Analysis of Consolidated Fire Service Arrangements

City of Ukiah and Ukiah Valley Fire District

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CITYGATE ASSOCIATES, LLC
FIRE & EMERGENCY SERVICES

The Business of Better Government

This Briefing Will

- Summarize the current situation
- Report on:
  - Challenges to consolidation/annexation
    - Role of LAFCO
    - Role of CalPERS – PERS benefits and on-going CalPERS costs
    - Compensation differences
    - Fiscal impact on the City and the District
    - Cost allocation formulas
    - Long-term fiscal sustainability of a partnership
    - Governance, political, and management issues
  - Recommended arrangements for delivery of fire services

Background Information

	City	District	City Share	District Share
Population	16,185	15,000	52%	48%
Assessed value	1,294,489,514	1,292,804,646	50%	50%
Calls for service (22 months)	3,481	1,691	67%	33%
Department expenses FY 14-15	$2,308,012	$1,057,991 (excludes City-added revenue)	69%	31%

Current Operating and Fiscal Arrangements

- The City and the District are in a two-year operating agreement creating a single administration that permits the combined fire departments to function nearly as a single fire department
  - Share a Fire Chief
  - Operate two coordinated fire stations serving the City and the District
  - All employees of the City and the District are supervised by the Fire Chief
  - The City has added money to the District budget to equalize pay rates and to bring the relative size of the budgets similar to the calls for service in each agency

Role of LAFCO

- Any change in District boundaries must be approved by the LAFCO Board of Directors
- LAFCO will only approve an annexation of the City to the District if it can be shown that:
  - City **permanently** transfers enough **property tax revenue** to the District to support the $2.3 million in City Fire Department expenses
    - *The City property tax is now only $1,274,565*
  - The District will be fiscally stable for a reasonable number of years after annexation
  - There is a satisfactory agreement with employees prior to approval of the transfer
  - A plan exists for replacement of assets and disposition of current assets
  - There are no better alternatives to annexation

Impact on City Revenue

City Revenue Summary FY 14-15		
Property Tax	$ 1,274,565	8.8%
Sales Tax	$ 4,771,002	33.0%
Measure S	$ 2,477,757	17.1%
Room Tax	$ 814,331	5.6%
Other Taxes	$ 356,875	2.5%
Franchise Fees	$ 1,623,484	11.2%
From Other Agencies	$ 1,257,595	8.7%
Successor Agency Admin	$ 250,000	1.7%
Charges for Services	$ 740,740	5.1%
License, Permits, Fines & Misc.	$ 888,706	6.1%
Total	$ 14,455,055	100.0%

Role of CalPERS

- CalPERS retirement rules:
  - If City fire staff transfer to the District, their retirement benefit for the remaining years of employment will be 2@50 rather than the current City benefit of 3@55
  - If District fire staff transfer to the City, their retirement benefit for the remaining years of employment will be 3@55 rather than the current District benefit of 2@50
  - If City and District fire staff transfer to a new JPA as the employer, all employees will receive the reduced State-allowed PEPRA retirement benefits for the remaining years of employment
  - In any one of these three situations, the employer(s) who are losing the employees must still continue annually making payments to CalPERS to make up for any unfunded liability
- The best approach, and the only way to retain the retirement plan for current employees, is for each to remain on the payroll of their current employer and to not be employed by a JPA

City and District Retirement Cost for Each Employee

	City	District
Captain	33.818%	20.113%
Engineer	33.818%	20.113%
Firefighter	33.818%	20.113%
Division Chief	33.818%	
Battalion Chief		20.113%
Retirement Benefit Level	3@55	2@50

New CalPERS Retirement Plan –
Public Employment Pension Reform Act

- Public Employment Pension Reform Act (PEPRA)
  - Creates new defined benefit formulas for new safety members
    - 2% at Age 50; 2.7% at Age 57 and older

      PEPRA benefit level is lower under the new plan than the District's current 2% @ 50 Plan

Retention of CalPERS Benefits for Current Employees

- The only way for current employees to retain their current retirement benefits is to remain on the payroll of their current employer
- All new employees would receive the lower PEPRA retirement benefits regardless of whether they are employed by the City, the District, or a new Joint Powers Authority (JPA)

Long-term Fiscal Sustainability of a Partnership

Projected District Revenue Growth

	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-10
Property Tax	$ 296,639	$ 305,538	$ 314,704	$ 324,145	$ 333,870
Special Tax	$ 570,415	$ 570,415	$ 570,415	$ 570,415	$ 570,415
Special Tax B	$ 113,995	$ 113,995	$ 113,995	$ 113,995	$ 113,995
Other Revenue	$ 24,375	$ 24,375	$ 24,375	$ 24,375	$ 24,375
Total	$ 1,005,424	$ 1,014,323	$ 1,023,489	$ 1,032,930	$ 1,042,655

City Budgeted Contribution to the District Fire Budget

- District Budgeted $444,590 to support District expenses for
  - Pay Subsidy
  - Fire Chief Salary
  - Volunteer Program
  - Utilities, Bldg. Maintenance, Fuel, and Fluids & Supplies

Projected District Revenue and Expenses

	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
Expenses	$ 1,527,174	$ 1,525,195	$ 1,535,976	$ 1,529,867	$ 1,562,553
Revenue	$ 1,005,424	$ 1,014,323	$ 1,023,489	$ 1,032,930	$ 1,042,655

- If Fire District expenses increase by as little as **2% per year**, the FY 2019-20 expenses will be $100,000 higher than in the chart above
- If Fire District expenses increase by **3% per year**, the FY 2019-20 expenses will be $200,000 higher than in the chart above

Cost Allocation Formulas

	City Share	District Share
Population	52%	48%
Assessed value	50%	50%
Calls for service (22 months)	67%	33%
Dept. expenses FY 14-15 excluding City contribution to the District	69%	31%

Findings in Brief

- LAFCO will only approve an annexation of the City to the District if it can be shown that:
  - City permanently transfers enough property tax revenue to the District to support the $2.3 million in City Fire Department expenses - the city property tax is now only $1,274,565
  - The District will be fiscally stable after annexation
  - There is a satisfactory agreement with employees prior to approval of the transfer
  - A plan exists for replacement of assets and disposition of current assets
  - There are not better alternatives to annexation
- Merging the City into the District is not an option

Findings in Brief

- CalPERS Retirement rules:
  - If City fire staff transfer to the District, their retirement benefit for the remaining years of employment will be 2@50 rather than the current City benefit of 3@55
  - If District fire staff instead transfer to the City, their retirement benefit for the remaining years of employment will be 3@ 55 rather than the current District benefit of 2@50
  - If City and District fire staff transfer to a new JPA as the employer, all employees will receive the reduced State-allowed PEPRA retirement benefits for the remaining years of employment

Findings in Brief

- The best approach, and the only way to retain the retirement plan for current employees, is for each to remain on the payroll of their current employer and to not be employed by a JPA
- Vacancies can be filled by the agency in which the vacancy occurs, OR the agencies can create a JPA to hire new employees as needed

Findings in Brief

- District revenue is only adequate to support the FY 14-15 annual budget if the City contributes more than the $444,590 in revenue presently budgeted by the District.
- District annual expense increases are less than 2% per year, which is not realistic in the long term. Actual long-term annual fire expense increase for both the City and the District will more likely range between 3% to 6%, depending upon retirement rate increases, medical costs, and the inflation rate.

Challenges to Consolidation
Fiscal Health of the City and District

- The City and District both must have equal long-term fiscal stability in order to ensure that neither party:
  - Needs to subsidize the other
  - Needs to accept a service level cut because the other party cannot afford to continue at the present level
  - Is unwilling to improve service levels because only one of them can afford the improvement

Forms of Merger
Continue the Current Contract for Service

- Maintain the present single combined administration
- Adopt an allocation formula that reflects the services required by each agency
- Adopt a long-term contract that recognizes the District's inability to generate much additional annual revenue without a tax increase
- Establish contract provisions for the reduction of services to either agency that cannot fiscally support its approved level of contract services
- Adopt performance measures to gauge the delivery of services
- Appoint "advisory" committee with members from each agency

Forms of Merger
Joint Powers Authority

- Both agencies create a new fire department operated by a Joint Powers Authority that contracts for the services of a Fire Chief through the Hopland Fire District
- Fire Chief continues to be employed by the Hopland Fire District
- All current employees remain on the payroll of their current employer until they retire or resign
- All new employees are hired by the JPA

Forms of Merger
Joint Powers Authority

- Adopt an allocation formula that reflects the services required by each agency
- Adopt JPA provisions that recognizes the District's inability to generate much additional annual revenue without a tax increase
- Establish JPA provisions for the reduction of services to either agency that cannot fiscally support its approved level of services
- Adopt performance measures to gauge the delivery of services
- Each agency contracts with the JPA for fire services from the employees that work for the JPA AND each agency contributes a share of the costs to the JPA based on an approved Allocation Formula

Forms of Merger
Joint Powers Authority

- Management shortcomings of a JPA that hires new employees:
  - Management of employees requires three MOUs and personnel rules while employees remain on the payroll of their current employer
  - Three accounting systems are maintained: the JPA and each agency
  - The City and the District must contract with the JPA to manage the fire personnel that remain in each agency
  - Separate ownership of fire stations and fire apparatus will likely continue

Forms of Merger
Joint Powers Authority

- Management improvements of a JPA that hires new employees:
  - In the long term, the JPA will be the single fire department and the City and the District will contract with the JPA to provide fire services
  - The City and the District will likely continue ownership of their fire stations, but ownership of fire apparatus and equipment will become the property of the JPA, along with the responsibility to maintain and replace the apparatus and equipment
  - The JPA will manage a single MOU and negotiate with its employees
  - Fire services will be managed with a single financial system

Forms of Merger
Joint Powers Authority Governance

- The JPA can adopt performance measures to gauge the delivery of services to ensure the City and the District regarding the level of services being received.
- JPA Board of two elected officials from each of the two agencies requires a consensus to proceed. Alternatively, the four elected officials could appoint a fifth Board member to create a five-member Board.

Forms of Merger

Joint Powers Authority - Dissolution of the JPA

- Each agency can still decide to leave the JPA, but only based on rules contained within the JPA document. For instance, neither agency could leave the JPA with less than three years of notice:
  - Permits employees to seek other employment or to transition to employment with the City and the District
  - Requires each agency to bear the cost of leaving the JPA, including payment of unfunded CalPERS liabilities, sick leave, unused vacation, and purchase its unfunded share of apparatus and equipment

Recommended Arrangements for the Delivery of Fire Services

- City and District continue the present operating agreement until all fire employees are receiving the lower PEPRA retirement benefits
- Develop and negotiate City and District MOUs that contain nearly identical terms for a later smooth transition of employees to a JPA

Recommended Arrangements for the Delivery of Fire Services

- Adopt an allocation formula that reflects the services required by each agency
- Adopt contract provisions that recognizes the District’s or City’s inability to generate much additional annual revenue without a tax increase
- Establish contract provisions for the reduction of services to either agency that cannot fiscally support its approved level of services

Recommended Arrangements for the Delivery of Fire Services

- Adopt performance measures to gauge the delivery of services
- Provide legislative oversight of the fire services with a fire advisory panel of four elected officials
- Develop the terms of a future JPA, including fiscal sustainability, fiscal management, personnel management, ownership of fire stations and apparatus, and dissolution provisions

Questions by the City of Ukiah and Ukiah Valley Fire District