Attachment V:

Citygate Associates Report "Sausalito and Southern Marin Fire Protection District Fire Phase I Briefing with FY 2009-10 Data"

CITYGATE ASSOCIATES, LLC

■ FOLSOM (SACRAMENTO), CA MANAGEMENT CONSULTANTS ■

SAUSALITO AND SOUTHERN MARIN FIRE PROTECTION DISTRICT

FIRE PHASE I BRIEFING WITH FY 2009-10 DATA

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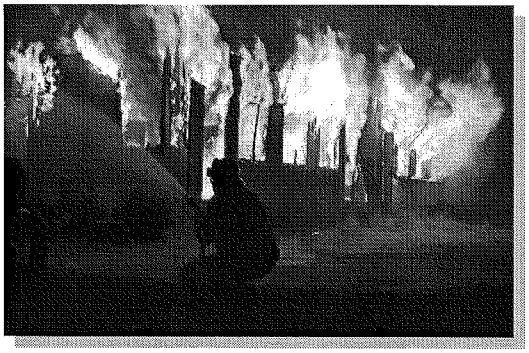

■ 2250 East Bidwell St., Ste #100 ■ Folsom, CA 95630
(916) 458-5100 ■ Fax: (916) 983-2090

CITYGATE ASSOCIATES, LLC
FIRE & EMERGENCY SERVICES

SAUSALITO AND SOUTHERN MARIN FIRE PROTECTION DISTRICT FIRE PHASE I BRIEFING WITH FY 2009-10 DATA

EXECUTIVE SUMMARY

Both the City of Sausalito (City) and Southern Marin Fire Protection District (District), given their size and geographic location in the County, are co-dependent for fire services as neither can separately field enough on-duty firefighters for serious emergencies. Even a modest house fire needs 15 firefighters plus a command chief within 11-minutes of the 911 call receipt, if the outcome expectation is to keep the house from being destroyed and any victims able to be rescued. This is the current staffing that the combined agencies have on duty.

If there were separate fire departments, both would have to respond under mutual aid to deliver all of the on-duty personnel to a serious emergency. Under separate departments, the effectiveness of the field force is diminished due to separate leadership, safety and tactical procedures, equipment and training. Given these issues, a combined operation is much more effective.

Then there are the headquarters functions. If each agency were to field a complete headquarters team of five chiefs and one administrative support position, this totals 12, or **double** the number needed for a three station, contiguous service area fire department.

From both a field operations and headquarters functions perspective, it is very cost-effective for the two agencies to operate a single, integrated top to bottom, three plus station fire department.

Prior to the present contract for headquarters services, the City of Sausalito did not pay for a complete headquarters team. While meeting the needs of that period, that structure today could not meet current fire service regulatory needs.

Under any likely realistic fire crew and headquarters-staffing plan it would be most cost effective for the City to provide fire services in a partnership via either a full contract for service or merging the City into the Fire District. The current headquarters cost apportionment formula is unrealistically low and not sustainable going forward. At a minimum, Sausalito has to deal with expensing the full cost of shared fire headquarters and incident command needs.

Even with paying the true-shared costs of fire headquarters services, the City also will save the hard to estimate, but real time "costs" on the City Hall team to manage fire service personnel, finance and legal issues. At a minimum, moving these tasks to the Fire District will free up City Hall staff time for duties core to Sausalito's needs.

Given the fact that both parties are operationally co-dependent and can save significant headquarters staffing expenses under a single combined department, both parties should understand that each needs to have input on service level decisions and cost containment strategies. These discussions should lead to a mutually agreeable governance and cost sharing agreement.

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1. BACKGROUND

The City of Sausalito and Southern Marin Fire Protection District requested assistance with analyzing the feasibility of more completely merging some or all of the City and District's Fire Service operations in order to gain greater economies of scale, avoid fiscal, governance and operational duplication and where needed, improve service. Thus, this study covers the possibilities from full consolidation of the agency fire services with various possible governance arrangements such as: District boundary modification; creation of a new Fire District or a JPA; a modification of the present contract for service(s); or if significant impediments are found, no change at all in the present fire service contract arrangement could be a result.

For the City of Sausalito this study developed a cost model illustrating the costs of staffing, station and major equipment needed if the City of Sausalito were to operate its own stand-alone fire department in lieu of any of the other alternatives included in this study. This will permit the City to compare a continued co-joined operation or a merger with the District with the cost and feasibility of re-establishing its own fire department.

The study also included a comprehensive review of the City and District's fire services funding mechanisms and agreements to include all current and potential revenue sources and the resultant impacts or not of an expanded contract for service or annexation to the District.

1.1 Study Approach

This study is phased to allow the agencies to guide the direction of the study as the facts and policy choices become clear along the way. Both agencies in the study can then understand the basic findings and direct in-depth research to those areas best fitting a chosen policy goal. This is important given that this study involves both the City and District, so that each agency feels their issues have been given the appropriate due diligence.

This Executive Level Summary report presents the City and the District the feasibility analysis of the various alternatives for providing fire services.

Phase I – Feasibility Analysis

- *Intent*: This phase of the study analyzes the costs, service and governance benefits to the taxpayers of the City and District from alternative service and governance arrangements different from that presently used by the City and the District in the following detail.
- Identifies current costs of fire services for each agency, staffing requirements, administrative and technical support; facility requirements and responsibilities, and cost sharing.
- Performs an organizational comparison of the two agencies.
- Provides a salary and benefit comparison.
- Assesses the various forms of continued cooperation including annexation of the City into the District, an expanded contract for service between the two agencies, and various governance arrangements.

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- Identifies overall cost, and potential areas of financial savings at a macro level for the most feasible alternatives,
- For the City of Sausalito, the study provides a cost model illustrating the cost of staffing, station and major equipment needed if the City of Sausalito were to re-establish and operate its own fire department.
- Identifies the legal requirements under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 for annexation of the City into the Fire District.
- Describes the re-allocation of property tax revenues if the City were to be annexed into the District for fire service purposes.
- Presents cost allocation and apportionment options for all aspects of the proposal, including a comparison of the current cost share formula for the Headquarters services with appropriate alternative formulas.
- Makes recommendations as to the feasibility of a merger, consolidation or contract that will maintain or enhance the current level of fire protection services.

At the conclusion of the feasibility analysis and following policy choices by the City and the District regarding their preferred alternative for merger, contract for service and governance arrangements, Citygate could assist in implementation. This phase could include some or all of the following:

Phase II – Implementation

- *Intent:* Assist the City and District in assessing the detailed steps to implement a chosen alternative and assessing the best approach to deal with various specific implementation issues.
- Review and recommend approaches to implementation issues, including training, apparatus maintenance, co-located prevention with different service options, legal services, risk management, information systems and personnel administration.
- Address detailed governance agreements, command and control issues including but not limited to: board makeup, command staff, and succession planning.
- LAFCO mechanics if annexation to the District is the most viable path.

1.2 Fire Services Provided by the City and the District

In 2004 the City and the District functionally consolidated their two fire agencies through a Limited Joint Powers Agreement. In 2006 and 2008 the terms of this consolidation were refined through additional agreements. This functional consolidation was in recognition of the fact that both agencies had been operating separate fire departments that cooperated actively in emergency response. However, neither agency had sufficient resources by itself to respond to major emergency situations such as multiple injury accidents or serious building fires; the agencies were heavily reliant upon each other to not only respond jointly but also to provide backup response when one agency was already fully occupied with a prior emergency call.

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The City was supervising its fire department with one Fire Chief and no other Chief Officers to assume either administrative duties or to provide "incident command" at the emergency scene. The City and the District concluded that it was more cost-effective for the City to contract with the District to provide administrative services. In practice, then, the District directly supervised the daily activities of the Sausalito fire fighters and integrated them into the District work force, although the fire fighters remained on the City payroll. Emergency scene "incident command" was also provided by the District Battalion Chiefs assigned as shift supervisors.

The currently budgeted fire services staffing of the two agencies is as follows:

Currently Budgeted Fire Emergency Services Staffing

Position	Agency	
	So Marin	Sausalito
Headquarters		
Fire Chief	1	
Deputy Chief	1	
Admin Services Mgr	1	
Financial Mgr	0.4	
Admin Clerk	0.3	
Total	**3.7**	
Line Operations		
Battalion Chief	3	
Captain	6	3
Paramedic/Firefighter	9	6
Firefighter/Engineer	15	6
Total	**33**	**15**

With fire services line personnel from both agencies working under supervision provided by the District and with the personnel functioning as a single operating unit, the City and the District brought the salaries and benefits for their respective employees into alignment so that they are nearly identical.

The principal difference in benefits and contract terms are:

Sausalito

1. Unused vacation carryover provision slightly more restrictive than the District. No more than one year accrued at any time.
2. Bereavement Leave slightly more restrictive in time allowed off and people for whom leave may be taken.

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3. Grievance Resolution: Process concludes with a hearing before the City Council whose determination is final, if the decision of the City Manager is appealed.

4. Appeal of Disciplinary Action: Employee may request a hearing before an Appeals Board of 3 Department Heads of a State Conciliation Service Officer. The finding is final.

Southern Marin FPD

1. Unused vacation accrual. No more than two years may be accrued at one time and no more than one year can be carried over to the new year.

2. Bereavement Leave: Allows more time off and broader definition of people for whom leave may be taken.

3. Grievance Resolution: Binding Arbitration if the decision of the Fire Chief is appealed.

4. Appeal of Disciplinary Action: Binding Arbitration if the decision of the Fire Chief is appealed.

5. Unused sick leave may be converted to Deferred Compensation under defined conditions.

6. Paternity leave specifically allowed in the MOU.

7. In-District Living Allowance of $75 per month with Call Back responsibilities as a condition.

The current workload and costs for the co-joined fire services of the two agencies are:

Workload and Costs

	Sausalito	Southern Marin FPD
Population	7,596	21,500
Calls for Service (2008-10 three year average)	847	1,130
Expenditures FY 2009-10 (less large capital and vehicle replacement fund payments)	$2,931,048*	$8,255,085

**Of the FY 2009-10 actual expenditures, $108,415 was for payment of the administrative services under the contract with the Southern Marin FPD.*

1.3 Fiscal Health of the Agencies and Condition of Fire Equipment

As the City and the District consider alternatives that will more fully merge the two departments, the current fiscal health of each agency and the condition of fire equipment is important background.

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Southern Marin FPD

1. Reserve for Station and Equipment Capital and Contingencies June 2010: $4,689,770.

2. Revenue in Excess of Expenditures (before capital expenditures): Avg annual over the past 3 years = **$675,191**. The District purchases equipment with cash from reserves.

3. Assessed Value has not declined through the January 2010 assessment. This does not reflect new construction, since there has been very little. Rather it reflects the fact that property values have held steady while other regions have experienced a sharp decline. This parallels the experience of Sausalito.

4. Parcel Tax Rate currently at the maximum allowed, providing an estimated $815,376 in FY 2009-10 or about 9 percent of annual revenue.

5. Expenditures, excluding large capital replacements, have been consistently less than revenue over the past five years, permitting the accumulation of funds for the replacement and major repair of equipment and facilities.

Total Revenue and Expenditures

Fiscal Year	Revenue	Expenditure
2005-06	$7,282,026	$7,250,364
2006-07	$7,664,735	$7,629,850
2007-08	$8,488,736	$7,531,830
2008-09	$9,239,726	$8,349,011
2009-10	$8,999,717	$8,255,085

6. Southern Marin FPD has an unfunded liability for retiree medical benefits of $6,456,667, which increases to $8,379,755 when the cost of future employee service is included. The District can continue paying retiree medical costs on a Pay As You Go Basis, or select an alternative that increases its current annual costs to prefund this unfunded liability for future benefits. The District's current policy is to continue the present Pay As You Go method of funding the benefit.

7. Long-Term retirement costs have been *reduced*, since the District adopted a two tier retirement system with new employees under a '3 percent at 55' retirement formula.

8. Apparatus is in good shape, not too old, and is being replaced with cash when needed. In addition to the vehicles below, Southern Marin has two 2006 SMEMPS ambulances.

Southern Marin FPD Apparatus

Vehicle Make	Vehicle Type	Year Placed in Service	Status	Replacement Cost
Ford/Expedition	Command	2007	Front Line	$50,000
Ford/Explorer	Chief Vehicle	2010	Front Line	$40,000
Ford/Explorer	Utility	2003	Front Line	$40,000
Ford 150 PU/4X4	Utility	1995	Front Line	$30,000
Ford 250 PU	Utility	1992	Front Line	$26,000
Ford 250 PU	Utility	2007	Front Line	$26,000
Chevrolet Tahoe	Command	2003	Front Line	$50,000
Chevrolet PU	Utility	1994	Front Line	$26,000
International	Type 3/Pumper	1999	Front Line	$300,000
Pierce	Type 1/Pumper	2006	Front Line	$450,000
HME/3D	Type 1 Pumper	1995	Reserve	$450,000
Pierce	Type 1 Pumper	2009	Front Line	$450,000

Sausalito FD Fiscal Facts

1. Sausalito has been contracting with Southern Marin FPD to provide the headquarters function, and so the operating portion of the fire service cost to the City represents only the Salaries and Benefits, Materials and Supplies for the 15 line staff assigned to the Sausalito station, the contracted contribution for the headquarters function, and a set aside for vehicle replacement. In addition to the operating cost, the City has funded construction of a new public safety facility with General Obligation Bonds.

Total Revenue and Expenditures

Fiscal Year	FD Revenue	Salaries and Benefits	Materials and Supplies	Admin Services	Vehicle Depreciation	Total Expenditure
2005-06	$105,208	$2,219,328	$143,530	$65,639	$40,000	$2,468,497
2006-07	$100,510	$2,337,479	$167,602	$64,386	$99,556	$2,669,023
2007-08	$118,588	$2,562,626	$197,887	$63,971	$142,456	$2,966,940
2008-09	$148,645	$2,593,587	$193,388	$104,652	$165,593	$3,057,220
2009-10	$110,702	$2,587,364	$235,269	$108,415	$190,081	$3,121,129

2. Sausalito has an unfunded obligation for retiree medical benefits, in addition to the recorded costs that are part of the Fire Department budget for the City. The

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liability as of the most recent actuarial report was calculated as $1,958,005. The City has opted to continue meeting retiree medical benefit costs on a Pay-As-You-Go basis and is not setting aside funds in addition to the annual actual cost of the benefits.

3. The assessed value of property in Sausalito has remained relatively stable during the recession, much like the experience of the District. However, the City, with a more diversified source of revenue and broader service responsibilities than the District, has suffered a loss in other revenue categories that constrains its ability to support larger appropriations for all General Fund services such as fire.

4. Apparatus is in good shape. The City will not need to purchase a Type 1 Pumper for another 8-10 years. The City recently replaced the ladder truck in a shared arrangement with neighboring agencies. In addition to the vehicles below, Sausalito has one 2003 SMEMPS ambulance.

Sausalito FD Apparatus

Vehicle Make	Vehicle Type	Year Placed in Service	Status	Replacement Cost
GMC 2500/PU	Utility	1995	Front Line	$30,000
Pierce	Type 1 Pumper	2007	Front Line	$450,000
Sparten/3D	Type 1 Pumper	1995	Reserve	$450,000
Sparten/3D*	Type 1 Pumper	1995	Reserve	$450,000
Pierce 105' (Joint ownership by 5 fire agencies)	Quint	1994	Front Line	$850,000
Achilles 16'	Inflatable Rescue Boat	2002	Front Line	$25,000
Metal Craft 30'	Fire Boat	2004	Front Line	$350,000

2. *Alternatives to the Current Contract Arrangement Between Sausalito and the Southern Marin FPD*

The City and the District want to assess the advantages and disadvantages of more completely merging their two fire operations by examining the several alternatives to the current contract arrangement. The operations now are nearly completely merged with one principal exception. Fifteen (15) of the line firefighting staff are still on the City payroll while being supervised by District personnel. Several additional outstanding issues also need to be addressed and resolved, including a formula for allocation of costs of a merged operation and whether or not the City of Sausalito can cost effectively separate from the District and operate its own fire department.

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In assessing the alternative methods of more completely merging the two operations and addressing the other issues, there is some important background information that needs to be understood first.

2.1 Background Information

When the City of Sausalito was operating its own Fire Department until about 6 years ago, the department functioned with only one Chief Officer, part time clerical support and 17 line personnel. The City also staffed a full-time Fire Marshal position from 1997 until 2002. This previous City staffing model provided 5 line personnel on duty each day, with 2 extra staff to provide some coverage for vacation and sick leave with the balance covered by overtime. In the years where there was only a single Chief Officer (Fire Chief) that person was responsible for providing incident command 24/7 year round, fire prevention, training, hazardous materials coordination, supervision of all staff and the normal day to day administrative duties of the department, plus serving as a City department head.

If the Chief Officer did not live in the City, providing constant incident command coverage was problematical. If the officer lived within the City, this responsibility came ahead of family and any other personal time. This level of Chief Officer staffing is considered inadequate and depending on the individual's qualifications, even unsafe, in today's highly regulated safety rule set for fire services. There have been a number of new state and federal laws, regulations, and court cases that limit the flexibility of cities in determining their staffing levels, training, and methods of operation. These are given an abbreviated overview below:

1. 1999 OSHA Staffing Policies – Federal OSHA applied the confined space safety regulations for work inside tanks and underground spaces to America's firefighters. This requires in atmospheres that are "IDLH" (Immediately Dangerous to Life and Health) that there be teams of two inside and two outside in constant communication, and with the outside pair equipped and ready to rescue the inside pair. This situation occurs in building fires where the fire and smoke conditions are serious enough to require the wearing of self-contained breathing apparatus (SCBA). This is commonly called the "2-in/2-out" policy. This policy requires that firefighters enter serious building fires in teams of two, while two more firefighters are outside and immediately ready to rescue them should trouble arise.

   While under OSHA policy one of the outside "two-out" personnel can also be the Incident Commander (typically a Chief Officer) or fire apparatus operator, this person must be fully suited-up in protective clothing, have a breathing apparatus donned except for the face piece, meet all physical requirements to enter IDLH atmospheres and thus be ready to immediately help with the rescue of interior firefighters in trouble. However, given these stipulations and the operating complications they cause, the automatic aid partnership to which the City belongs, does not recognize the Incident Commander as one of the "two out" personnel, since to send the Incident Commander inside to perform a firefighter rescue means the incident totally loses command and control, generating more safety problems.

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2. May 2001 National Staffing Guidelines – The National Fire Protection Association (NFPA) Standard on Career Fire Service Deployment was issued seven years ago. While *advisory* to local governments, as it starts to become locally adopted and used, it develops momentum, forcing adoption by neighboring communities. NFPA 1710 calls for four-person fire crew staffing, arriving on one or two apparatus as a "company." The initial attack crew should arrive at the emergency within four minutes travel time, 90 percent of the time, and the total effective response force (first alarm assignment) shall arrive within eight minutes travel time, 90 percent of the time.

3. The on-scene Incident Commanders (Battalion Chiefs) at Hazardous Materials Incidents must have certification compliant with NFPA 472, Standard for Emergency Response to Hazardous Materials Incidents. This is also now an OSHA requirement.

4. CAL OSHA Requirements – Among the elements required is a safety orientation for new employees, a hazard communications system for employees to communicate hazards to supervisors, the CAL-OSHA process for post injury reviews, the required annual report of injuries, and a standard for safety work plans. Employers have many different responsibilities under the Occupational Safety and Health Act of 1970 and the Code of Federal Regulations (CFR). Initially OSHA focused its efforts on the private sector; more recently, it has turned its attention to the public sector and specifically the fire service.

5. October 1999 California OSHA Changes – Governor Davis signed Assembly Bill 1127, authored by Assembly member Steinberg into law (Chapter 615, Statutes of 1999). AB 1127 makes changes to twelve (12) sections of the California Labor Code. Except for one statutory change to Labor Code Section 98.7, all of AB 1127's changes involve the California Occupational Safety and Health Act (Labor Code Section 6300 et seq.).

   This legislation made all of the OSHA regulations applicable to local government, including fines and a huge increase in criminal penalties under Cal/OSHA. Individual managers and supervisors (*Fire Chiefs – Incident Commanders*) may now be fined up to $250,000 and be imprisoned for up to four years. Criminal fines range up to a maximum of $3.5 million in fines for corporations and limited liability companies. Labor Code 6423 and 6425.

This "sea change" in personal and agency liability means that not just any firefighter can, or should be, an Incident Commander on serious, sustained incidents. Along with increasing firefighter deaths nationally and Federal OSHA citations to fire commanders, the trend has started for requiring significant training and certification of Incident Commanders.

Fire Captains are not trained or typically experienced enough to be full-time Incident Commanders. They are "front line supervisors" in charge of one crew and as such must stay in close contact with that crew during firefighting activities out of the direct sight of the Incident Commander. The first or second arriving Fire Captain is trained to take command, but only temporarily until the arrival of an Incident Commander (Chief Officer).

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Therefore if a city or district provides fire services at all, they must be provided with the safety of the public and firefighter in mind. Additionally, the Chief Officers as scene Incident Commanders must be well trained, competent and are liable for mistakes that violate the law. An under staffed, under led token force will not only not be able to stop a fire, it opens the city up for real liability should the fire department fail.

Given the above, Sausalito cannot now safely operate a fire department without adequate Chief Officer coverage to meet all of these needs on a 24/7/365 basis. The advances in fire service prevention and fire codes also mean the Sausalito needs to provide effective fire prevention and enforcement for the adopted Uniform Fire Code.

At a minimum, these safety and service needs will require 3 Chief Officers, all of whom should live within or immediately adjacent to the City and are willing to share on-call 24 hour responsibility year-round. More realistically a minimum, safe and effective headquarters staff for even a one-station fire department looks like:

- Fire Chief
- 1 Fire Marshal or Fire Prevention Specialist
- 3 Battalion Chiefs to provide 24/7/365 incident command and station supervision/training
- 1 Office Support Position.

Most fire departments can no longer recruit Chief Officers willing to make the commitment to live in the department and respond from home to emergencies, which means a significant impact on their family life. This is even more problematic at the pay level that a small city and fire department can afford in one of the country's most expensive housing markets.

This collection of safety, liability, administrative and recruitment factors led the City to contract with the Southern Marin FPD to provide the headquarters function for the City. As part of this arrangement, the City's fire line personnel were placed under the management control of the Southern Marin Headquarters staff and line Battalion Chiefs (who provide daily incident command coverage both within the City and the District).

The contract terms, without reciting all of the detail in the contract, require the Southern Marin FPD to manage the personnel, maintain the equipment, arrange for materials and supplies, and provide for all fire and emergency medical operation services. The City now pays for one-third of the cost of the Fire Chief and Administrative Aide and provides funds to pay for the operating materials and supplies associated with the line staff stationed in Sausalito and the Sausalito fire station and equipment. This cost was $108,415 for the 2009-10 fiscal year. This cost formula does **not** take into account costs associated with the District providing 24/7 incident command coverage, the shift Battalion Chiefs providing daily staff supervision and training, or the equipment (including personnel equipment, communications equipment, and vehicles) used by the Headquarters staff and Battalion Chiefs in the performance of their duties.

The initial contract cost also did not take into consideration the City's and District's somewhat overlapping costs to provide administrative services to a fire department such as: administrative personnel; finance; payroll; personnel; workers compensation; legal; risk management; City Manager oversight; and occasional City Council or Fire Board agenda items for budget, labor relations and fire prevention issues. While no single part of the City or the District can reduce its

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staffing or noticeably reduce other costs if the overlapping is eliminated, these activities do represent an unnecessary burden on each agency that could be avoided if the City and District choose one of the alternatives involving full consolidation of the fire services into one department.

The City and the Southern Marin FPD can continue this current arrangement of contracting only for Headquarters services or the City could choose to convert the Sausalito fire employees to Southern Marin employees and contract for "all" fire services from the Southern Marin FPD.

Alternatively, the City and the Southern Marin FPD could consider merging the City into the District, after which the District would be fully responsible for fire services within both the current District and the City. A third alternative is for both the City and the District to disband their fire departments, for a Joint Powers Authority and under the auspices of the JPA, create a new fire department that serves both the City and the District under a Contract for service model where the City and the District would each contract with the JPA to provide fire services.

Each of these alternatives will be more fully described and assessed below.

2.2 Contract for Service Alternatives

It is fairly common for one fire service agency to contract for services from another in order to obtain economies of scale. Training, Haz Mat response capacity, specialty rescue services, and first responder services in areas of an agency that may not be well served by its own fire stations are just a few examples of contracted services. Two or more small agencies often contract for or share "Incident Command" services, particularly after normal work hours or on weekends and holidays. It is somewhat less common to find an agency contracting for supervision and other headquarters services, like Sausalito does, because it is more difficult for a headquarters unit to supervise staff using two different sets of personnel rules and employer liability obligations. Contracting for headquarters services is more often seen as an interim step to a full contract where one agency provides "all" of the services to the other agency.

The core piece of any contract for service arrangement is the formula that the parties agree is an equitable measure of how to allocate costs between the contracting agencies.

Typical Contract for Service Formulas

Contract for service formulas typically focus on five measures: assessed value being protected, population being served, calls for service, number of line staff assigned to stations daily within each agency, and the number of fire stations located within each agency's boundaries. The measure or combination of measures chosen to determine the contract amount to be paid to the provider agency is typically a formula that "all parties consider to be fair" in their particular environment. Most often the measures each tend to result in nearly the same "cost split" percentage.

The measures, as they currently exist in Sausalito and the Southern Marin FPD, are described below.

Assessed Value Being Protected

Based on the latest report from the County Assessor's Office, the taxable assessed valuation of property within Sausalito is $2,597,633,714 while in the District it is $4,816,258,598.

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Population

The present estimated population of the District is estimated to be 21,500, while the latest State Department of Finance estimated population for the City is 7,596.

Calls for Service

The District responded to an annual average of 1,977 calls for service within the boundaries of the City and the District between 2008 and 2010. Of these, an average of 847 were within the City limits and 1,130 were responses within the District boundaries.

Line Staff Personnel On Duty Daily

Five (5) line staff are on duty daily in Sausalito while 10 are on duty in Southern Marin.

Number of Fire Stations

While it is not always the case, here in Sausalito and Southern Marin, the fire stations are identically staffed daily, resulting in the staffing methods mirroring each other. One station is in Sausalito and two are in the District.

Using the above information, the following table illustrates the percentage cost share of headquarter services that would be paid by the City under each of the measures. At the bottom of the table is a "Composite Measure" representing an average of the other five.

Sausalito Share of Measures of Service

Measures of Service	Southern Marin	Sausalito	Sausalito Share of the Total
Assessed Value	$4,816,258,598	$2,597,633,714	35.04%
Population	21,500	7,596	26.11%
Calls for Service	1,130	847	42.84%
Line Staff on Duty	10	5	33.33%
Fire Stations	2	1	33.33%
Composite Measure			34.13%

Application of the Contract for Service Formulas

Contract for Headquarters Staff Only

While contracting for Headquarters services is not an effective long-term alternative, interim arrangements such as between the City and the District are often seen among other agencies. The table below illustrates application of the various cost share measures to two headquarters contract arrangements. The first column includes the current cost of the Southern Marin FPD Headquarters unit without considering the cost or value of the Battalion Chief Incident Command and daily supervision and training responsibilities. The cost of this smaller headquarters unit that only consists of the Fire Chief, Deputy Fire Chief and 1.7 full-time equivalent office staff is estimated at $575,000 annually based on the Southern Marin budget

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documents. Adding in the cost of the Battalion Chiefs, who are more typically counted as part of the Headquarters Unit, increases the annual cost to approximately $1,475,000.

Sausalito Cost of Headquarters Services Compared to Current Cost of $108,415

Measures of Service	HQ Cost Without Battalion Chiefs	Sausalito Share	HQ Cost With Battalion Chiefs	Sausalito Share
Assessed Value	$575,000	$201,465	$1,475,000	$516,801
Population	$575,000	$150,113	$1,475,000	$385,074
Calls for Service	$575,000	$246,345	$1,475,000	$631,930
Line Staff on Duty	$575,000	$191,667	$1,475,000	$491,667
Fire Stations	$575,000	$191,667	$1,475,000	$491,667
Composite Measure	$575,000	$196,251	$1,475,000	$503,428

Full Contract for Service

The more common contract for service arrangement finds one agency obtaining "turnkey" or complete services under contract from another neighboring agency. In the case of Sausalito and the Southern Marin FPD, this would mean the District would provide "all fire and related emergency services" to the City for an annual contract fee that fairly covers the proportionate share of those services received by the City.

If the City were to transfer its 15 line fire service staff to the Southern Marin FPD and obtain all Headquarters and related services from the District, the table below illustrates the change in costs from the present arrangement using the Composite Rate of **34.13 percent** as the City's share, from the table above. The data below is from the City and District records of actual FY 2009-10 expenses and revenue, because this is a more accurate representation of data than using the "budgeted amount" that is available for the FY 2010-11 that was not yet completed when the data was analyzed.

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Comparison of Current Contract Costs to a Full Contract for Service Model

	Tax & Misc Rev	Admin Svcs Rev from the City	Total Revenue	Labor Expenses	M&S Expenses	Vehicle Replace-ment	Admin Svcs Contract Expenses	Total Expenses
Current Contract Agreement								
Southern Marin FPD	$8,891,302	$108,415	$8,999,717	$7,116,843	$1,138,242			$8,255,085
Sausalito	$110,702		$110,702	$2,587,364	$235,269	$190,081	$108,415	$3,121,129
Full Contract for Service Model								
Southern Marin FPD	$8,891,302	$3,780,901	$12,672,203	$9,704,207	$1,373,511			$11,077,718
Sausalito	$110,702		$110,702			$190,081	$3,780,901	$3,970,982

Note: M&S expenses do not include large capital expenses or payments into a vehicle depreciation fund. The City pays into a fund, while the District purchases equipment for cash. Under a contract arrangement, the City would likely continue to pay for replacement of the apparatus serving the City, as needed and so would continue to incur the annual vehicle depreciation fund payment.

Sausalito's expenses *increase* $849,853 per year in FY 2009-10 costs, reflective of the fact that Sausalito, in this model, is paying a share of expenses based on a composite measure (34.13%) of the relative population, assessed value etc. of Sausalito compared to the District.

This $849,853 increase in cost can be compared to the $395,013 increase in cost if Sausalito were to continue only purchasing headquarters services (including Battalion Chief services) from the Southern Marin FPD and would continue separately to budget for Material and Supply costs as the City does now. The reason the headquarters cost option appears to be less expensive is that the City is only contributing about 17 percent of the total Materials and Supplies cost of the combined City and District fire services, while representing one-third of the staffing, one-third of the fire stations, and 42.84 percent of the calls for service. From any sense of the available measures, the City is *under contributing* to the actual cost of Materials and Supplies for the fire services.

Other Fiscal Issues Under a Full Contract for Services

If the City were to contract for full fire services from the District and the line staff were to become District employees, there are several fiscal issues that the City needs to be aware of.

Retirement Liability

While both the City and District employees have a '3 percent at 55' Retirement Plan, City employees are members of the California Public Employees Retirement System (CALPERS), while District employees are part of the Marin County Employee's Retirement System. As the employee's enter the new county retirement system, the City will retain responsibility for the post retirement cost of the years of service that the employees worked as City of Sausalito employees. The actual amount of this unfunded liability and the annual cost would need to be the subject of a PERS actuarial report. This is not a new expense, but one that the City has now and

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would continue to have if the employees remained on the City payroll. From that perspective, the retirement liability is "cost neutral" as a factor in considering whether to enter into a full contract for service or any other arrangement that has City employees becoming District employees.

Post Retirement Medical Liability

Both the City and the District provide medical insurance to eligible employees after retirement. The City's unfunded liability for fire department employees is $1,958,005. If the City employees become District employees, a liability will remain with the City. However, the employees will also have the opportunity to become vested in the County system as well, and so there may be dual coverage for some of them. Part of any agreement to transfer City employees to the District should involve an actuarial study and agreement regarding how much liability remains with the City and under what circumstances. While the City's liability is not likely to increase, there may be an opportunity to decrease that liability.

Replacement of Apparatus and Major Maintenance of the Fire Station

It is typical for a Full Contract for services to have the contracting agency retain ownership of any fire station within their boundaries and responsibility to replace apparatus stationed there, as well as a fair share of apparatus that may be stationed elsewhere but serves the agency (such as a ladder truck that may be shared by all fire stations). Presently the City is setting aside annually an adequate amount of funds to ensure that apparatus can be replaced when it reaches the end of its useful life. The present balance in the replacement fund for fire apparatus is $1,594,200. Given the remaining life expectancy on some of the apparatus, it is reasonable to expect that the City will have accumulated sufficient funds to replace the apparatus when needed.

Under a Full Contract for service, the need for the City to set aside approximately $118,869 per year (the amount currently budgeted for Fiscal Year 2010-11) will continue along with retaining the responsibility to do major maintenance on the fire station, such as painting, roof replacement, remodeling, replacing appliances and carpet, etc.

Both apparatus replacement and major fire station maintenance are fiscal responsibilities that the City has now, and would not change under a Full Contract for services.

Augmentation of Office and Related Equipment

The integration of the City and District operations has been so thorough that there should not be the need for any but the most minor of additional or upgraded equipment necessary to handle a fire department in which the City work force has become District employees and the fire services are wholly provided by the District under contract to the City. A Full Contract for service would, in fact, reduce some of the current accounting process work required of both the City and the District. Facility size and furnishings would not need to change "as a result of changing from the current arrangement" to a Full Contract for services.

Fire Prevention Levels of Service

Fire Marshal services are available through the District, utilizing funding received through the contract with the National Park Service for the City and District to respond into the parks Headlands Area. It is not clear under the current fire management contract between the parties whether or not this service is clearly the responsibility of the District to provide, because it is not specifically mentioned in the agreement and the current administrative services formula only

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covers the cost of the Fire Chief and one staff person. Typically a Fire Department with a headquarters staff number as small as the District's has difficulty providing any but nominal fire prevention services and often will contract out all but the more routine plan review and inspections. Fire Marshal work requires both experience and training to handle complex commercial and industrial inspections. Under a Full Contract for service arrangement, this service level issue would be addressed by the governance committee. It has cost implications for both the City and the District, and so this is precisely the type of issue that a partnership should address jointly.

Governance Issues Under a Full Contract for Services

Small one or two station fire departments in California are increasingly looking for ways to merge or otherwise combine with neighboring agencies in order to achieve economies of scale. As in Sausalito and South Marin, for the most part, the savings is not in reducing the number of line personnel, because the number and location of stations and the number and location of staff and apparatus are usually adequate to provide the level of service that local officials can afford. Rather, the savings come from not having to duplicate headquarters staff. One adequately sized headquarters staff can actually manage from 1 to 7 or 8 fire stations, depending on geography.

The question of governance occurs with a "combining" of two or more departments. How does each partner assure itself that it can adequately participate in the process of determining the level and cost of services?

The Sausalito-Southern Marin FPD Agreement provides for numerous reporting and record keeping steps particularly regarding the expenditure of the Sausalito contributed Material and Supplies Funds and Overtime costs. Actual governance consultation typically focuses around a formal committee of two elected officials from each agency. In the main section of the Agreement, their role is to review and evaluate. But other sections of the Agreement could provide specific committee responsibilities, including to:

- Recommend to the City Council any replacement of City-owned fire equipment;
- Negotiate and recommend a fiscal year budget for adoption by both agencies with the provision that if there is no agreement, the budget cannot be adopted unilaterally but instead the prior year budget will roll over with a 3 percent increase;
- Coordinate collective bargaining negotiations with determination for the following year's Administrative Service Payment by the City.

Separate from the committee is the requirement that the Fire Chief act as Fire Chief for the City and provide advice on collective bargaining to the City Manager.

This governance arrangement is similar to other successful partnerships. But success will largely be a function of the willingness of both parties to work cooperatively and to actually use the governance committee to perform the tasks assigned to it. Where governance fails with similar agreement provisions is where both parties allow the committee to become a pro-forma meeting as opposed to a working body that is properly staffed and assisted by the Fire Chief and City Manager.

Citygate recommends that the parties review the agreement and the authority of the joint committee to act in a more than advisory capacity in order for the City to be an active partner in

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the contract arrangement and have a definitive role in determining budget and service levels, since the City would be responsible for approximately one-third of the cost and receive about one-third of the services.

2.3 Merger Alternative

The second alternative for "combining" or sharing fire service resources is the creation of a fire district or expansion of an existing district to encompass both agency boundaries. Any form of merger requires review and approval by LAFCO. The basic LAFCO requirements and process that serve as background to discussing this alternative described below:

LAFCO Law and Process Governing Mergers or Combining of Jurisdictions

The LAFCO law sets four methods of combining district jurisdictions. They are:

- Annexation which may or may not include a dissolution;
- Consolidation;
- Merger;
- Formation of a subsidiary district.

Because we are dealing with a city, the only viable option is annexation to the Southern Marin Fire Protection District without dissolution of the district.

A consolidation is not available because only districts can consolidate with districts and cities with cities (LAFCO law 56030). A district cannot consolidate with a city.

Dissolution and formation of a new replacement district will not work because upon dissolution, the corporate powers of the district cease to exist (LAFCO law section 57450). The successor to the dissolved district winds up its affairs (LAFCO law section 57453). There is no authority to transfer its taxing powers to the successor new replacement district except for the payment of long-term obligations (LAFCO law section 57458).

A merger is not available. A merger occurs when a district of limited powers is subsumed by the boundaries of a city. The entire boundaries of the district must be within the city (LAFCO law section 57104). It results in the termination of the existence of the district (LAFCO law section 56056).

The formation of a subsidiary district is not available. A subsidiary district is a district, which is governed by a city council (LAFCO law section 56078). To be a subsidiary district, at least 70 percent of the land area must be within the boundaries of the city and at least 70 percent of the registered voters must be within the city (LAFCO law section 57105). It is Citygate's estimate that if the area of Sausalito and the Southern Marin FPD were combined that more than 70 percent of the area would be outside of the City.

This leaves the annexation of the City to the Southern Marin FPD. Under the Fire Protection Law of 1987, a fire protection district may include incorporated territory (Health and Safety Code section 13810). The advantage is that the annexed territory shall be subject to any previously authorized taxes, benefit assessments, fees or other charges of the district (LAFCO law section 56330). This means that the existing Southern Marin FPD special tax would carry over and apply to property within the City.

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As for the ad valorem taxes, the tax sharing provisions apply. Under Revenue and Taxation Code section 99(b), the Board of Supervisors of the County negotiates any exchange of property tax revenues on behalf of the District with the City. The objective would be to ensure that the district has sufficient tax revenue – in addition to any special tax that will be carried over and apply to the City properties – to provide the services within the expanded district boundaries. As a practical matter, other City tax sources may also be considered by the Board of Supervisors as it negotiates on behalf of the District. More realistically, if the District and the City reach a tax sharing arrangement themselves, it will most likely be accepted by the County and LAFCO.

Process of Annexation

The executive officer notices a public hearing before LAFCO. The commission may approve, modify or deny the proposal. If approved, the commission may adopt terms and conditions for the annexation.

At the end of the hearing, the commission adopts a resolution making determinations. There is a 30 day period in which a written request for reconsideration may be made.

After approval, the proposal is scheduled for a conducting authority hearing unless the proposal has the consent of 100 percent of the landowners and LAFCO waves the hearing. LAFCO is the conducting authority for the protest hearing. The commission or the executive officer conducts the protest hearing.

Sufficient protest may force the matter to an election or terminate the proceedings. Because there will be over 12 registered voters, we will only discuss the inhabited territory proceedings for registered voter districts.

If at the close of the protest hearing there remain written protests representing 50 percent or more of the voters residing in the territory, the proceedings are terminated (LAFCO law section 57078).

The proposal goes to an election if at the close of the protest hearing there remains protest representing either of the following:

At least 25 percent, but less than 50 percent, of the registered voters residing within the district; or At least 25 percent of the number of landowners who own at least 25 percent of the assessed value of land within the territory.

If there is insufficient protest, LAFCO orders the annexation without an election (LAFCO law 57075).

Merger of the City Territory into the Southern Marin FPD Boundaries

The only effective merger alternative for Sausalito and the Southern Marin FPD is for the District boundaries to be expanded to encompass the City. Practically this will mean that the City will need to transfer a percent of its property tax revenue to the District to provide for the cost of adding the employees to the District payroll, the additional Material and Supply Costs, and maintaining and replacing the fire apparatus. If the District's Special Parcel Tax is extended to apply to City parcels, this will reduce the amount of property tax revenue transferred from the City to the District. Issues such as how the City and District agree to handle major maintenance on the City owned fire station (which likely would remain in City ownership due to the bond

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debt on the property), and accumulated depreciation on the older City fire apparatus may also affect the amount of property tax that needs to be reallocated to the District.

The first step in reviewing a merger of the City into the District begins with comparing the cost of the current contract arrangement with costs associated with a merger. The Southern Marin FPD costs will be the same as under the Full Contract for service model plus the cost of depreciation or annual vehicle replacement for the apparatus serving the Sausalito area.

Cost of Operating a Merged Fire District

	Tax & Misc Rev	Total Revenue	Labor Expenses	M&S Expenses	Vehicle Replacement	Total Expenses
Current Contract Agreement						
Southern Marin FPD	$8,891,302	$8,891,302	$7,116,843	$1,138,242		$8,255,085
Sausalito	$110,702	$110,702	$2,587,364	$235,269	$190,081	$3,012,714
Merger Model						
Southern Marin FPD	$11,904,016	$11,904,016	$9,704,207	$1,373,511	$190,081	$11,267,799
Sausalito		0				0

While Sausalito is shown as "No Cost" under a merger in the table above, whether this remains correct depends upon negotiations over issues such as major maintenance on the Sausalito Fire Station and current depreciation on Sausalito Fire Apparatus for which the City has already set aside $1,594,200.

Note that the cost of a merged City-District operation is the same as the cost of the two in their current arrangement because the two agencies have merged for all practical operating purposes and have already achieved the economies to be expected from a merger (or a Full Contract for services). But the current City cost is based on the present cost allocation where the City pays considerably less for the headquarters services than would be the case if the City were paying based on any one or a combination of the various "service measures" discussed earlier in this report.

A merger of the City with the Fire District avoids the issue of what "service measure" to use in allocating costs and instead focuses on what is the added cost the District would incur.

If a larger fire district that encompasses the City makes sense, then the City will need to provide revenue to cover the added $3,012,714 in cost associated with the District assuming responsibility for labor costs, materials and supplies and annual apparatus depreciation.

There are three basic sources of revenue the City can use to provide for this added District cost.

Ambulance and Fire Permit Revenue

The City presently receives slightly over $100,000 per year in revenue from the SMEMPS ambulance operation and another $1,200 in miscellaneous fire permit type revenue. In a merger,

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the District would both become responsible for these activities as well as receive the revenue, which reduces the amount of revenue needed from other City sources.

Special Tax Revenue from Applying the Special Tax to City parcels

In a merger, the District's Special Tax may apply to City parcels as well. For FY 2009-10 the District received $815,376 in Special Tax revenue.

Annual Southern Marin FPD Special Tax Rate

	Unimproved Property	Each Living Unit	Per sq ft of Structural Improvements	Per Parcel for County Tax Administration
Tax Rate	$45	$90	$.12	$2

Based on Assessor's records of improved and unimproved property, applying the Special Tax in Sausalito would generate an estimated $560,000 per year. The tax rate is presently at the maximum and so would not increase unless approved at a district-wide election.

Property Tax Revenue

The City would be expected to transfer a percentage of its property tax authority to the District to make up for the remainder of the needed revenue. Property taxes currently make up over 90 percent of the District's revenue and have appeared to provide an adequate source of revenue that has grown with increasing property values. While recently property values have "stumbled" statewide, within Sausalito and the District, the assessed value has largely flattened rather than reduced. It will likely be several years before growth resumes, but a minimum 2 percent annual growth can then be expected. With property turn over and a modest increase in value, the District could see minimum property tax revenue growth closer to 3-4 percent beginning in several years. This will permit the District to have revenue that most likely matches inflationary cost increases.

The table below calculates the property tax that the City might be expected to transfer to the District. The table below uses FY 2009-10 actual data for accuracy:

Southern Marin FPD Sources of Additional Revenue

Added Revenue Needed by the District	City Ambulance and Permit Revenue	Special Tax Applied to City Parcels	Property Tax Transferred to the District
$3,012,714	$110,702	$560,000	**$2,342,012**

The property tax transfer represents about 35 percent of all property tax related revenue received by the City in FY 2009-10.

Other Issues Associated with a Merger Alternative

In addition to revenue transfer issues, other issues that need to be addressed as part of any merger discussion are the following, each of which has been already addressed earlier in this report.

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- How to handle depreciation on current fire apparatus.
  - Does the City turn over to the District its accumulated fire vehicle replacement fund or retain some responsibility for replacing the existing equipment at least once through the use of these funds? Since the District would have full responsibility for fire services delivery and financing under a Merger Alternative, it would be preferable for the City to turn over an agreed upon portion of the accumulated City fire apparatus reserves and the District would then have full responsibility to plan for the replacement and associated financing of both current and future equipment.
- Responsibility for fire station major maintenance if the City continues to own the Sausalito fire station.
  - Does the City retain responsibility for major maintenance on the City owned fire station and what is the dollar limit or definition of major maintenance?
- Unfunded post-retirement medical liability.
  - An agreement will need to be made that coordinates any similar benefit accrued by a former Sausalito employee while under District employment with the benefit earned by the employee prior to the merger.
- Liability for CALPERS years of service working as a Sausalito employee.
  - This liability will remain with the City.
- Augmentation of Office and Related Equipment.
  - As with a Full Contract for services, a merger would not be the cause for any upgrades.
- Reporting and coordination of fire services with other City services.
  - Does the City want any form of formal reporting and policy coordinating arrangement between the City and the District, even though the City will no longer have any responsibility for fire services? The City and District could have an agreement through which the District continues to provide administrative coordination with the City and accept City recommendations regarding fire services through a public safety committee of City elected officials. The District Fire Chief might reasonably be expected to continue serving de facto as the City Fire Chief and in that position perform many of the coordinating and reporting roles of a City Department Head.

2.4 Joint Powers Authority Alternative

A Joint Powers Authority (JPA) is used in several forms for the provision and governance of fire services. In its simplest form, it establishes a governance committee with oversight responsibilities of fire services that are provided by one agency to another through a contract for services. In this form the JPA document is a Limited Joint Powers Agreement that establishes the

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framework for governance. If the framework now being used by the City and the District, with improvement in authority and responsibility of the joint oversight committee, is satisfactory to both parties, the JPA document would not be necessary because it would simply mirror those arrangements and would not be any more or less effective than such a contract agreement.

The more complex use of a JPA would be if the City and District decided that neither party should provide the fire services, but instead a new fire department jointly owned and operated by a Joint Powers Authority would be more appropriate. Both the City and the District would then contract with the JPA to provide fire services to their respective agency. The JPA Fire Department would be governed by a Joint Powers Authority Board consisting of members of the District Board and the City Council. The District would continue in existence, because it would be the taxing authority within the District boundaries to raise the funds then used to contract for fire services from the JPA. But the District would not be the provider of fire services. Instead the new JPA would be the fire services provider governed by the Joint Powers Authority Board whose members would be appointed by the City and the District.

A JPA Fire Department would be the same organizationally and in terms of cost as the District Fire Department under the Full Contract for service model or under the Merger Model. It would be the same stations and staffing.

The only advantage to using a JPA would be to create a new governance model that removed full operational authority from the current District Board of Directors and placed that authority in a JPA Board consisting of representatives from both the District and the City. Looked at from a different perspective, the JPA model is much the same as the current governance structure, except that the current governance committee does not have day-to-day operational authority over the fire department. Its authority is limited in the agreement to review of operations, recommending the annual budget and equipment replacement.

3. *Viable Alternatives for Merger/Consolidation or Contract for Service Options Between Sausalito and Southern Marin FPD*

3.1 Only Two Practical Choices

There are only two practical options for combining the City and District fire services.

First Choice: Full Contract for Service

The City's current contract for services with the District appears to give management responsibility over City employees to the District headquarters staff, but requires the District headquarters staff to manage personnel who are not all subject to the same personnel rules and who have different disciplinary and appeal rights/processes. There is also no guarantee that each year the Memorandum of Understanding negotiations by the agencies with their separate fire employment groups will continue to result in comparable wages and benefits being paid to all employees. The ability to manage the fire employees in this environment is difficult and can lead to a great deal of friction if salaries and benefits begin to differ between employees who are working under the same management. The arrangement is less stable over the long run than a Full Contract for services.

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A Full Contract for services results in all employees and resources being under the direct management of one employer. The interest of the City is then the level and cost of the service, while all matters necessary to meet the level of service obligation are the responsibility of the District. We all buy "turn key" services like that in our daily life, ranging from television cable or satellite service to auto repair. We are interested in the level and content of the service, whether it is provided at a quality level acceptable to us, and at a price that we can afford and find acceptable.

As economics and growth change the City and District, the partners can determine how and when to change the content and level of services provided to the City.

While the governance portion of a contract agreement provides the oversight on level, quality and cost of service, the City still has the freedom of choice regarding where and how it comes up with the revenue to pay for the service. It can use current revenue sources or choose to levy a special tax similar to the one now in place in the District.

Summary of Issues

All of the principal issues associated with the Full Contract for service model have been discussed elsewhere in this report. A summary listing is included below:

1. Governance
   - Does the authority of the governance committee allow for adequate and timely participation in decisions that significantly impact the level and cost of service without creating a complex accounting and reporting layer such as presently exists with the method of accounting for Sausalito contributions to Material and Supply Costs?
2. Cost Allocation Formula
   - Is the Measure of Service chosen for the Cost Allocation formula easily acceptable to all parties? Do they perceive it to be equitable? Does it require annual negotiated adjustment or is the formula enduring in a way that any adjustment is the automatic result of the formula, such as changes in population or assessed value as part of a weighted composite measure?
   - Under the present cost allocation formula, the City costs are *less* than any of the more commonly used measures of service. If a composite measure of service were used and the City paid 34.13 percent of the cost of the District fire service expenses (excluding the cost of major capital replacement which each agency would continue to bear), the City's cost for fire services increases from the present $3,121,129 to $3,970,982 or an increase of $849,853 based on FY 2009-10 actual expenses. Even continuation of the present more limited contract for services would see a cost increase of approximately $395,013 to the City if a composite measure of service were used to allocate costs instead of the current formula.

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3. Ownership of Equipment and Fire Station

   - Will the City continue to own the equipment and be responsible for its replacement and for major maintenance of the fire station? If the City does not want to continue to own the equipment, then a transition plan needs to be developed recognizing that the cost of replacing current equipment has already been substantially funded by the City through the reserves in the fire department portion of the vehicle replacement fund.

4. Post-Retirement Medical Unfunded Liability

   - If the City employees transfer to the District, then an agreement needs to be developed to coordinate both the delivery and the financial responsibility for the post retirement medical benefits earned by employees while with the City and to make any resulting adjustment in the City's unfunded liability.

5. Retirement Liability

   - The City will have a continuing liability for the years that employees have worked for the City.

6. Coordination of Emergency Response

   - With fire services provided by another agency, the City and District need to develop a close plan of coordination to respond to major public safety emergencies such as an earthquake or major fire. Many cities deal with this issue satisfactorily, but it takes deliberate planning. Practically this is no different than the situation the City faces now with its more limited contract for services.

Summary of Benefits

A Full Cost of service contract has some advantages for both agencies. The extent to which any party sees the following as benefits or how great the benefit is always a matter of judgment and local elected official determination.

1. Management of employees is simplified under a single MOU and set of personnel rules.
2. A single accounting system is maintained by the District, avoiding duplication.
3. The City no longer will need to negotiate with Fire employees.
4. The City and District can adopt performance measures to gauge the delivery of services.

Second Choice: Merger of the City into the District

The most stable long-term approach is for the District boundaries to be expanded to encompass the City. There would be one fire service provider and the governing body would be people elected by the voters across the entire new District, including the City. The District's sources of revenue would be set at the time of merger, possibly to include application of the Special Tax to

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City parcels and transfer of part of the City's property tax allocation. Future fiscal and operational issues would be for the District to resolve.

Summary of Issues

All of the issues associated with this model have been discussed elsewhere, and are many of the same issues that have to be addressed under a Full Contract for service model.

1. Ownership of the equipment and fire station.
2. How to handle depreciation on current City owned equipment if the District takes ownership of the equipment.
3. Post Retirement Medical Unfunded Liability.
4. Retirement Liability: Continuation of the City's liability for prior years of City service
5. Coordination of emergency response.
6. Fire prevention and inspection services: Who is to provide and fund plan checking of new construction.
7. Special Tax: In a merger, there will be a $90 per year additional tax on residential parcels in the City, with a .12 per square foot tax on business structural improvements and a $45 per year tax on vacant parcels. While this is an additional tax, it will also free up a like amount of funds with the City budget for use in supporting other services.
8. The City can expect to transfer approximately 35 percent of its property tax related revenue to the District.
9. City only has an advisory role in how and at what level fire services are provided. Managing fire service expectations is done by the electorate through election of the Board of Directors of the District.

Summary of Benefits

Benefits of a merger with the District include not only the following benefits of a Full Contract for services, but also some additional considerations. The extent to which any party sees the following as benefits or how great the benefit, is always a matter of judgment and local elected official determination.

1. Management of employees is simplified under a single MOU and set of personnel rules.
2. A single accounting system is maintained by the District, avoiding duplication.
3. The City no longer will need to negotiate with Fire employees, because they will be employees of the District.
4. The City and District can adopt performance measures to gauge the delivery of services.
5. The City no longer is fiscally responsible for fire services as regulations and needs change.

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6. There is a single layer of representation between the voters and the District Board, compared to a Full Contract for service or JPA arrangement that has an appointed governance committee.

7. Total contribution by the City to the District will be approximately $3,012,714, based on FY 2009-10 costs. Since this is to compensate the District for the added cost of providing services in the larger area, it turns out to be somewhat less than the cost based on a composite measure of service.

4. *CITY REINSTATES ITS OWN FULLY-STAFFED FIRE DEPARTMENT*

Another option is for the City to leave the contract for service arrangement and reinstate is own fully independent fire department. In the past the City has operated that department with 17 line firefighters, one Fire Chief and a part-time clerical. In today's regulatory environment, this is no longer an advisable staffing level for fire administration, command and prevention programs.

4.1 Minimum City Only Fire Headquarters Size

In order to deal with the safety, command and fire prevention needs of fire services, discussed in Section 5.1 of this report, the minimum-staffing plan should be:

- 1 Fire Chief
- 3 Battalion Chiefs
- 1 Fire Prevention Specialist
- 1 Administrative Support position.

It is possible for the City to contract for Fire Marshal services from a consulting firm or other fire agencies for the few times when highly technical skills are needed. While this would relieve the City of the need to hire or train a Deputy Fire Chief as a fully qualified Fire Marshal, the City would still have the need for fire prevention services while contracting for Fire Marshal services. This would be most effectively provided by including a fire prevention specialist in the staffing plan.

The Battalion Chiefs would work 24/7/365 following a firefighters shift schedule. They would have to work overtime to cover vacation and sick leave for each other. As explained on page 10 in this report, Fire Captains are crew supervisors and are not trained or experienced at the level of Incident Commander. Fire departments need to provide trained and certified Incident Commanders to lead complex, dangerous emergency operations while leaving crews intact under the leadership of their Captains to actually perform the tasks the Incident Commander calls for.

As has been stated earlier in this report, a minimum level of headquarters staffing can easily support a department of 5-8 fire stations. Given this fact, many 1-3 fire station departments are forced to look at some form of merger with another agency to spread the regulatory driven headquarters expenses over a more cost-beneficial number of fire stations and crews.

The City in addition to these minimum fire headquarters staffing costs also would have City Hall administrative personnel time/cost impacts to directly providing fire services. These include finance, payroll, personnel, workers compensation, legal, risk management, city manager oversight and occasional City Council agenda items for budget and fire prevention issues.

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In a stand-alone fire department operation, the City would continue to pay as it does currently for small tools, repairs, fire apparatus and fire station upkeep. However, in a separate operation they would not have the economies of scale for purchasing these goods and services. This cost is not only the direct cost, but also the staff time it takes to specify, bid and receive goods or services.

4.2 Cost of a Reinstated City Fire Department

If the City were to reinstate its fire department as an independent City owned operation, the staffing required would be:

Headquarters

- 1 Fire Chief
- 3 Battalion Chief/Incident Commanders (one on each shift)
- 1 Fire Prevention Specialist
- 1 Administrative Support position.

Line Staff

- 15 (5 on each shift).

Overtime Coverage

With only 15 line staff to provide coverage of 5 employees on each of 3 shifts, there will need to be either extra staff hired or overtime paid to provide coverage when employees are off on vacation, sick leave, worker injury, and other leave. Not providing the coverage would mean that approximately 80 percent of the time, the City would only have 4 line staff on duty, as one of the five regularly scheduled staff would usually be on leave. Citygate recommends that 5 on duty is a minimum operational force and that the City should budget to ensure this minimum manning as it is presently provided for in the City's MOU with its fire employment group.

It is more cost effective to budget overtime to fill in for leave related vacancies than to add the additional staff because it is not always possible to predict with sick leave or workers injury occurring randomly how many overtime employees you will be needed on each shift. If the City were to add a sixth staff person on each shift, there would be some days in which no one will be off and that person will be an "extra" while others days in which more than one person will be needed to "fill in" in order to ensure the minimum manning of 5 on the shift.

However, with a one station department, if the City were to use only overtime to fill in for absences, the average employee would be required to work just over one and a half extra shifts per month. And when there are vacancies, the overtime requirement will go up even more. In a small department such as Sausalito would have, it is more operationally effective, although more costly, to have overstaffing on each shift and then use overtime when there is more than one vacancy that needs to be filled on the shift. In the cost model below, this is the approach recommended by Citygate.

The table below uses current Sausalito salaries and benefits as the base from which to estimate labor costs, which include staffing of 6 on duty each day, a modest amount of overtime consistent with Sausalito historical usage when the department line was overstaffed to provide leave coverage, and materials and supplies expenses consistent with the long-term needs of many small departments with which Citygate is familiar.

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Cost of Sausalito Reinstated Fire Department

Labor Expenses	Material and Supply Expenses	Vehicle Replacement	Total
$3,808,297	$425,662	$161,011	$4,394,970

5. *Comparison of the Cost of Alternatives and Forecast of Revenue and Expense Growth*

There are four alternatives for the City and the District: Continue the present arrangement, a Full Contract for services, Merger of the City and District, and Reinstatement of the City Fire Department. While Citygate recommends that only a Full Contract for Service or a Merger of the City with the District are stable and viable over the long term, below we compare the cost of the present contract arrangement with the other three choices.

For the Current arrangement, we present the cost based on both the current cost allocation formula and then using the composite measure of service (34.13 percent) as an illustration of how costs might change with a change in allocation formula. The composite measure is then also used to allocate costs in the Full Contract for services model.

Comparison of Alternatives

	Revenue	Expenses	Net Increase to Sausalito Compared to Current Contract
Current Contract Arrangement			
Southern Marin FPD	$8,999,717	$8,255,085	
Sausalito	$110,702	$3,121,129	
Current Contract Arrangement with 34.13% Cost Allocation to Sausalito			
Southern Marin FPD	$9,761,368	$7,531,830	
Sausalito	$110,702	$3,882,780	$761,651
Full Contract for Service with 34.13% Cost Allocation to Sausalito			
Southern Marin FPD	$12,672,203	$11,077,718	
Sausalito	$110,702	$3,970,982	$849,853
Merger of the City and District			
Southern Marin FPD	$11,904,016	$11,267,799	
Sausalito	0	$3,012,714*	$2,287
Reinstated City Fire Department			
Southern Marin FPD	$8,891,302	$8,255,085	
Sausalito	$110,702	$4,394,970	$1,273,841

*The Cost to Sausalito for the Merger Alternative is the transfer of property tax, ambulance and fire permit revenue and the addition of the Special Tax to property in Sausalito.

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Since the City and District have little opportunity for additional growth, there should not be a need for additional fire stations or line staff. Citygate *does* believe that the District and City should consider adding a Fire Marshal or fire prevention specialist position and part-time clerical in support of fire prevention as soon as long-term finances allow. This will give the District a "five Chief Officer" model which is normally adequate for to manage a population and geography served by up to 8 fire stations. However, beyond 4 to 5 fire stations and/or if significant growth occurs, an additional fire inspection position or two may be necessary.

As noted earlier in this report, in the long term, we anticipate property tax revenue to approximate inflation or a little higher depending on changes in value driven largely by very moderate growth.

6. ALTERNATIVE SOURCES OF REVENUE

Each of the alternatives discussed in this report represent a higher cost to the City of Sausalito, The choices for additional revenue to cover these costs are very limited if there is not room in the current City budget to bear the added expense. The City has the option of seeking added revenue from the residents through a parcel tax, or an election to increase the sales tax rate for public safety.

7. NEXT STEPS

1. Both the City Council and Fire District Boards review this report and consider the policy choices available to continue and improve shared fire services.
2. The City Council can provide policy direction on its preferred approach to financing and shared governance for fire services with the goal of long-term sustainability.
3. Staff and the joint working group can then more fully develop final costs, shared cost formulas and governance agreements.
4. The final costs and agreements would then be presented to both the City Council and Fire District Board for adoption, or in the case of a merger of the City into the District, initiate the necessary steps with LAFCO.

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