# STAFF REPORT
SAUSALITO CITY COUNCIL

## AGENDA TITLE:
Application to Marin County Local Agency Formation Commission (LAFCO) for annexation of the City of Sausalito to the Southern Marin Fire Protection District by expansion of the boundaries of the Southern Marin Fire Protection District (Fire Protection District) to include the City of Sausalito

## RECOMMENDED MOTIONS:
1. Approve the Resolution of the City Council of the City of Sausalito Authorizing the City Manager to Submit an Application to the Marin County Local Agency Formation Commission for the Annexation of the City of Sauslito the Southern Marin Fire Protection District; Approving the Lease of Premises and Equipment Disposition Agreement; and Approving the Agreement Regarding Certain Financial and Personnel Conditions of Annexation
2. Approve the Resolution Accepting a Negotiated Exchange of Property Tax Revenues between the City and the District, which transfers local property tax revenue to the Fire Protection District of a sufficient level that does not require a voter approved parcel tax.

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## SUMMARY
On June 21, 2011, the City Council and Southern Marin Fire Protection District Board of Directors approved a joint resolution directing city staff to prepare an application for submission to LAFCO seeking approval for the formal annexation of the City of Sausalito into the Southern Marin Fire Protection District to allow for the efficient and cost-effective provision of fire protection services.

On July 26, 2011, the City Council directed staff to file a Notice of Intention to File an Application to Annex to the Fire Protection District.

Subsequent to the City Council's action of July 26 and based on input from members of the City Council and the public, city staff in consultation with the Fire Protection District and its financial advisor revisited the question of whether to make annexation contingent upon voter approval of a $90 parcel tax to help fund the city's share of fire services costs. City staff following additional study and financial analysis concluded that a parcel tax is not necessary, and that the provision of fire protection services through annexation to the Fire Protection District can be funded with a lower amount of property tax revenue than is currently being allocated in the FY 2011-12 budget by the City for that purpose. The City's net annual savings after annexation compared to the budgeted FY 2011-12 cost is $44,062 and remains structurally balanced.

In addition, annexation further enables the City to use the remaining monies in the equipment replacement fund to liquidate the outstanding CalPERS side fund. This results in an additional annual savings of $140,000. Annexation creates a total of $184,062 annual improvement to the City's General Fund.

Tonight, city staff presents the City Council with the proposed LAFCO application (attached) and a proposed Plan for Service (attached), which explains how the provision of fire protection services will be delivered following annexation, along with other documents necessary to support the application for annexation, including an Employee Transfer Plan, Agreement for Property Tax Sharing – "A Resolution of the City Council of the City of Sausalito Accepting a Negotiated Exchange of Property Tax Revenues between the City of Sausalito and the Southern Marin Fire Protection District", Lease of Premises and Equipment Disposition Agreement and the Agreement Regarding Certain Financial and Personnel Conditions of Annexation.

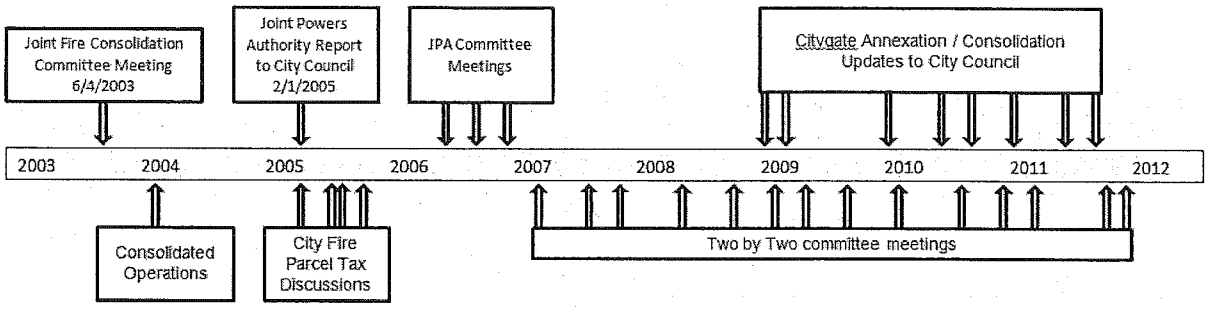
## BACKGROUND

Since 2004, the City of Sausalito has partnered with the Fire Protection District to provide the residents and businesses of Sausalito with high-quality fire protection and emergency services. Even before that, when the City of Sausalito operated its own fire department, the two agencies regularly cooperated in responding to major fires and other emergencies that neither one on their own had sufficient resources or personnel to handle.

Governed by a formal contract between the City and Fire Protection District, under this model, the Fire Protection District provides almost all management, operations and administrative services, including a fire chief and other key management and firefighting personnel, while the City of Sausalito owns and maintains its downtown fire station and equipment and employs 15 firefighters who are managed by the Fire Protection District.

Despite the success of the current model, it has become outdated in the face of changing state and federal standards which require certain levels of firefighter staffing, training and supervision to ensure a safe and adequate response to fires and other emergencies. In addition, the current contract does not reflect the full scope and cost of services that the Fire Protection District provides to the residents and businesses of Sausalito.

As a result, the City and the Fire Protection District began formally in 2006 to study more efficient and cost-effective ways to provide Sausalito with fire protection and emergency services that can better keep pace with changing firefighting standards and maintain the same high level of public safety which residents have come to expect.




A Joint Working Group composed of staff and elected representatives from the City and Fire Protection District, following several years of careful research and analysis, dozens of internal and public meetings and working with union representatives and experts in municipal finance and consolidation, identified annexation as the preferred alternative to the current agreement for providing the City of Sausalito with fire protection services.

## Preferred Alternative: Annexation into the Fire Protection District

- Fire Protection District boundaries are expanded to include the City of Sausalito, with approval required by the Local Agency Formation Commission (LAFCO).
- Maintains local control over fire protection services by giving Sausalito voters the power to elect members to the SMFPD Board of Directors, with appointment of two Sausalito residents as non-voting, advisory representatives to the SMFPD Board until the first election after the annexation is complete. The SMFPD Board has already acted to approve this arrangement should formal merger through annexation with the Fire District be approved by the City and LAFCO.
- Continues the City's strong relationship with the Fire Protection District, whose services are viewed extremely favorably by residents.
- City retains ownership of the downtown fire station.
- SMFPD employs all fire services personnel and manages all fire services operations.

As part of its research, the Joint Working Group also studied several other approaches for providing the City of Sausalito with fire protection services. The Joint Working Group concluded, however, that none of these approaches represented a cost-effective solution for providing the city with fire protection services.

One alternative that was studied would reinstate a standalone Sausalito Fire Department. This approach would increase the city's fire services costs by an estimated $1.4 million and require voter approval of a parcel tax up to $400 annually, significant cuts to existing city services or a combination of the two to provide the necessary funding.

Another alternative involved developing a full contract for service with the Fire Protection District. However, this approach would require voter approval of an up to $250 annual parcel tax, significant cuts to existing city services and/or a combination of the two to provide the

necessary funding. More importantly, the Fire Protection District Board of Directors would not support a full contract for service approach, concluding it was not consistent with the district's long-term direction for managing fire services.

## OTHER OPTIONS

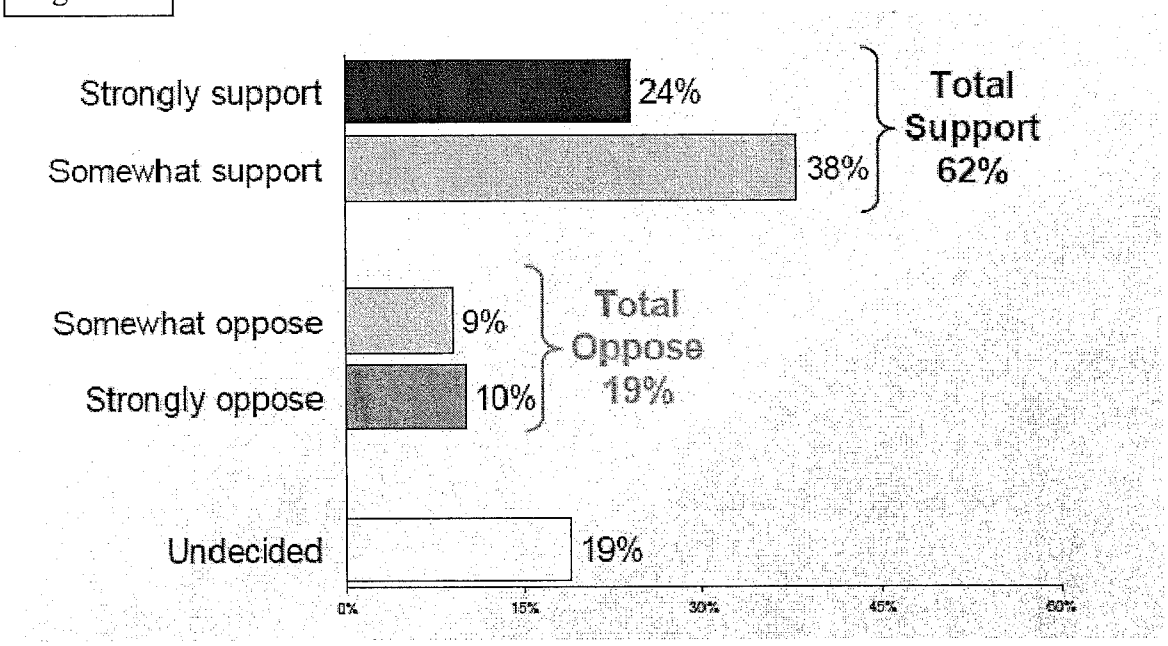
In addition to considering the options described above with the Fire Protection District, the City of Sausalito approached the City of Mill Valley, the Tiburon Fire Protection District and the Marin County Fire Department about their interest in providing Sausalito with fire protection services through consolidation, merger or contracting. None of these agencies expressed any interest in participating in any actual merger of fire services.

## GAUGING PUBLIC OPINION

In order to determine community awareness and support for the various alternatives identified by the Joint Working Group, the City of Sausalito and the Fire Protection District, contracted for a scientific public opinion poll that was conducted in May 2011 by research firm Fairbank, Maslin, Maullin, Metz & Associates.

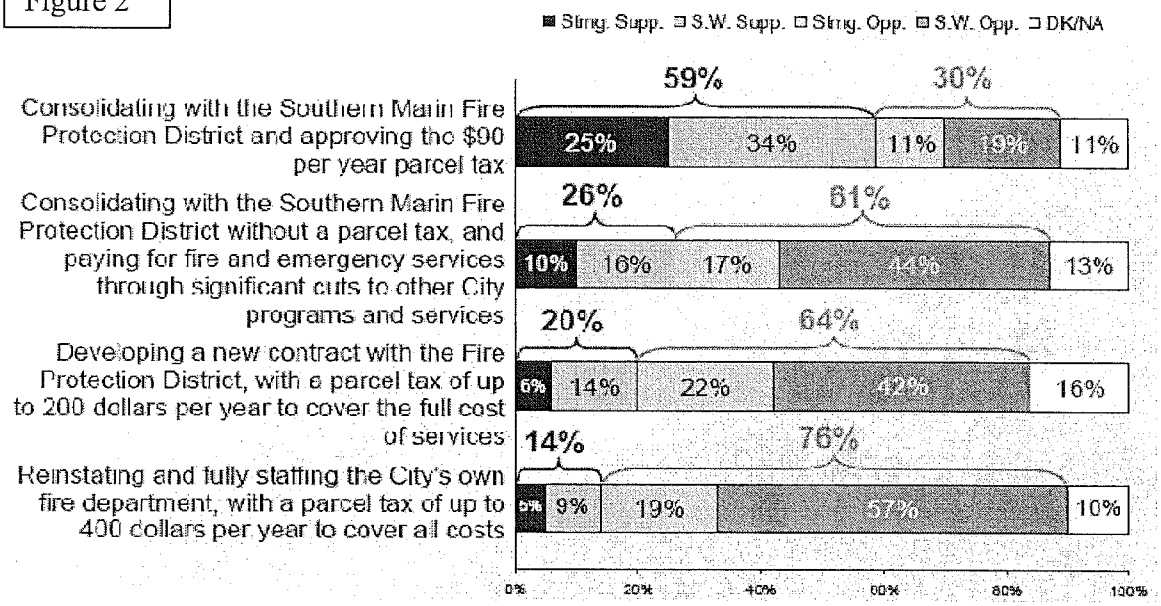
The results showed that 62 percent were supportive of annexation with the Fire Protection District (figure 1).

Figure 1




The public opinion poll also gauged support among residents for the different service methods and levels of parcel tax or other mechanisms necessary to fund them. Of the different methods tested, only annexation with a $90 annual parcel tax received at least majority support (figure 2).

Figure 2




When survey respondents were asked if they would support a $90 parcel tax necessary to pay for consolidation, initial support was only 50 percent, far below the required 66.7 percent necessary for approval. That support increased to just 59 percent when the various service alternatives were presented together, but is still considerably below the two-thirds level that would be required for voter approval.

### Transfer of City Employees to District Employment/Agreement Regarding Certain Financial and Personnel Conditions of Annexation

The City has 15 firefighter positions on its payroll, although they are integrated into the SMFPD workforce and supervised by the SMFPD chief officers. Upon annexation, the City would eliminate these 15 positions and the District would hire these same 15 employees. Since the City and the District currently have nearly identical Memorandums of Understanding (MOUs) with their respective fire service employees, the working conditions/rules would remain nearly as they currently apply to City fire employees.

Both the City and the District have met with employees and have reached an agreement that City employees would be hired by the District and would come under the conditions/rules in the District MOU, if annexation occurs.

Upon leaving City employment the employees will carry over to the District, and not lose, their accumulated and unused vacation and sick leave. The City would compensate the District for their unused vacation and a portion of their unused sick leave, because the District will be assuming the obligation to compensate the employee for this unused time when the employees leave their employment with the District at some future time. This is not a new cost for the City, since City would have this obligation if the employees remained as City employees. The funds

are currently reserved by the City for this purpose: $144,993 for accumulated vacation and $112,614 for accumulated sick leave.

The City, in its current agreement with employees, has provided medical benefits after retirement. Since six of the employees are close to retirement and have earned the benefit with the City and will not have sufficient time as District employees to earn this benefit again as District employees, it is most cost effective for the City to retain the responsibility to pay for the retiree medical costs of these six employees after they retire. The City currently has this obligation and this would not be a new added cost to the City.

For the remaining employees who would have sufficient work time with the District to earn the post retirement medical benefit under District rules, the City would pay for the "unfunded liability" of these nine employees that represents only the years they have worked for the City. Based on an audit finding, the City can pay off this obligation to the District at approximately $58,000 per year for 30 years. Again this is a cost obligation the City already has and does not represent a new added expense to the City.

### Fire Station Lease and Equipment Agreement

If the City annexes to the District for fire services, the City would retain ownership of the Fire Station and lease it to the District. The District only requires a fire station of about 6,000 to 7,000 square feet, smaller than the present station which was built under the assumption that the City would need to house fire administrative services there and would use the building for City emergency management purposes. Under a lease with the District, the City would continue to use part of the building for its own purposes. The District would pay $100,000 per year lease payments for use of the building and its related equipment and furnishings, representing the amortization over a 30-year period of the principle construction cost of the smaller fire station needed by the District. The District would also maintain and repair the entire building and return it to the City in its current condition with the exception of normal usage wear, should the current fire services arrangement ever change.

The City would also sign over to the District the large fire apparatus, but the District would be responsible to maintain and replace the apparatus at their expense and return equipment of similar type, age and condition to the City if the fire services arrangement ever changes and the City resumes responsibility for fire services. Because the City has been setting aside replacement funds for this apparatus and the District will be responsible to replace this City equipment when it wears out, if annexation occurs the City would provide the District with $243,462 in depreciation funds representing the years that the City has already used each piece of apparatus. The District will then begin accumulating replacement funds for the years that the District will be using the equipment and thus have sufficient money set aside to replace the apparatus when needed. This financial arrangement uses funds that the City has already set aside for purposes of equipment replacement.

The furnishings in the Fire Station are also being transferred to the District. The District will be payment the City $99,282.00 for the furnishings. This amount was derived by taking the

purchase price of the furnishings and depreciating it by 3% to reflect the length of time it has been in use prior to the annexation.

**Property Tax Exchange Agreement – "A Resolution of the City Council of the City of Sausalito Accepting a Negotiated Exchange of Property Tax Revenues Between the City of Sausalito and the Southern Marin Fire Protection District**

If the City annexes into the SMFPD and the District assumes responsibility for providing fire and emergency services to the City, then the District annual operating costs will increase approximately $2,969,250 per year.

The state law regarding annexations provides that the City and District should come to an agreement regarding the revenue sources to be used by the District to pay for the additional annual operating expenses. These sources of revenue would be transferred to the District and are the same sources of revenue that the City now uses to finance its share of fire services in the present shared service arrangement.

The revenue sources that would be available to the District to support the approximately $2,969,250 to serve the City include the ambulance revenue, the City's current share of the revenue from the fire services contract with Golden Gate National Recreational Area (GGNRA), money to offset the unfunded post retirement medical benefit of City employees (discussed above), and a portion of the City property tax revenue. The ambulance revenue and GGNRA money are covered under the Agreement Regarding Certain Financial and Personnel Conditions of Annexation.

## FISCAL IMPACT

The following table details the fiscal impact of the annexation on each entity's budgeted FY 2011-12 revenues and expenditures:

| | District Before | District After | District Before/After Difference | City Before | City After | City Before/After Difference |
|---|---|---|---|---|---|---|
| **Expenses:** | | | | | | |
| Sausalito Fire Department | - | 2,969,250 | 2,969,250 | 3,268,312 | 273,000 | (2,995,312) |
| All other departments | 8,582,983 | 8,582,983 | - | 11,343,490 | 11,343,490 | - |
| **Total Expenses** | **8,582,983** | **11,552,233** | **2,969,250** | **14,611,802** | **11,616,490** | **(2,995,312)** |
| Revenues: | | | | | | |
| Property Taxes * | 6,618,915 | 9,286,165 | 2,667,250 | 5,975,000 | 3,307,750 | (2,667,250) |
| Ambulance Fees | 221,404 | 332,404 | 111,000 | 111,000 | - | (111,000) |
| GGNRA | 267,000 | 400,000 | 133,000 | 133,000 | - | (133,000) |
| Rent | | | | - | 100,000 | 100,000 |
| OPEB | | 58,000 | 58,000 | | | |
| Parcel Tax | 815,953 | 815,953 | - | | | - |
| All other Income | 1,365,198 | 1,365,198 | - | 8,392,802 | 8,392,802 | - |
| **Total Revenues** | **9,288,470** | **12,257,720** | **2,969,250** | **14,611,802** | **11,800,552** | **(2,811,250)** |
| **Net Revenues** | **705,487** | **705,487** | **-** | **-** | **184,062** | **184,062** |
| *One Time Payments to District* | | **Pmt to District** | | | **Pmt from City** | |
| Vacation Payout | | ***144,993*** | | | ***(144,993)*** | |
| Sick Payout | | ***112,614*** | | | ***(112,614)*** | |
| Equip Repl Payout | | ***243,462*** | | | ***(243,462)*** | |
| | | ***501,069*** | | | ***(501,069)*** | |

** Property Taxes Include Secured, Unsecured, Supplemental, ERAF, HOPTR*

**ATTACHMENTS**

- Marin LAFCO Application Questionnaire
  - Land Use Tables
  - Zoning Map
  - Land Use Map
- Resolution of the City Council of the City of Sausalito Authorizing the City Manager to Submit an Application to the Marin County Local Agency Formation Commission for the Annexation of the City of Sausalito the Southern Marin Fire Protection District
  - Lease of Premises and Equipment Disposition Agreement
  - Agreement Regarding Certain Financial and Personnel Conditions of Annexation
- Resolution Accepting a Negotiated Exchange of Property Tax Revenues between the City and the District
- Plan for Service
  - Attachment I: Employee Transfer Plan and Implementing MOU Sideletter
  - Attachment II: "Agreement Regarding Financial and Personnel Conditions of Annexation"
  - Attachment III: Agreement Regarding District use of the City Fire Station and Transfer of Ownership of City Fire Apparatus and Equipment to the District- "Lease of Premises and Equipment Disposition Agreement"
  - Attachment IV: Property Tax Agreement – "A Resolution of the City Council of the City of Sausalito Accepting a Negotiated Exchange of Property Tax Revenues Between the City of Sausalito and the Southern Marin Fire Protection District"
  - Attachment V: Citygate Associates Report "Sausalito and Southern Marin Fire Protection District Fire Phase I Briefing with FY 2009-10 Data"

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