



CITYGATE ASSOCIATES, LLC  
FIRE & EMERGENCY SERVICES

CITY OF HERMOSA BEACH, CA

# REVIEW AND ASSESSMENT OF THE OPERATIONAL COMPONENTS OF THE LOS ANGELES COUNTY FIRE DISTRICT PROPOSAL

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## **TABLE OF CONTENTS**

<b><u>Section</u></b>	<b><u>Page</u></b>
<b>Executive Summary .....</b>	<b>1</b>
Policy Choices Framework.....	1
Citygate’s Overall Opinions on the Fire Services Contract Proposal .....	1
<b>Section 1—Citygate’s Review Methods .....</b>	<b>2</b>
<b>Section 2—Review of the Fire District’s Operational Proposal and Conversion Costs .....</b>	<b>3</b>
2.1 Minimum Fire Services .....	3
2.2 Current and Planned Hermosa Beach Fire Services.....	4
2.2.1 Current Fire Services .....	4
2.2.2 Planned Fire Services .....	5
2.3 Los Angeles County Fire District Services Proposal .....	5
2.4 Contract Fire Services Conversion Issues.....	7
<b>Section 3—Review of the Fiscal Components of the Los Angeles County Fire District     Proposal.....</b>	<b>8</b>
3.1 District-Proposed Annual and Start-Up Contract Costs to the City .....	8
3.1.1 Annual Payment Cap.....	9
3.2 Assessment of the Fiscal Components of the District Proposal .....	10
3.2.1 Labor and Benefit Expense Calculation .....	10
3.2.2 District Overhead Expenses .....	10
<b>Section 4—Review of the City’s Analysis of the Fire District Proposal.....</b>	<b>12</b>
4.1 Proposed City Fire Department Budget with Added Staffing for Fiscal Year 2016-17 .....	12
4.2 Fire Station Rehabilitation or Replacement .....	13
4.3 Contracting with the Fire District: City Stranded Costs, Unfunded Retiree Health, and CalPERS Pension Liability .....	13
4.4 Contracting with the Fire District: Ambulance Revenue Options.....	15
<b>Section 5—Comparison of City Fire Department to Fire District Contract Expenses .....</b>	<b>17</b>

## **EXECUTIVE SUMMARY**

Citygate Associates, LLC (Citygate) was retained by the City of Hermosa Beach (City) to review the operational and fiscal components, including start-up costs, of the Los Angeles County Fire District's (District) contract for fire services proposal to the City. Citygate also was to peer review the City staff's fiscal analysis of contracting fire services versus ongoing City Fire Department costs. The goal of this review is to independently verify that all the operational and fiscal issues have been properly dealt with so the City Council can, with full transparency, make an informed policy choice for the provision of fire services. All parties involved have modeled the costs to provide, to a great degree, a similar fiscal comparison of the choices.

### ***POLICY CHOICES FRAMEWORK***

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As the City Council and Executive Management understand, there are no mandatory federal or state regulations directing the level of fire service response times or outcomes delivered by a City. The body of regulations on the fire service provides that *if fire services are provided, they must be done so with the safety of the firefighters and citizens in mind*. Historically, while the City has made investments in its fire and ambulance services, it has been increasingly challenged to provide fire services as the costs and complexity of doing so have risen dramatically over several decades.

### ***CITYGATE'S OVERALL OPINIONS ON THE FIRE SERVICES CONTRACT PROPOSAL***

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In brief, Citygate finds that the City has all the cost and staffing depth challenges of operating a one-station fire department with appropriate line and command staffing to meet operational and safety challenges. Citygate finds that the District and City have done a best-practices job of setting forth a contract for fire services framework that not only meets the City's needs, but raises the level of fire service depth of personnel and technical services past the point a small city could ever fiscally justify.

Citygate finds that all the needed costs have been identified correctly and, at this point, the cost of enhanced City fire services, at \$6,225,198, is only about \$385,000 less than the cost of a Fire District contract. The cost figures, at this point, are still estimates, but are close enough to hold final discussions and make policy choice work worthwhile.

Citygate therefore **recommends** that, for a single-station fire department, the much higher level of fire services and personnel redundancy offered by the Fire District contract proposal make a District contract very advantageous to the City.

## **SECTION 1—CITYGATE’S REVIEW METHODS**

Citygate’s Public Safety and General Government Principals conducted this review consistent with Citygate’s Project Team members’ experience in fire services and local government finance administration. As best-practices guidelines for fire services, Citygate utilizes various National Fire Protection Association (NFPA) publications, along with the self-assessment criteria of the Commission on Fire Accreditation International (CFAI). Citygate is familiar with the provision of fire services in small cities, as well as the services and costing methods of several of the largest fire departments in the state, including the Los Angeles County Fire District.

Citygate requested a large variety of City and Fire Department operating and budget documents in addition to the Fire District’s proposal. Citygate also interviewed key City and Fire District Managers that worked on both the District’s proposal, as well as the City staff fiscal analysis.

As for field operations, Citygate conducted a joint fire services operational analysis for the City and Manhattan Beach in early 2014 and, as such, Citygate acquired a robust operational understanding of Hermosa Beach’s fire and ambulance service issues and challenges. Citygate also discussed, with the City’s Interim Fire Chief, the current operational staffing and Fire Station building issues, along with his recommendations for restoring Hermosa Beach fire services if a contract with the District is not feasible.

Once Citygate completed the preliminary assessment, Citygate discussed the observations with the City team to fact check the information and understanding obtained.

## **SECTION 2—REVIEW OF THE FIRE DISTRICT’S OPERATIONAL PROPOSAL AND CONVERSION COSTS**

To place the District’s services and cost proposal into context, it is necessary to discuss what should comprise an appropriate small city fire department. That small-city, best-practices organization should be compared to the Hermosa Beach Fire Department (Department), both as it operates presently and as it has been proposed to operate in the future as an independent agency. Each of the City’s choices can then be compared to the District’s proposal. Finally, in addition to the District’s ongoing services and costs, there are one-time conversion issues when transferring a city-based fire department to a contracted regional service. This section will review the conversion issues and ensure that they are addressed by the District’s proposal.

### **2.1 MINIMUM FIRE SERVICES**

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A fire department needs a management organization that is properly sized, adequately trained, and appropriately supported. Over the last twenty years, there are increasing regulations with which to comply. In addition, the proper hiring, training, and supervision of emergency response employees requires an equally serious commitment to leadership and general management functions.

There are also safe, effective minimum requirements for line fire crew staffing. A department must be staffed sufficiently to compensate for absences due to vacation, illness, injury, and other types of absences, including short-term vacancies due to retirement or resignation.

In addition, Emergency Incident Command responsibilities are very different from the day-to-day business management of a fire department. Chief officers performing incident command and safety oversight must be trained and credentialed for that role. All safety laws must be followed and, over the last two decades, the Occupational Health and Safety Organization (OSHA) has made safety compliance *both the personal responsibility of the incident commander and the employer*. No longer can employers shield the responsible command chiefs if OSHA finds a lack of training and safety command organization at an incident.

Furthermore, the training and clinical quality assurance of paramedics must be completed by certified personnel that also must keep exacting records. These requirements are in addition to normal, everyday managing of a fire department’s human resources and fiscal needs.

In its earliest decades, almost none of these requirements were present for Hermosa Beach to be concerned with. However, given the complexity of modern fire services, the headquarters staffing and program costs are clearly more expensive than is cost effective for a one- to three-



station fire department. In fact, a minimum headquarters team could sufficiently staff a three- to five-station fire department.

Citygate has long recommended the following minimum headquarters positions for even the smallest agencies, even if staffed entirely by volunteers. The duties performed by these positions are essential to any fire services operation:

- ◆ One Fire Chief
- ◆ Three Battalion Chiefs on a 24/7/365-basis
- ◆ One Fire Marshal or Fire Prevention Officer for Fire Code enforcement
- ◆ One Office Support professional (clerical) with support from City Hall in case of absences.

In this minimum headquarters staff of six personnel, the functions of training, equipment, fleet management, and other management duties must be completed by the 24-hour shift Battalion Chiefs. Small departments can typically hire, in addition to the above positions, a part-time paramedic oversight and training position. Even this level of headquarters staffing does not provide much depth, redundancy, or succession planning for the Chief Officers.

For line fire station personnel on 24-hour shifts, small departments are typically well advised to hire more personnel than the per-shift minimum to not place all the absence coverage on off-duty personnel via overtime. For a one-engine and one-ambulance fire department that staffs its engine with three personnel and its ambulance with two personnel, as does Hermosa Beach, Citygate would recommend that each shift be staffed by a total of seven personnel to sufficiently account for relief and long-term injury redundancy.

## **2.2 CURRENT AND PLANNED HERMOSA BEACH FIRE SERVICES**

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### **2.2.1 Current Fire Services**

Due to the economic pressures of the past recession, retirements, and resignations, the current Fire Department staff consists of:

- ◆ One Interim Fire Chief
- ◆ Three Fire Captains, one per shift to supervise the engine and ambulance crew
- ◆ Five Fire Engineers (driver operators) to handle the fire and ambulance units. Four of these personnel are paramedics, and the fifth is an Emergency Medical Technician (EMT)
- ◆ Seven Firefighter/Paramedics

- ◆ Zero Firefighter/EMTs
- ◆ One Administrative Assistant
- ◆ Fire Inspector
- ◆ Emergency Manager.

This employee roster means that there is a two-position headquarters team, no chief officers for incident command other than the 40-hour Interim Fire Chief and/or mutual aid, and a bare minimum of 15 fire crew personnel. This means that each shift is staffed by five personnel with all vacancy coverage being provided via overtime.

### **2.2.2 Planned Fire Services**

If the Department remains an independent, City-based organization, the Interim Fire Chief has proposed the addition of:

- ◆ Three Battalion Chiefs on a 24/7/365-basis
- ◆ Three Firefighter/Paramedics, one per shift, increasing each shift's personnel to six.

This enhancement still would not provide a dedicated fire prevention position, or a backup for the Administrative Assistant. It also assumes the City can hire a qualified, permanent Fire Chief and three Battalion Chiefs to do everything needed for a one-station department without relief or back up. It also assumes that this minimum staffing would not create an adverse amount of overtime for current staff, which is why Citygate recommends a seven-personnel daily staff rather than the six-personnel daily staff.

**Finding #1:** Citygate cannot support, in any manner, the current staffing level of the Hermosa Beach Fire Department. Personnel will wear out, and the size of the headquarters team is insufficient to provide the necessary oversight for firefighting and paramedic services.

## **2.3 LOS ANGELES COUNTY FIRE DISTRICT SERVICES PROPOSAL**

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The District is proposing a similar level of staffing as the City provides by fielding one 3-firefighter engine company and one 2-firefighter/paramedic squad for a daily staff total of five. Overtime is covered by not only the District's 5-person daily staffing at the Hermosa Fire Station, but also the larger, District-wide work force to ensure fire staff do not incur an adverse

amount of overtime that affects firefighter work quality, safety, and willingness to continue working for the Fire Department.

Normally, the District does not operate ambulances; the ambulances are provided from private sector companies under agreement with the Los Angeles County Emergency Medical Services (EMS) Agency. If the City wants to continue to provide an ambulance and bill for those services, the City could contract a private ambulance company and be entirely responsible for the service and costs.

The District's proposal also includes fire prevention services and all needed emergency incident command and headquarters support and oversight services. To provide the most straightforward cost comparison, Citygate's analysis will assume the District's proposal of a fire engine and paramedic squad.

In the District's proposal, multiple units for serious emergencies (e.g., a First Alarm building fire) would bring the closest units from existing Hermosa Beach mutual aid partners, as well as District units that are approximately five miles away. For catastrophic emergencies, the District would send all the needed regular and specialty resources such as engines, aerial ladders, helicopters, and technical rescue and hazardous materials response teams. The District's dispatch center would handle the Hermosa Beach units as it does all its regional units.

There is a unique District service that can also assist the City. The District's Lifeguard headquarters is in Hermosa Beach. The Lifeguard headquarters is staffed year-round with multiple Lifeguard Division members. Today, the lifeguard is no longer only a rescue swimmer. Lifeguards are trained in a variety of first responder skills, including EMS. Lifeguard command staff are trained and participate in command teams, as do District Chief officers, at serious emergencies. There is no reason that for serious events "landside" that lifeguards cannot also be dispatched as first responders to assist, especially on critical EMS events near beaches.

The District's proposal provides a very robust, best-practices-based management, training, fleet, dispatch, and EMS clinical oversight team.

**Finding #2:** Citygate finds the District's services proposal completely meets the operational needs, present and future, for Hermosa Beach's risks and expected emergencies. There is no way a one-station fire agency can ever cost effectively afford the headquarters team bench depth, specialties, and extra technical response capacity as found in the District's proposal.



## **2.4 CONTRACT FIRE SERVICES CONVERSION ISSUES**

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In converting fire services to a contract with a regional provider, there are some one-time personnel and technical issues with which to deal as the conversion begins. The District lists the following issues and costs in its proposal:

1. Personnel and earned leave (vacation and sick leave start-up balances)
2. Benefits including pension and health care
3. Rank and seniority conversion
4. Dispatch, radio, and computer systems technology conversion
5. A health safety and building code assessment of the existing Fire Station
6. The ability to assist the City with repairing or replacing its Fire Station.

Based on Citygate's experience with contracting for, and participating in, regional fire services, Citygate has not identified any omitted start-up conversion items. The proposed costs for one-time conversion issues appear fair and within local government norms. Once converted, all high-expense and liability items are transferred off the City's books and future liabilities. It is hard to place a cost on the significance of the City forever not being responsible for personnel tragedies, fire apparatus or station failures, or safety code upgrades. All such issues would be handled by the District at its very large economy of scale, and then passed onto all the contract cities fairly.

**Finding #3:** Citygate finds that the District's proposal adequately and fairly addresses the usual and customary fire service conversion costs, both personnel and operating assets. Citygate did not find any issues to be added.

## **SECTION 3—REVIEW OF THE FISCAL COMPONENTS OF THE LOS ANGELES COUNTY FIRE DISTRICT PROPOSAL**

### ***3.1 DISTRICT-PROPOSED ANNUAL AND START-UP CONTRACT COSTS TO THE CITY***

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The District initially proposed to provide fire services via contract to the City of Hermosa Beach at an annual cost of \$4,914,278. Upon a review by the City and the District of the fire prevention program needs of the City, the annual cost was reduced to \$4,786,928. This cost maintains the current level of fire prevention service for the City, and is based on a better understanding of the City's workload data for fire prevention.

In addition to the annual cost of \$4,786,928, the District contract requires the City to fund the following start-up costs to transfer the City's employees to the District, and match District dispatch technology and fire station rehabilitation work that the City had postponed since the recession:

1. Pay the \$12,000 cost incurred by the District to evaluate and determine which City fire apparatus and equipment can be used by the District, and which equipment will need to be replaced to ensure it meets the standard safety and/or functional specifications of similar District equipment.
2. Pay \$220,994 to the District to ensure that no employee is transferred to the District without any available accumulated vacation and sick leave time. For each employee that has accumulated unused vacation and sick leave time, a maximum of ten vacation shifts and six sick shifts will be credited to each employee. These costs may be payable to the District over an initial three- to five-year contract period, based upon the final contract negotiations between the City and the District. Additionally, the City will owe fire employees transferring to the District an estimated \$371,942 for unused vacation and sick leave payout as they leave City employment.
3. Pay the annual cost of major maintenance and rehabilitation of the Fire Station that is in excess of \$50,000 (this cap is increased by 10 percent per year during years six through ten).
4. Optionally pay the District to undertake the rehabilitation or new construction of the City's Fire Station. The repair/replacement choice, cost, and method of payment to the District would be the subject of contract negotiations between the City and the District.

5. Provide the District with a fire apparatus fueling site if the current arrangement for obtaining fuel from a City of Redondo Beach facility is not continued.
6. Pay the cost of site abatement and mitigating environmental hazards found on the City Fire Station site.
7. Transfer to the District the City's interest, right, and title, which shall be free and clear, for specified pieces of vehicular equipment which will be necessary for the fire operations within the City as staffed by the District. This includes fire apparatus and other equipment essential to the operation of the vehicles or Fire Station. The current County estimated value of the transferred equipment is \$490,226.

### **3.1.1 Annual Payment Cap**

To provide some ability for the City to forecast its annual fire service contract expenditures, the District has provided an annual payment cap provision:

- ◆ A four percent payment cap would be placed on any increases to the City's annual fee each year for the first five years of the agreement. This payment cap applies only to the City's annual fee payment amount (i.e., the salary, employee benefits, and overhead cost). Calculation of the payment cap would not include any conversion costs, credits, rebates, etc., which may be factored into the City's monthly payment amount.
- ◆ For the sixth year of the agreement term, the payment cap would be the average of the immediately preceding four years' percentage increases in the annual fee, plus one percent. For the seventh year of the Agreement, and each subsequent year, the payment cap would be the average of the immediately preceding five years' percentage increases plus one percent.
- ◆ In any year in which the City's annual fee payment amount exceeded the preceding year's payment amount, plus the applicable payment cap, payment of the excess amount would be deferred to a subsequent fiscal year when the increase in the annual fee payment for that fiscal year over the preceding fiscal year is less than the payment cap. The excess amount would be repaid by the City in any subsequent fiscal year to the extent the City's annual fee payment increase in that fiscal year is less than the excess amount for that fiscal year.

### **3.2 ASSESSMENT OF THE FISCAL COMPONENTS OF THE DISTRICT PROPOSAL**

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The required financial assumption required by the Los Angeles County Board of Supervisors is that any contract for fire services will recover the full cost incurred by the District in both annual cost as well as operational start-up of fire services. Thus, the District has used the same financial format and formulas in determining the Hermosa Beach contract cost as is used for other District contract cities. The District's cost formula is composed of three principle parts: personnel labor and benefits, administrative overhead on the quantity of personnel and services required in the City, and one-time contract start-up expenses.

#### **3.2.1 Labor and Benefit Expense Calculation**

While firefighters will be assigned to the City's Fire Station, employee turnover, promotion and transfer, overtime coverage, and use of District fire crews from elsewhere in Hermosa Beach will result in fire personnel of various pay and benefit levels filling the assigned positions. The District develops an annual labor and benefit cost that represents the average of personnel expenses and, when used, will result in the full recovery of labor and benefit costs throughout the District. This "Uniform Personnel Cost" was used to develop the labor and benefit cost portion of the District contract proposal amounting to \$3,566,445.

**Finding #4:** Citygate reviewed the District formula and detailed Uniform Personnel Cost supporting materials and concurs in the adequacy and appropriateness of using this information to develop the District's personnel costs in the Hermosa Beach proposal.

#### **3.2.2 District Overhead Expenses**

The current City Fire Department budget does not include an "overhead" or "City Hall administrative services" budget section; Doing so is typical for line-operating department budgets in suburban cities. When the City develops its Fire Department line-item budget, all the specific expense categories are listed separately with their own budget dollars. Examples are, "personnel services," "retirement," "safety eye protection glasses," "repair to turnout safety equipment," and "service to Fire Department small tools."

The nearest the City comes to including overhead expenses in the Department budget are line items for "Building Maintenance Charges," "Communication Equipment Charges," "Equipment Replacement Charges," and "Insurance User Charges." Such Citywide operating expenses are charged to the line departments (e.g., Fire Department) from a central budget category. Thus, each City department pays its fair share of the central Citywide charge for these services.

## ***City of Hermosa Beach, CA***

### **Review and Assessment of the Operational Components of the Los Angeles County Fire District Proposal to the City of Hermosa Beach**

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The District uses a different budgeting approach because the District supports many fire stations that are overseen by a command structure supervising several sites and stations that use common products and share supplies and materials. Thus, the District combines area-wide supervision and supplies into a District-wide “overhead” category. This approach is fiscally and operationally more efficient for it. The District develops what it labels as an “Overhead Expense” which includes items such as: the cost of the Battalion Chiefs, Assistant Fire Chiefs (that act as Fire Chiefs for the contract cities), Administrative Assistants, charges similar to the cities such as for information technology and communications, all materials, supplies and services used by the fire stations, vehicle fuel, parts and replacement, and paramedic oversight support staff.

The District’s overhead expense amounts to 34.2213 percent of the labor and benefit costs in the proposed Hermosa Beach contract. When this overhead amount is compared to the general expenses that the City budgets as individual line items, the result is essentially the same. The City spends an estimated 32 percent of its overall Fire Department budget for similar items.

**Finding #5:** The District overhead expense format, and the way the District calculates and distributes the costs among fire stations, fairly distributes the benefits of supervision, supplies, equipment, etc., that each station and station labor need to operate.

## **SECTION 4—REVIEW OF THE CITY’S ANALYSIS OF THE FIRE DISTRICT PROPOSAL**

### **4.1 PROPOSED CITY FIRE DEPARTMENT BUDGET WITH ADDED STAFFING FOR FISCAL YEAR 2016-17**

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The City has estimated a fiscal year 2016-17 Fire Department net budget \$6,225,198 to provide upgraded Fire Department staffing for increased effectiveness, safety, and operational sustainability. The increased staffing will include three new Battalion Chiefs (one per 24-hour fire crew shift) and three additional firefighters (one per shift). The enhancements will provide a daily shift staffing of six firefighters and one chief officer in addition to the 40-hour per week Fire Chief position. The minimum daily staffing of each fire shift will be five; the remaining staff position will provide relief to lower the overtime need for vacation, other absences, and employee vacancies.

**Finding #6:** The City’s latest draft fiscal year 2016-17 budget of \$6,225,198 has correctly included not only the salary and benefits for the added positions, but also the materials, supplies, services, and support expenses that would accompany this staffing increase, along with a credit for revenue earned by the Fire Department.

This increased staffing represents the budgeted cost of a Department that the City Fire Chief recommends as the minimum necessary to fill the existing staffing shortfalls in providing fire protection to the City. However, the actual net Department cost to the City General Fund is more accurately represented by subtracting the annual Department-generated fire prevention revenue of \$34,740 and the approximately \$500,000 in annual ambulance revenue generated by the paramedic staff included in the Fire Department budget. This credit is applied against the Department budget because the labor and materials to provide the inspection and ambulance service is in the overall Department budget.

**Finding #7:** An estimated net annual Department expense of \$6,225,198 for the City in fiscal year 2016-17 at the upgraded staffing level results from subtracting the revenue received by the Department as a credit against the City’s General Fund expense.



## **4.2 FIRE STATION REHABILITATION OR REPLACEMENT**

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The current City Fire Station is well past its expected safe and effective life cycle. City, District, and Citygate staffs agree that the building needs major rehabilitation or replacement as soon as possible. The City will incur this expense regardless of whether it retains its own Fire Department or contracts for fire service with the District. However, under a contract with the District, the City does not have to rehabilitate the administrative office spaces significantly because the District will not require that square footage.

Several fire station rehabilitation or replacement options have been explored by Mary McGrath/Architects, a consultant retained by the City. For ongoing full City usage, the options studied provide a cost range of rehabilitating the Fire Station at \$4,068,000, to replacing the current station between \$10,328,000 and \$14,684,523.

The District estimate for rehabilitation (including a 15 percent contingency) is \$2,091,000, and a range from \$5,020,000 to \$10,925,000 to construct a new fire station for just a single-engine company and paramedic squad. It appears that the District is willing to “front” these expenses and permit the City to pay off the expense over a five-year period. While this is a beneficial proposal with the annual expense spread over only a few years, this may cause the City to instead consider undertaking the work itself, and finance with bonds over a longer time period to lower the annual payment. Either way, the City must look at not just annual cost, but also the total cost of borrowing, including interest on debt service.

**Finding #8:** The current Fire Station rehabilitation or replacement cost is estimated at a cost range from \$2,091,000 to \$14,684,523, dependent on full City use, partial District use, and the choice of rehabilitation or replacement. While the City will incur the expense, the annual cost will depend upon policy choices made by the City regarding who is to undertake the work and the financing option used.

## **4.3 CONTRACTING WITH THE FIRE DISTRICT: CITY STRANDED COSTS, UNFUNDED RETIREE HEALTH, AND CALPERS PENSION LIABILITY**

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In contrast to the City’s Fire Department first-year net cost of \$6,225,198, the District has proposed an expense of \$4,786,928. However, City staff appropriately identified costs in the Department budget that will remain with the City even if it contracts with the District. The identified costs are named “stranded (residual) costs,” which include items such as a portion of the City’s vehicle replacement and communication/technology expenses that include portions of

**City of Hermosa Beach, CA**

**Review and Assessment of the Operational Components of the Los Angeles County Fire District Proposal  
to the City of Hermosa Beach**

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other City personnel and other expenses that cannot be “divided,” and thus partially lowered in future years, even if the Department is no longer an internal part of the City. Other stranded costs include the Department’s portion of the Workers’ Compensation and Liability expenses, accrued before separation to the District that will not be reduced or transferred to the District. Specifically, the City will retain the following expenses as they appear in the Fire Department fiscal year 2016-17 budget:

**Table 1—Fiscal Year 2016-17 Stranded Costs**

<b>Item</b>	<b>Current Annual Cost</b>
Vehicle Replacement	\$38,785
Insurance (Workers’ Compensation and Liability)	\$345,421
Communications and IT	\$23,321
Building Maintenance	\$4,325
Emergency Manager	\$100,023
<b>Total</b>	<b>\$511,875</b>

In addition to the “stranded costs” that continue to be a City expense, the City will also owe the State of California pension system, CalPERS, the unfunded liability on the City sworn and non-sworn Fire Department positions that are either transferred to the District, or which are transferred to a different function in another City Department. These liabilities were accrued prior to the transfer of fire employees to the District. As part of these costs, the City employees will retain CalPERS pension benefits earned to date, but will transfer into the separate District pension system.

Thus, the liability represents funds that CalPERS has not yet collected from the City, but will need in the future to pay the full-required CalPERS portion of the earned pension benefits in City employment. In the latest available CalPERS report to the City, this amount is \$7,984,615 for both the older Classic Benefit Sworn Fire personnel, and the several newer fire personnel under the post-recession state PEPRA retirement benefit plan.

It is important to note, however, that the City Fire Department budget *already includes* approximately \$800,000 to pay down over time the unfunded liability expenses for these employees as part of the City’s budgeted CalPERS pension expenses. Thus, contracting to the District does not generate an *additional* liability payment.

To pay CalPERS the unfunded pension liability if the City contracts with the Fire District, there are several options discussed by the City’s CalPERS actuary, with the least annual expense ranging over the next five years from \$602,561 to \$912,153. However, it appears very likely that

CalPERS will lower its annual investment earnings rate which will increase this unfunded liability amount owed by the City. The actual annual cost will then very likely exceed \$800,000 per year, which is an expense the City will continue to have even if it contracts with the Fire District.

The City also has an unfunded liability of about \$866,000 for retiree health benefits to Fire employees. For fiscal year 2016-17, this has been estimated at \$108,312. This will be a continuing expense that rises to \$123,117 in fiscal year 2020-21 until the unfunded liability is paid off.

**Finding #9:** To directly compare the cost of the Fire District contract with continuing a City Fire Department, expenses have to be *added* to the base District contract amount to include a minimum of \$800,000 for the CalPERS unfunded liability payments, \$108,312 for the unfunded retiree health benefits, and the estimated \$511,875 in annual “stranded” costs.

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#### **4.4 CONTRACTING WITH THE FIRE DISTRICT: AMBULANCE REVENUE OPTIONS**

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The City currently staffs a fire station with five personnel, three of which operate the fire engine, and two firefighter/paramedics that staff an ambulance. All the labor, materials, and contract expenses to operate the ambulance services are in the City Fire Department budget, but the actual expenses have not been separated to compare the ambulance system expense to the annual revenue.

Currently, annual ambulance revenue received is estimated for fiscal year 2016-17 at \$500,000, while the actual billing revenue is closer to \$1,200,000, with about 42 percent of this latter number as not collectable due to Medical and Medicare required write-downs. Actual operating expense, based on using newly-hired firefighter/paramedics on the ambulance, includes a personnel cost of \$789,753 plus the cost of overtime, materials, supplies, contract clinical oversight/training services, and ambulance maintenance, fuel, and replacement. It appears the City expense is nearly twice the annual estimated \$500,000 in net ambulance revenue.

In a contract with the District, the City’s Interim Fire Chief has suggested one ambulance alternative, which is to contract with a private ambulance company to operate the City ambulance system. Under that scenario, actual expenses were estimated at about \$403,000 per year, leaving the City with minimum positive revenue of about \$97,000. Additional effort to recover unpaid ambulance billings could somewhat increase this positive revenue flow, although not significantly.

Another alternative is for the City to simply relinquish the ambulance service to the County EMS Agency. Private ambulance companies commonly provide all transport in the District and elsewhere in the County. In this case, the ambulance company retains all revenue more than operating cost; however, the ambulance company also assumes all risk to meet the County EMS Agency response time requirements, including providing other unit coverage if the one ambulance in the City is committed to an incident when another call for service is received.

If the City retains the authority to operate an ambulance contract, it assumes all the rate-setting, operational multi-unit coverage needs, and billing complaint responsibility and liabilities. To do so will minimally require City Hall overhead time, along with the unknown risk of operational liabilities and/or revenue shortfalls. For revenue of approximately \$97,000, the City should discuss if the revenue is worth more than the risks.

**Finding #10:** The City's ambulance revenue is impacted depending on which of several ambulance service alternatives it chooses to pursue. If the City retains ambulance service responsibility and contracts with a private provider, the net revenue loss in contracting with the District will total about \$403,000 per year. This is an expense that will need to be added to the District contract expense along with the "stranded" costs and CalPERS unfunded liability expense.

## SECTION 5—COMPARISON OF CITY FIRE DEPARTMENT TO FIRE DISTRICT CONTRACT EXPENSES

The City Fire Department fiscal year 2016-17 cost, reduced for Department-related revenue for fire inspection/permit services and ambulance revenue, totals \$6,225,198.

In comparison, the Fire District expense, with the addition of the “stranded” costs, CalPERS unfunded liability payments, and potential City ambulance revenue loss, totals \$6,610,115. This comparison is reflected in the following table:

**Table 2—Fiscal Year 2016-17 City Fire Services Expense Comparison**

Expense Element	City Fire Department with Expanded Staffing	Fire District Proposal with Added Continuing City Expense
Fiscal Year 2016-17 Proposed Cost	\$6,759,938	\$4,786,928
Vehicle Replacement	-	\$38,785
Insurance (Workers' Compensation, Liability, etc.)	-	\$345,421
Communications and IT	-	\$23,321
Building Maintenance	-	\$4,325
Emergency Manager	-	\$100,023
Unfunded CalPERS Liability	-	\$800,000
Unfunded Retiree Health Benefits	-	\$108,312
Less Inspection Revenue	\$(34,740)	-
Ambulance Revenue	\$(500,000)	\$500,000
<b>Net Cost with No City-Provided Ambulance</b>	<b>\$6,225,198</b>	<b>\$6,707,115</b>
<b>Ambulance Revenue Net of Private Ambulance Contract Cost from City Private Ambulance Operator</b>	<b>-</b>	<b>\$(97,000)</b>
<b>Net Cost if the City Contracts to Provide Ambulance Service</b>	<b>-</b>	<b>\$6,610,115</b>
<b>Potential One-Time Capital Cost/Savings from Fire Station Replacement or Rehabilitation</b>	<b>New Headquarters Station: ± \$14,684,523</b>	<b>Fire Station Rehabilitation: ± \$2,091,000</b>

**Finding #11:** The General Fund cost of a rebuilt and ongoing separate City Fire Department at \$6,225,198 is an estimated \$384,917 less than the cost of a Fire District contract that includes the City using a private ambulance vendor. The cost figures, at this point, are still estimates, but are close enough to hold final discussions and make policy choice work worthwhile.

**Finding #12:** Significant capital cost savings occur for the City if it chooses to contract with the District and have the District rehabilitate the current fire station at an estimated cost of \$2,091,000 as compared to an estimated cost of \$14,684,523 if the City retains its own fire station and constructs the needed headquarters offices and fire station.

**Finding #13:** Even with three added chief officers and three added firefighter/paramedics (one firefighter/paramedic per shift), an independent, one-station fire department will always be fragile and subject to personnel vacancies and limited fiscal ability to provide all typical fire service programs within regulatory compliance. For nearly the same cost, the City, in a contract with the District, purchases comprehensive, sustainable fire services.