide the Board of Directors with an understanding of the long-range financial trends and potential issues.

Finding #6: The District is a sizable public agency entrusted with millions of dollars of public tax revenue. Public sector governmental budgeting and accounting processes require specialized systems and processes that meet governmental standards. The District has outgrown its existing financial/accounting system.

Recommendation #6: Investment in a modern governmental financial system will pay significant dividends. This would provide improved financial system performance and enhanced analytical tools. Increased focus on financial and budgetary monitoring and planning will help the District to understand and manage its long-term financial and business risk. Increased emphasis on development of business planning strategies is vital. Providing the Board of Directors with alternative approaches and pathways to resolving long-term business and financial issues is critical.