



Administrative Report

Commission Action Date: July 11, 2019

To: CHAIRMAN AND MEMBERS OF THE BUDGET AND FINANCE COMMISSION

From: MARNI RUHLAND, FINANCE DIRECTOR

Subject: COUNTY FIRE FEASIBILITY STUDY FISCAL IMPACT

RECOMMENDATION

Receive and file the report on the fiscal impact of the County fire feasibility study.

EXECUTIVE SUMMARY

At its April 16, 2019 meeting, the City Council discussed a report on the feasibility study for the provision of fire protection, paramedic, marine and incidental services for the City of Redondo Beach provided by the Consolidated Fire Protection District of Los Angeles County. The Budget and Finance Commission made a referral to staff to discuss the fiscal impacts of the County proposal. Additionally, it was requested that a projected comparison be made beyond FY 2018-19.

The fiscal impact to the City was described as follows (with updates reflecting the information provided to the City Council via blue folder and discussed the night of the meeting).

The annual budget for the Redondo Beach Fire Department in FY 2018-19 is \$22,104,854. This budget includes various expenditure obligations and allocations assigned to the Fire Department that will remain the City's obligation even if the City enters into a contract for service with the County, such as legacy PERS, workers compensation costs and lost revenue. The calculated "Costs Remaining with the City" that are associated with the Fire Department (see Attachment 1) are approximately \$5,799,406. The costs identified in the Costs Remaining calculation are not addressed by the County in their study.

To properly compare estimated County costs to City costs, the "Costs Remaining" figure must be subtracted from the Redondo Beach Fire Department's FY 2018-19 Budget as the City would continue to have these expenses under all fire service scenarios.

Subtracting the Costs Remaining figure of \$5,799,406 from the Department's \$22,104,854 Budget yields \$16,305,448, which is the approximate Adjusted Cost for daily operations of the Redondo Beach Fire Department (Adjusted Cost). The Adjusted Cost figure must be used to understand the fiscal impact to the City if either County Option were pursued.

Under the County's Option B, which is their proposal that approximately equates current staffing levels, the County's estimated FY 2018-19 Annual Fee is \$18,161,632. Contrasted against the City's FY 2018-19 Adjusted Cost of \$16,411,864, the County's service model is more costly than the City's by an amount of \$1,749,768.

Under the County's Option A, which they describe as the "Recommended Fire District Staffing Level", their estimated FY 18-19 Annual Fee is \$15,011,749. Compared against the City's Adjusted Cost of \$16,411,864, this service model would provide a savings to the City of Redondo Beach of approximately \$1,400,115, but it comes with reduced local staffing and a lower level of safety services. To add further perspective, if the City were to reduce its own staffing to a similar level, Department expenses would decrease by \$1,542,000, leaving an adjusted City cost of \$14,869,864 which would be \$141,885 less than the County's proposed Option A Fee.

In the background section below, details of the City's FY 2018-19 Adjusted Costs are provided. Additionally, the comparison of the City's projected adjusted costs to the County's proposal is shown for future years using the assumptions from the probable scenario of the recently released General Fund Three-Year Financial Plan and the County's FY 2019-20 proposal (provided by the County subsequent to the calculation of the above amounts and prior to the preparation of the City's FY 2019-20 budget).

BACKGROUND

As described above, the City's Adjusted Cost (used as the comparison to the County costs) is calculated by subtracting the expenses the City would retain under all fire service scenarios from the Redondo Beach Fire Department's budget. These continuing expenses are detailed below.

FY 2018-19 Fire Department Costs to Remain		
Item	Original Amount	Updated Amount
City-Wide Emergency Services	19,149	19,149
CalPERS Unfunded Accrued Liability	2,565,521	2,565,521
Revenue Loss	135,357	135,357
Liability Insurance – Claims	4,120	4,120
Liability Insurance – Premiums	40,228	40,228
Workers' Comp Insurance – Claims	1,371,344	1,371,344
Workers' Comp Insurance – Premiums	-	-
Vehicle Maintenance	158,179	51,763
Vehicle Equipment Replacement	-	-
Building Occupancy	271,729	271,729
Information Technology Maintenance	461,997	461,997
Information Tech Equip Replacement	64,108	64,108
Emergency Comm Operations	240,088	240,088
Emergency Comm Equip Replacement	-	-
Major Facilities Repair	-	-
City Facility Sewer Fee	-	-
Overhead – City Clerk	436,865	90,510
Overhead – City Treasurer	41,354	41,354
Overhead – City Manager	78,077	78,077
Overhead – Human Resources	114,170	114,170
Overhead – Financial Services	143,475	143,475
Overhead – Fire Administration	-	-
<i>Total</i>	<i>6,145,761</i>	<i>5,692,990</i>

City-Wide Emergency Services

The City-Wide Emergency Services function of the Fire Department coordinates City disaster preparation activities, maintains operational readiness of the City's Emergency Operations Centers, and represents the City at the South Bay's Area G Partners Group for regional disaster preparation. In the event that the City contracted with the County for fire protection, paramedic, marine and incidental services, the costs of this function would remain as another City department assumed the responsibilities.

CalPERS Unfunded Accrued Liability Payment

The largest (and growing) continuing expense is for the CalPERS unfunded accrued liability payment. As described in FY 2019-20 Budget Response Report #18, there are two components of the CalPERS employer rates.

1. The normal cost portion of the employer rates is defined by CalPERS as the annual cost of service accrual for the upcoming fiscal year for active employees, or the long-term contribution rate. It is paid as a percentage of payroll. It is this portion of the CalPERS employer rates for which the City would no longer be responsible if the City contracted with the County.
2. The unfunded accrued liability portion is defined by CalPERS as the difference between the plan's value of assets and the total dollars needed as of the valuation date to fund all benefits earned in the past for the plan's members. It is paid as a flat dollar amount. As verified by the CalPERS Senior Pension Actuary assigned to the City of Redondo Beach, it is this portion of the CalPERS employer rates for which the City would retain the costs.

In July 2018, the City received its most recent Annual Valuation Reports from CalPERS dated June 30, 2017. The reports included amortization schedules showing estimated payments required through FY 2046-47 to extinguish the City's unfunded liability. The Fire Department's percentage (28%) of the City's total FY 2019-20 payment has been applied to the future years' estimated payments when calculating the City's continuing expense.

Revenue Loss

The County proposal states that the Fire District would retain a 5% administrative cost for fire prevention fees. Based on the FY 2018-19 estimated fee revenue of \$573,150 for these services (including fire inspection permits, business inspections, false alarm responses, and plan checks) the City would realize a revenue loss of \$28,657. Additionally, the County proposal states that other revenues generated by the Fire District for its services would be revenues of the Fire District. Again, based on the FY 2018-19 estimated other revenue (including reimbursements for strike teams, grant revenue, and standby fees) of \$106,700, the City would realize a revenue loss of \$106,700 for a total annual revenue loss of \$135,357. The City also currently receives revenue from its advance life support pass-through agreement with McCormick Ambulance. An unfavorable determination regarding the County's ownership of transport rights within the City could result in an additional annual revenue loss of \$400,000 (based on the FY 2018-19 revenue estimate). The additional \$400,000 was not included in the City's remaining figure.

Liability Insurance Internal Service Fund Allocation

There are two components to the liability insurance internal service fund allocations charged to City departments – claims and premiums.

Claims – A five-year average of liability claim expenditures (including a percentage of the Risk Management administrative expenses) is allocated to City departments based on the claims paid for the structure(s) they occupy or their activities performed. Because the Fire Department's liability insurance internal service fund allocation related to claims is currently a small dollar amount (\$4,120) primarily from a FY 2017-18 claim, the calculation for the City's continuing expense assumes the allocation will drop off in five years.

Premiums – The cost of the annual premiums for property insurance on City facilities together with ocean marine insurance on City-owned boats (again, including a percentage of the Risk Management administrative expenses) is allocated to City departments for the facilities they occupy or the boats they use. Because the County is proposing to lease the fire stations from the City, the facilities would need to remain insured. But because the proposal includes a transfer of vehicular equipment from the City to the County, the Harbor Patrol boats would no longer need to be insured by the City. Therefore, the calculation of the City's continuing expense includes the cost of property insurance for the fire stations but excludes the cost of ocean marine insurance for the Harbor Patrol boats (for a savings of approximately \$10,000).

Workers' Compensation Insurance Internal Service Fund Allocation

There are two components to the workers' compensation insurance internal service fund allocations charged to City departments – claims and premiums.

Claims – A five-year average of workers' compensation claim expenditures (including a percentage of the Risk Management administrative expenses) is allocated to City departments based on the claims paid for the active or former employees in the department. Although claims fully attributable to County employment would no longer be an expense of the City, all claims attributable to City employment currently open or that could be filed in the future would remain an expense of the City. As workers' compensation claims have been historically slow to settle or filed after a significant passage of time, it is assumed they would not be fully paid within the projected 10-year time period. Therefore, all workers' compensation insurance internal service fund allocations related to claims are included in the calculation of the City's continuing expenses.

Premiums – Annual premiums for workers' compensation insurance are assessed as a percentage of full-time and part-time salaries paid by the City. These premiums are then allocated to City departments again as a percentage of salaries. The elimination of City-paid Fire Department salaries provides savings of approximately \$80,000 in the calculation of the City's continuing expense related to workers' compensation insurance.

Vehicle Maintenance Internal Service Fund Allocation

There are two components to the vehicle maintenance internal service fund allocations charged to City departments – fuel and maintenance.

Fuel – Actual consumption of City purchased fuel is charged to departments for that used in their operations. As the Fire District would purchase fuel for the fire apparatus from the City, the internal service fund allocation for fuel consumption is not included in the calculation of continuing expenses for realization of approximately \$70,000 in savings.

Maintenance – Fleet Services' personnel, maintenance and operations (including parts and third-party repair services but excluding fuel costs), and internal service fund/overhead allocations which directly support the vehicle maintenance function are charged to City Departments based on the number of hours spent maintaining the vehicles used in the departments' operations. Only the portion of the maintenance and operations related to parts and third-party repair services for fire apparatus would be eliminated if the apparatus were transferred to the County. Although the City's continuing expense calculation for the maintenance portion of the vehicle maintenance internal service fund allocation previously assumed no reductions to the Fleet Services' expenses, the "Costs Remaining with the City" attached to this report now reflect a savings of \$106,416 for the eliminated costs for parts and third-party repair services.

Vehicle Equipment Replacement Internal Service Fund Allocation

For each vehicle utilized by the City departments, annual calculated amounts are set aside to fund the replacement of that vehicle at the end of its useful life. With the City no longer needing to replace fire apparatus in the event it was transferred to the County, the internal service fund allocation for vehicle equipment replacement is excluded from the calculation of continuing expenses for realization of approximately \$500,000 in savings. It should be noted that any amounts returned to the General Fund or the Harbor Enterprise would be one-time in nature and would be used to fund conversion costs described in the County proposal.

Building Occupancy Internal Service Fund Allocation

The Public Works' Building Maintenance Division's personnel, maintenance and operations (including utility costs, custodial services, and materials and supplies), and internal service fund/overhead allocations which directly support the building maintenance function are charged to City Departments based on the City facility square footage occupied, the usage of utilities, and the use of custodial or other contracts. In calculating the City's continuing expenses, it is assumed there would be no reduction in building maintenance expenses other than the fire stations' utility costs which would be included in the Fire District's annual share of maintenance and repairs. All other building maintenance efforts and expenses would be (or already are as in the case of contract custodial services) directed to other departments and/or facilities. The utility cost savings are approximately \$300,000.

Information Technology Maintenance Internal Service Fund Allocation

The Information Technology Department's personnel, maintenance and operations (including telephone lines, modem services, computer leases, and software licensing), and internal service fund/overhead allocations which directly support the information technology function are charged to City Departments based on the number of computers and telephones used by each department. Only the costs for the telephone lines and MDC (mobile data computer) modems used by the Fire Department could be eliminated immediately upon transfer of fire operations to the County for a savings of approximately \$20,000. As contracts for copiers, desktop and laptop computers, the fiber loop connection, and software licensing come to their conclusion, these costs for Fire Department equipment can also be eliminated.

Information Technology Equipment Replacement Internal Service Fund Allocation

City departments are charged for the future replacement of information technology equipment. That equipment includes both equipment that is specific to the department (e.g., iPads and modems for the Fire Department) and that is for the benefit of all departments (e.g., servers, phone system, and network equipment). Excluded from the City's continuing expense calculation are the internal service fund allocations for the Fire Department's specific equipment (for a savings of approximately \$8,000), and included in the calculation are the allocations for equipment benefiting all departments. However, these savings would not be realized if another department assumed the equipment.

Emergency Communications Operations Internal Service Fund Allocation

The Police Department's Emergency Communications Unit's personnel, maintenance and operations (including computer aided dispatch software maintenance, 911 system maintenance, and Interoperability Network of South Bay participation fees), and internal service fund/overhead allocations which directly support the emergency communications function are charged to City Departments based on the number and length of emergency calls and required dispatch staffing for the Police and Fire Departments. In calculating the City's continuing expenses, it is assumed there would be no reduction in emergency communications expenses. Personnel would still be necessary to answer 911 calls (even if they are transferred off to the County); the computer aided dispatch software and the 911 system would still need to be maintained; and the participation fees for the Interoperability Network of South Bay would still be owed based on the number of emergency calls received.

Emergency Communications Equipment Replacement Internal Service Fund Allocation

Annual calculated amounts are set aside to fund the replacement of communications equipment at the end of its useful life for the Police, Fire and Public Works Departments. With the City no longer needing to replace Fire Department radios if the City contracted with the County for fire services, the internal service fund allocation for emergency communications equipment replacement is excluded from the calculation of continuing expenses for realization of an approximate \$150,000 in savings.

Major Facilities Repair Internal Service Fund Allocation

Costs for making major repairs to City facilities are charged to City departments based on the insured value of the facility occupied by the department. With it not being possible to know if the amount of required fire station maintenance and repairs would exceed the Fire District's annual share as described in the County proposal, the assumption has been made in the calculation of retained City expenses that the allocation would not be necessary. This results in a savings of approximately \$3,000.

City Facility Sewer Fee Internal Service Fund Allocation

Costs for providing wastewater collection and conveyance services to City facility sewer connections are charged to City departments using the institutional sewer rate. With it not being possible to know if the amount of required fire station maintenance would exceed the Fire District's annual share as described in the County proposal, the assumption has been made in the calculation of retained City expenses that the allocation would not be necessary. This results in a savings of approximately \$1,000.

Overhead Allocations

The Fire Department's budget includes overhead charges for support departments' operating expenses. The allocated services rendered by each support department to the Fire Department are described below.

City Clerk – The City Clerk's Office provides departmental assistance and records management services. For these services, the applicable percentage of the City Clerk's Office's personnel, maintenance and operations, and internal service fund/overhead allocations are charged to City departments. In calculating the City's continuing expenses, it is assumed there would be no reduction in the expenses of the City Clerk's Office and the overhead charges would be redistributed to other departments.

City Treasurer – The City Treasurer's Office provides departmental auditing and tax administration services. For these services, the applicable percentage of the City Treasurer's Office's personnel, maintenance and operations, and internal service fund/overhead allocations are charged to City departments. In calculating the City's continuing expenses, it is assumed there would be no reduction in the expenses of the City Treasurer's Office and the overhead charges would be redistributed to other departments.

City Manager – The City Manager's Department provides budgeting, economic development, City-sponsored event, human resources, general City support, and oversight board services. For these services, the applicable percentage of the City Manager's Department's personnel, maintenance and operations, and internal service fund/overhead allocations are charged to City departments. In calculating the City's continuing expenses, it is assumed there would be no reduction in the expenses of the City Manager's Department and the overhead charges would be redistributed to other departments.

Human Resources – The Human Resources Department provides employee support services. For these services, Human Resources Department's personnel, maintenance and operations, and internal service fund/overhead allocations are charged to City departments. In calculating the City's continuing expenses, it is assumed there would be reduced expenditures for tuition reimbursements, labor negotiations, and recruitments for an estimated savings of approximately \$65,000. Overhead charges for the remaining expenses of the Human Resources Department would be redistributed to other departments.

Financial Services – The Financial Services Department provides accounts payable, accounts receivable, purchasing, cashiering, budgeting, fixed assets, CAFR preparation, general ledger administration, bank reconciliation, grants administration, payroll, and Munis support services. For these services, the applicable percentage of the Financial Services Department's personnel, maintenance and operations, and internal service fund/overhead allocations are charged to City departments. In calculating the City's continuing expenses, it is assumed there would be no reduction in the expenses of the Financial Services Department and the overhead charges would be redistributed to other departments.

Fire Administration – For providing support to the Fire Department's divisions, the Fire Administration's personnel, maintenance and operations, and internal service fund/overhead allocations are charged to the divisions. These costs would be eliminated in the event fire operations were transferred to the County for a savings of approximately \$1,000,000.

Fire Department Budget

In calculating the City's Adjusted Cost, the Fire Department's budgets shown on the attached schedule are the FY 2018-19 adopted budget, the FY 2019-20 proposed budget (the most recently published document), and annual increases of 4.48% thereafter (reflecting historical trends for the Fire Department).

County Annual Fee Payment Cap

To compare the City's Adjusted Cost with the County's Option B proposal, provided amounts were used for FY 2018-19 and FY 2019-20. The annual fee payment cap described in the proposal was used to calculate future years' amounts with the assumption that actual increases matched the payment caps. The percentages used were 5.5%, 5.5%, 5.5%, 5.5%, 6.5%, 6.7%, 6.94%, 7.228%, and 7.5736%.

COORDINATION

The Financial Services Department coordinated preparation of this report with all referenced departments.

FISCAL IMPACT

The total cost for this activity is included in the FY 2018-19 Adopted Annual Budget.

Submitted by:

Marni Ruhland, Finance Director

Attachments:

- Comparison of City's Adjusted Cost to County's Option B Proposal