



Staff Report

File #: REPORT 16-0734, Version: 1

Honorable Mayor and Members of the Hermosa Beach City Council Study Session of December 19, 2016

FIRE SERVICES ANALYSIS (Interim Fire Chief Pete Bonano)

Recommended Action:

1. Review Citygate's analysis of the Fire District's proposals and Staff's financial analysis
2. Review the Fire District's negotiated Conversion Costs estimates
3. Review the negotiated Feasibility Study Fire District Staffing costs
4. Discussion on future Ambulance Program direction if the Council decided to proceed with annexation of the Fire Department into the County.
5. Discussion on next steps

Background:

At the October 18th Study Session Council reviewed input from the citizen engagement process and reviewed options for the provision of fire services in Hermosa. One option that is being considered is to add sufficient personnel alleviating the staffing problems that the department currently suffers from, and the second option is annexation of the fire department into the Los Angeles County Fire District. At this meeting, Council was provided staff's preliminary costing analysis for comparison between the two options. Additionally, we held discussions on the Fire Districts Feasibility Study. Following this discussion, staff was directed to continue with the citizen engagement process, Viki Copeland, John Jalili and myself were appointed to proceed with negotiations with the Fire District, and finally engage Citygate for an analysis/peer review of the Fire District's Feasibility Study. Also, at the October 18th Study Session the Council was presented with five options to consider for the ambulance transport program if the Council determined that the Fire District proposal is the optimal choice moving forward.

Community Engagement:

Per Council direction stemming from the first Fire Services Study Session, the City's PIO worked to engage all local press covering Hermosa Beach to speak directly with Chief Bonano. This strategy helped to better align the press with a source speaking directly to facts and figures relating to the Study Session, and to eliminate any inaccurate quotes or misleading information in news articles.

Leading up to the study session, an updated press release was created and posted to the City's website. This release details what will be covered at the upcoming session, and is also a resource to provide details regarding the history of fire services discussion within the City and sources available on the City website for additional information. This news was also shared with the local press.

Listed below are media relations efforts and updates as of today:

- *The Daily Breeze* - Reporter interviewed Chief Bonano for a fire services update prior to the study session; article was published 12/11
- *The Beach Reporter* - The reporter spoke directly with Chief Bonano following the first study session. The newspaper will print a preview to the study session on Thursday, Dec. 15th
- *Easy Reader* - Has consistently reported on the topic of fire services. The reporter plans to connect with Chief Bonano on the topic prior to his next story, and he noted that he will definitely be in attendance at the upcoming study session

Following the second study session, we will continue to draft news alerts and update the community regarding next steps surrounding decisions on future fire services, and continue to proactively engage the press to speak directly with Chief Bonano regarding questions on budgets, Citygate analysis, etc. in relation to fire services.

Citygate:

Citygate Associates is a consulting group with vast experience providing fire services studies to the cities of San Diego, Oakland, Stockton, Pasadena, the Sacramento Metropolitan Fire District, and both the Ports of Long Beach and Los Angeles, to name a few. Citygate Associates LLC (Citygate) has a history of studying the Hermosa Beach Fire Department. Citygate was retained by Hermosa and Manhattan to conduct an Operational Analysis of both cities' Fire Departments in February of 2015. Because of this previous experience, Citygate is very familiar with the operational capabilities of the Hermosa Beach Fire Department.

In October Citygate was retained by the City to conduct a peer review of 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 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 (Report attached).

Citygate finds that the City has identified 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.

In addition, 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 about \$516,657 less than the cost of a Fire District contract. The cost figures are still estimates, but are close enough to hold final discussions and make policy choice worthwhile.

Citygate therefore recommended 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. The following are their "Findings":

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. 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.
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.
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.
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.
6. The City's updated 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.
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.
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.

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, a \$108,312 for the unfunded retiree health benefits, and the estimated \$511,875 in annual continuing costs for allocations of internal service costs such as Risk Management staff, Equipment Service Division and Information Technology (IT) Division costs.
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. This is an expense along with the "stranded" costs and CalPERS unfunded liability expense.
11. The General Fund cost of a rebuilt and ongoing separate City Fire Department at \$6,225,198 is an estimated \$516,657 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.
12. Significant capital cost savings occur for the City if they choose 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.
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, the City, in a contract with the District, buys comprehensive, sustainable fire services.

In addition to the above findings, Citygate has recommended that if the City should decide to maintain its Fire Department, then department staffing should be increased by an additional three Firefighter/Paramedics above what is indicated in the "City Fire Department with Expanded Staffing". Their recommended staffing is a Battalion Chief, Captain, Engineer and five Firefighter/Paramedics each shift. Annual budget for the Citygate recommended staffing is \$6,717,616, which is an increase of \$492,418 over the previous estimated budget that provides for increased staff to include the three battalion chiefs and three additional firefighter paramedics positions.

Negotiations:

On October 31st, Viki Copeland and I met with Fire District staff to discuss the Feasibility Study and the Conversion Costs documents. During our meeting we requested that the Fire District consider or provide the following:

- Lowering the annual fee payment cap from 5.5% down to 4%

- Elimination of fire prevention fees
- Credit for engine 12
- Credit for the Chevrolet Tahoe utility vehicle
- Credit for two ambulances (based on the City's decision on the ambulance program)
- Cost sharing of the paramedic rescue squad
- Credit for the fire department modular buildings
- Request that the County meet with our Firefighters Association to provide information and answer questions about the County retirement system and health benefits

As of December 7th the Fire District has agreed to lower the annual fee limitation soft cap to the 4% and reduce fire prevention fees by 50%. In addition, the Fire District has proposed to monitor and evaluate Fire Prevention costs over the next two years to accurately reflect their costs and further reduce if appropriate. For the Chevrolet Tahoe additional credit was negotiated for \$15,220 and two ambulances in the amount of \$165,000. Due to the age of the modular dormitory structures, the Fire District has indicated that when the structures are vacated by the firefighters they will be willing to discuss the possibility of purchasing the structures from the City. The concern is that they are currently 32 years old and the remaining useful life span of these structures will need to be determined at the time they are vacated. Total additional credit issued to the City is \$180,220. It should be noted that the City will still have fire department assets that have substantial value and will need to be sold at the completion of the annexation process. Proceeds from the selling of excess apparatus and equipment could be used to further reduce the conversion costs. With the new \$180,220 credit the total Conversion Cost for the Fire District's Option 1 is \$2,374,095, Option 2 is \$5,302,731 and Option 3 is \$11,207,981. Included in these totals is the cost of the fire station rehabilitation and or construction depending on the Conversion Cost Option that the City decides on.

The Fire District indicated that since Hermosa would be an island in the County system the paramedic squad would not be utilized outside of Hermosa, except for honoring our current automatic aid agreements. Therefore there would be no justification for cost sharing of the paramedic squad with the Fire District, but use of the Hermosa Beach assets by the Fire District would also be monitored over the next two years and adjustments will be made if appropriate.

Ambulance Transport Program:

The discussion on the ambulance transport program is only necessary if the City pursues with annexation of the fire department into the Fire District. As discussed during our October 18th Study Session, Health and Safety Code §1797.224 (aka 224 Rights) provides the authority for the City to deliver ambulance transport services within the City limits. The five options provided during the October 18th Study Session ranged from City ambulances with City employees to allowing the Fire District to utilize the contracts they have in place with private ambulance providers. One factor to remember when considering the options is that the average annual cost of a single ambulance staffed with two emergency medical technicians (EMT) per day is approximately \$402,000. Ambulance revenues are currently budgeted at \$500,000 per year.

Option 1, is a City administered program with City owned ambulances and City employees with all of the rights and benefits of the current civilian workforce. It needs to be mentioned that this option has many logistical problems that would need to be overcome. The first is providing sufficient staffing and vehicles to provide backup capabilities when necessary. Ambulance attendants are a very transient workforce so a continuous recruitment would be necessary to keep the ambulances staffed. Additionally, the City would need to enter into agreements with the surrounding ambulance providers for backup transport. Under Option 1 the City would be held accountable for staffing and delays of ambulances on the scene of emergencies. Additionally, someone at City Hall would be required to supervise and manage the program. This option provides for a revenue stream of approximately \$100,000/year. Because of these logistical issues identified, Option 1 is the least desirable of the remaining four options. Choosing Option 1 increases the cost of the fire station to \$11,415,234. The City retains our 224 Rights under Option 1.

Option 2, is a hybrid of Option 1 where the City, through a RFP, contracts the staffing of the ambulance out to a private provider. This eliminates the employee staffing issues, but not the program management issues. The City would still be responsible for the purchase and maintenance of the vehicles and the ambulance on-scene times. Because of this Option 2 may be a preferred option over number 1. Revenues would continue, but the net revenue would be determined by the cost of the RFP. Choosing Option 2 increases the cost of the fire station to \$11,415,234. The City retains our 224 Rights under Option 2.

Option 3 was presented as a combined ambulance transport program with Manhattan Beach. This option presents itself with a unique set of challenges. First that needs to be considered is the availability of the ambulance for 911 responses into Hermosa Beach. The Fire District utilizes basic life support (BLS) ambulances and places their firefighter paramedics in the back of the ambulance when necessary. Both Hermosa and Manhattan utilize firefighter/paramedics to staff ambulances. The Manhattan Beach proposal is a shared cost of staffing a single BLS ambulance and this single resource would be insufficient to provide emergency 911 responses into Hermosa and also be utilized as a BLS transport for both Cities. Because of this, a shared BLS ambulance program with Manhattan would fall short in providing Hermosa Beach the required ambulance services. Ambulance revenues would be dispersed based on a mutually agreed upon agreement between the two cities. Option 3, as it is currently being proposed, is not recommended as a standalone program because of the inability of a single ambulance to provide both ALS and BLS transport in Hermosa, and BLS transport in Manhattan. Under Option 3, the City of Hermosa remains responsible on ambulance on-scene times. This option does allow for a neighborhood fire station estimated to cost \$2,091,000. The City retains our 224 Rights under Option 3.

Option 4 was presented as the City conducts an RFP for emergency ambulance transport. The RFP establishes response criteria and performance measurements. The Fire District would monitor the successful bidder performance and would periodically report performance to the City. The successful

bidder would be required to provide on-scene times commensurate with the requirements established by the Los Angeles County Emergency Medical Services Agency (LEMSA). The successful bidder could also be required to demonstrate evidence that they have the necessary resources to guarantee on-scene times, but the ultimate responsibility of on-scene times remains with the City. Revenues would be dependent on how ambulance billing is structured in the RFP. This Option provides the benefit of maintaining control over ambulance transport services in Hermosa without the liabilities of staff and the cost of vehicles and equipment. This option does allow for a neighborhood fire station which is estimated to cost \$2,091,000. The City retains our 224 Rights under Option 4.

Option 5 was presented as the City completely removes itself from the ambulance transport business and allows the Fire District, through their current RFP, to provide ambulance transport services. This is the current model that's utilized in 57 of the 58 cities that the Los Angeles County Fire District currently provides fire services for. Under this option, the Fire District holds the private provider accountable for ambulance on-scene times. The LEMSAs also has authority to monitor performance. **It should be noted that, according to the LEMSAs, if the City decided to relinquish complete control of ambulance transport to the Fire District the City would be surrendering our 224 rights.** This is important because if the City at some point in the future was desirous to reinstate the fire department, the City would be unable to go back into the ambulance transport business. Because of this, Option 5 may be a less desirable option. This option does allow for a neighborhood fire station estimated to cost \$2,091,000.

Next Steps:

The two tracks being considered are to either rebuild and continue to provide fire services in Hermosa Beach, or to proceed with annexation of the fire department into the Los Angeles County Fire District.

If the desire is to continue providing in-house fire services the City will need to immediately recruit for a new fire chief. Once onboard, the new chief will need to recruit/promote three new battalion chiefs and recruit for the additional three, or six firefighter/paramedics (Citygate recommended 3 additional firefighter/paramedics). In-house promotions would require competitive testing for all ranks in the fire department. This process of recruitments and promotions is estimated to last a minimum of one year and perhaps longer. Based on our previous recruitments, recruiting for six new firefighter/paramedics would most likely take a couple of years.

If the desire is to proceed with annexation, the next steps are outlined in Appendix D of the Feasibility Study which is expected to take 8-12 months to complete. It should be noted that the City may stop the process with no ramifications during the process.

These steps include:

- The City requests negotiations of an annexation agreement with the Fire District's Fire Chief, approves the Reimbursement Agreement with the Fire District for costs incurred to evaluate City's facilities and equipment for conversion to the Fire District standards and for the

completion of a comprehensive independent fiscal analysis (completed). Upon successful conclusion of negotiations, City signs annexation agreement and adopts a \$0.00 Joint Property Tax Transfer Resolution.

- The City holds “meet and confer” meetings with the Hermosa Beach Firefighters Association on transferring rank, seniority, wages, bonuses, and benefits.
- The Fire District, submits for Board approval a Resolution Making Application to the Local Agency Formation Commission (LAFCO), \$0.00 Joint Property Tax Transfer Resolution, Negative Declaration and legal description.
- The Fire District, Upon Board approval, submits Resolution Making Application to LAFCO \$0.00 Joint property Tax Transfer Resolution, Negative Declaration, and a legal description to LAFCO.
- LAFCO holds a public hearing after receipt of Board Resolution Making Application.
- The Fire District, submits request to finalize annexation and the annexation agreement to the Board for approval.
- Board of Supervisors holds annexation public hearing and approves annexation and the agreement.
- LAFCO records annexation on date requested. notifies the County Engineer, County Assessor, the District Fire Chief, and the State Board of Equalization upon completion of the annexation procedures.
- The City adopts an ordinance to use the Fire District Fire Code. District notifies the regional agency of Insurance Services Office of the annexation.

Fiscal Implications:

The table below presents the City’s Current Budget, the Fire Chief’s Recommended Staffing, Citygates’ Recommended Staffing and the County Contract Including Ongoing Costs for the City. Given that the current budget is not an option, the Fire District (County) option presents the lowest cost with the facility cost included. The difference between the Fire Chief’s Recommended Staffing Cost and the Fire District Cost is small, but as the Fire Chief has indicated, the decision is a service level decision, not a decision about saving money. When the overall cost, including the facility is included, the results are more dramatic.

	Current Budget	Fire Chief Recommended Staffing	Citygate Recommended Staffing	Fire District with Continuing City Expenses
Expenses:				
Proposed Budget	\$ 5,722,844	\$ 6,759,938	\$ 7,252,356 ⁴	\$ 4,786,928
Continuing Costs:				
Internal Service Charges:				
Equipment Service Division				38,785
IT Equipment and Services				23,321
Building Maintenance				4,325
Risk Management Staff and Worker's Comp Claims				345,421
Non-Sworn Staff not Transferred to County				100,023 ³
Unfunded CalPERS Liability				800,000 ⁵
Unfunded OPEB Liability				108,312 ⁵
Total Expenses	5,722,844	6,759,938	7,252,356	6,207,115
Offsetting Revenue:				
Open Fire Permit	840	840	840	(840)
Ambulance Transport	500,000	500,000	500,000	(500,000)
Fire Systems Inspection	1,000	1,000	1,000	(1,000)
Spec Fire Protection Sys Inspect	900	900	900	(900)
Special Event Fire Code Permit	2,000	2,000	2,000	(2,000)
Fire Sprinkler System Inspection	20,000	20,000	20,000	(20,000)
Annual Business Fire Inspection	10,000	10,000	10,000	(10,000)
Total Revenue	534,740	534,740	534,740	(534,740)
Total Expenses Net of Revenue (A)	5,188,104	6,225,198	6,717,616	6,741,855
Annual Facility Cost	-	907,000 ¹	907,000 ¹	418,223 ²
Total Fire Expenses Net of Revenue	5,188,104	7,132,198	7,624,616	7,160,078
Increase over Current Budget		1,944,094	2,436,512	1,971,974
Facility Cost (Construction Only)	15,000,000	15,000,000	15,000,000	2,091,114
Total Debt Service Cost (B)	27,012,500	27,012,500	27,012,500	2,091,114
Total Overall Cost (A+B)	\$ 32,200,604	\$ 33,237,698	\$ 33,730,116	\$ 8,832,969

¹ 30 year Debt Service Payment on \$15 million for Fire Headquarters Facility.

² \$418,223 could be paid for 5 years to the County to rehabilitate the current facility (estimated with contingency to cost \$2,091,114)

³ Cost of Emergency Manager. The Administrative Assistant will be absorbed into the next available vacancy.

⁴ Additional \$394,877 for 7th position added in personnel costs and 24% of personnel costs added in as non-personnel cost estimate based on Fire Chief recommended Staffing Budget.

⁵ Continuing CalPERS and Other Post-Employment Benefit (OPEB) Costs, 5-Year Projections and total unfunded liabilities discussed in separate attachment.

One-time Costs:					Notes:
	Amount	Year 1	Years 2-5	Total	
Accrued Leave as of 9-30-16 to County	\$ 220,994.00	\$ 220,994.00		\$ 220,994.00	Max 10 shifts of vacation and 6 shifts of sick
Leave Balance Paid to Employees	371,942.00	371,942.00		371,942.00	(Sick time adjusted per MOU, at 56hr rate, assuming no retirements)
Conversion Costs (non-facility)					
Vehicles/Equipment/Uniforms	580,068.00				
Credit for Excess Equipment	(153,778.00)				
	(180,220.00)				
Credit for Trailer	-				Value will be evaluated once vacant.
Net Conversion Costs	246,070.00				
Contingency	x15%				
Total Non-Facility Conversion Costs	282,980.50	56,596.10	226,384.40	282,980.50	Paid over 5 years in equal installments of \$56,596.10 to the County
Total	\$ 875,916.50				
Over 5 Years		\$ 649,532.10	\$ 226,384.40	\$ 875,916.50	
Possible Funding Sources for One-Time Costs:					
Balance Accumulated for Fire Equipment Replacement (Equipment Replacement Fund):			Commitment for Compensated Absences	297,299.00	
Business Machines	\$ 4,050.00				
Computer Equipment	80,069.00				
Vehicles	958,943.00				
	1,043,062.00				
Percentage available	x61%				
ERF Amount available	636,267.82				
			Total Available Funds	\$ 933,566.82	
CalPERS, Other Post Employment Benefits (OPEB), and Worker's Compensation and Liability Claims*:					Notes:
CalPERS Unfunded Liability Tier 1	\$7,982,130.00				As of 6/30/15
CalPERS Unfunded Liability PEPRA	\$ 2,485.00				As of 6/30/15
OPEB Unfunded Liability	\$ 866,000.00				As of 6/30/16
Worker's Comp Claims	\$ 673,473.00				Total reserve for open claims.
Liability Claims	\$ -				No open liability claims identified.
* Ongoing payments factored into annual costs See attachment for 5-year projections from the actuaries.					

Possible funding sources are shown for One-Time Costs in the tables above. Total liabilities are shown for retirement, retiree health and claims. The footnote indicates that annual payments for

these are included with the ongoing costs.

Facility Options and Payment Scenarios

Repay County for Rehabilitation/Rebuild									Bond Issuance		
Construction Cost		Annual Payment to County*	Number of Years	Total Cost	Average Debt Service Payment	Number of Years	Total Cost	Notes:			
<u>County Options:</u>											
Option 1											
Current Facility											
Rehabilitation	\$ 1,818,360										
Contingency	x15%										
	\$ 2,091,114	\$ 418,222.80	5	\$ 2,091,114	-	0	\$ -				
Option 2											
Demolish and rebuild a	\$ 4,365,000										
new 4,500 sq. ft. facility	x15%										
Contingency											
	\$ 5,019,750	\$ 1,003,950	5	\$ 5,019,750	\$ 270,000	30	\$ 8,104,650	\$4.4 million Project Construction Fund			
Option 3											
Demolish and rebuild a	\$ 9,500,000										
new 9,800 sq. ft. facility	x15%										
Contingency											
	\$ 10,925,000	\$ 2,185,000	5	\$ 10,925,000	\$ 575,000	30	\$ 17,175,950	\$9.5 million Project Construction Fund			
<u>City Option:</u>											
Fire Headquarters	\$ 14,684,523	N/A	N/A	\$ -	\$ 907,000	30	\$ 27,012,500	\$15 million Project Construction Fund			

* Paid via equal monthly installments

The Citygate report observes that “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.”

Conclusion:

There are some issues that will need further consideration while the City continues to move forward through this process. These issues include a meet and confer process with the Firefighters

Association concerning wages, seniority, benefits related to the transfer into the County Fire District, and the budgetary impacts of funding the enhanced Fire Services.

Attachments:

1. October 18th Staff Report
2. Citygate Analysis
3. Updated Conversion Cost
4. Feasibility Study
5. Conversion Costs
6. CalPERS and OPEB 5-Year Projections and Unfunded Liabilities
7. Future Fire Services Presentation Slides

Respectfully Submitted by: Pete Bonano, Interim Fire Chief

Noted for Fiscal Impact: Viki Copeland, Finance Director

Approved: John Jalili, Interim City Manager