



## Staff Report

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### Honorable Mayor and Members of the Hermosa Beach City Council Regular Meeting of April 25, 2017

#### ANNEXATION OF THE HERMOSA BEACH FIRE DEPARTMENT INTO THE CONSOLIDATED FIRE PROTECTION DISTRICT OF LOS ANGELES COUNTY

(Fire Chief Pete Bonano)

#### Recommended Action:

1. Based on the recommendations of the Citizen's Advisory Committee, Emergency Preparedness Advisory Committee, feedback received from residents who attended the Community Engagement Meetings, and the Findings with Recommendations from Citygate Associates, the City Council authorizes the Mayor to sign the Annexation Agreement for Services By and Between the Consolidated Fire Protection District of Los Angeles County and the City of Hermosa Beach.
2. Adopt the Zero Property Tax Transfer Resolution between the City of Hermosa Beach and Los Angeles County.

#### Analysis:

At the October 18, 2016 Study Session Council directed Staff to contact Citygate Associates for a third party analysis of the Fire District's Feasibility Study. The goal of the Citygate analysis was to independently verify that all of 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. Included in the analysis of the Fire District's proposal, Citygate makes the following statements:

*"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 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."*

Citygate further states in their analysis that due to the ever increasing mandates that are required in today's fire service and the complexity of the modern fire services, the headquarters staffing and program costs are clearly more expensive than is cost effective for a one station fire department. According to Citygate, this minimum headquarters team could sufficiently staff a three to five station department.

The Fire District's Agreement for Services before the Council tonight includes fire protection, hazardous materials services, emergency medical services which include paramedic services, fire code and related code enforcement, fire cause and arson investigation, plus all Fire District support services including, but not limited to, supervision, dispatching, training, CERT, public education programs, equipment and apparatus maintenance, supplies and procurement. In addition to the above services, because the lifeguards and fire department will be in the same communication center the result will be a decrease in the response times of emergency resources on and/or near the beach.

The agreed upon annual fee for services of \$4,687,734 provides a turn-key full service fire department including vehicle depreciation. Furthermore, the Fire District agrees to make available to the City an interest free loan for the rehabilitation or rebuilding of the City's fire station.

In order for the Fire District to provide service to the City of Hermosa Beach, Hermosa Beach will be annexed into the Fire District. Pursuant to Section 99 of the Revenue and Taxation Code, an annexation requires a property tax transfer resolution be approved by the City and the Board of Supervisors. In the case of Hermosa Beach, a zero dollar property tax transfer will be submitted for approval since no property tax revenue will be exchanged.

Should the Council decide to proceed with annexation of the Fire Department into the Fire District the next steps in the process are described below:

City: Requests negotiations of an annexation agreement with the Fire District's Fire Chief, approves Reimbursement Agreement with the Fire District for costs incurred to evaluate City's facilities and equipment for conversion to Fire District standards and for the completion of a comprehensive independent fiscal analysis. Upon successful conclusion of negotiations, City signs annexation agreement and adopts a \$-0- Joint Property Tax Transfer Resolution.

Fire District: Submits for Board approval a Resolution Making Application to the Local Agency Formation Commission (LAFCO), \$-0- Joint Property Tax Transfer Resolution, Negative Declaration, and legal description.

Upon Board approval, submits Resolution Making Application to LAFCO, \$-0- 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.

Fire District: Submits request to finalize annexation and the annexation agreement to the Board for approval.

Supervisors: Holds annexation public hearing and approves annexation and 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. *Map and filing fee must be received by LAFCO before recordation and filing can be made.*

City: Adopts ordinance to use the Fire District Fire Code and an ordinance for the Fire District to be the administering agency for hazardous materials programs, if applicable.

District: Notifies the regional agency of the Insurance Services Office of the annexation.

Additionally, as you will recall previous staff reports included five ambulance options to choose from. The next steps process as detailed above is expected to last six to nine months which will provide sufficient time to decide on which of the five ambulance options is preferred in the City.

### **Fiscal Implications:**

The direction from the December 19<sup>th</sup> study session was to figure out how to pay for the costs of conversion to County Fire Service, including city legacy costs that would continue for some time. An early look at the 2017-18 Budget is being presented, assuming transition to L.A. County Fire on January 1, 2018. A “hybrid” budget was created that presents a 6 month status quo budget for the existing Fire Department expenditures and revenue and 6 months of expenditures with the County. We also present a hypothetical budget that shows the County costs as if we were transitioning on July 1, 2017 with full legacy city costs so that we can see that we could afford the transition for a full year. All budget reports are not available due to the early presentation date however we are able to summarize the complete 2017-18 preliminary budget for the City Council in order that the decision regarding Fire Services may be made.

### **Overall Budget Summary** (See the attached General Fund Budget Implications Slide)

#### **Revenue**

There is a 4% increase in revenue.

Taxes are up 4% overall.

Property Tax + 5.7%

Sales Tax - Flat

Transient Occupancy Tax (TOT) + 5% (without 2% rate increase)

Fines and Forfeitures + 4% (8 a.m. to 2 a.m. enforcement added)

Licenses and Permits + 30% (due to likely Skechers building permit)

Service Charges + 5%

### **Appropriations**

There is a 2% increase in General Fund appropriations.

Departments prepared a status quo budget as usual and submitted supplemental requests for new or additional funding.

Personnel Requests and Supplemental Requests are similar to the 2016-17 Budget Requests. (See the attached Comparison of Supplemental Budget Requests and the Personnel Requests/Recommendations slides) The same amount of supplemental requests were funded in 2017-18 as 2016-17 (26%). There are fewer approved personnel requests included since the new City Manager will need time to review and become familiar with operations prior to considering adding new positions. One Community Service Officer is added for extended enforcement hours of 8:00 a.m. to 2:00 a.m. and all current part time positions are funded for another year. Public Works added a part time Intern and a Public Works Inspector during the year with staff augmentation funds that were not used for oversight over the capital improvement projects. These part time positions were therefore not listed in the budget before but now will be.

### **How the Budget is Balanced**

The bottom line is that we funded departmental operating budget requests and funded supplemental requests at the same level as 2016-17 (26%), meaning that we did not make cuts in order to afford the transition to County Fire.

What we did do however was use the 2% increase in TOT for 2017-18 to fund operations. The 2% portion of the 2017-18 TOT estimate is \$530,139.

We have recommended that reserved 2% TOT amounts for 2015-16 and 2016-17 be used for payment of the Fire facility construction which is addressed specifically later in the report.

Other Noteworthy Items:

- Maintained 16% Contingency
- Maintained General Fund Contribution to Capital Improvements of \$800,000
- Set aside funds for continued labor negotiations
- Set aside funds that would be needed to fund the County and city legacy costs for a full year (\$338,699)

**Fire Department Budget Implications** (see the attached spreadsheet with the same name)

As explained previously, a hybrid Fire budget consisting of 6 months of status quo expenditures and 6 months of revenue was prepared (assuming a 1/1/18 transition) as well as a full year budget for County Fire with city legacy costs. All costs for internal service charges were removed except for risk management costs related to worker's compensation claims. The Administrative Assistant was left in both models because the position will be absorbed.

The cost difference between the hybrid model and the full-year County Fire model is \$338,699. This amount is set aside in the General Fund to demonstrate that the full County cost with city legacy costs could be funded for next year from July 1<sup>st</sup>.

**One Time Costs and Recommended Funding Sources (see the attached slide with the same name)**

Non-facility conversion costs in the amount of \$282,981 are shown on the spreadsheet. Amounts to be paid out for employee leave accruals (\$701,401) will be paid in the first year, either to the employee or to the County for accrued time that will be put on the County books for use by the employee. It is recommended that this amount be funded by 1) the amount reserved in the General Fund for Compensated Absences (\$340,371), 2) by the amount reserved to show that the County and legacy costs could be funded for next year (\$338,699) and 3) the additional amount needed of \$22,331. The amount in item 2) above is shown as reserved so that the City Council may see it, but since it will not be paid out, staff is recommending that we use it to pay a portion of the cost of the leave accrual payouts.

The non-facility conversion costs of \$282,981 and the Fire facility construction cost of \$2,091,114 may be paid over 5 years and do not start until 2018-19. It is recommended that the amounts reserved in the General Fund for the 2% portion of the TOT for 2015-16 and 2016-17 (\$754,850) be set aside for the first and second payments. The balance of the second year payment and all subsequent payments will be funded as part of the regular annual budget.

**Attachments:**

1. Citygate Analysis

2. Annexation Agreement
3. Zero Property Tax Transfer Resolution
4. Fire Services Fiscal Impact Slides
5. 2017-18 Preliminary Budget Fund Summary
6. 2017-18 Department Revenue Report
7. Department Expenditure Report
8. 2017-18 CIP Spreadsheet
9. 2017-18 Supplemental Requests
10. 2017-18 Personnel Requests

**Respectfully Submitted by:** Pete Bonano, Fire Chief

**Noted for Fiscal Impact:** Viki Copeland, Finance Director

**Legal Review:** Mike Jenkins, City Attorney

**Approved:** John Jalili, Interim City Manager