



Fire and EMS Organizational Alternatives

September 2014

FCS GROUP

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September 18, 2014

Sandy Langdon,
City of Marysville
1049 State Ave
Marysville, WA 98270

Subject: Fire and EMS Organizational Alternatives

Dear Ms. Langdon:

Attached is our final report on the results of our Fire and EMS Organizational Alternatives Study. Given the City's interest in maintaining a role regarding the fire and emergency medical services provided to its residents and based on our analysis of the alternatives, our recommendation is to work with District 12 to create a regional fire authority. The details and rationale for this recommendation can be found in the following report. We want to thank you and all the City and District staff for their assistance and participation in helping us gather information for the study. If you have any questions, please feel free to contact me at (425) 867-1802 extension 228.

Sincerely,



Peter Moy
Principal

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CHAPTER I: INTRODUCTION

As part of its efforts to provide the most cost effective fire and emergency medical services (EMS), the City of Marysville initiated a study to analyze and evaluate the City's options for providing fire and emergency medical services (EMS) to its citizens. To assess its options the City wanted the study to include the following:

- ◆ A detailed cost/benefit analysis of service options,
- ◆ A review of the existing City fire and EMS services contract and its related formula, and
- ◆ A report that discusses the analyses, recommendations, and budget implications related to the City.

The City established a Fire Service Alternatives Committee to review the report and determine what actions the City should take concerning how it provides fire protection and EMS to its residents and businesses. FCS GROUP was selected by the City to conduct the study and the scope of work included the following:

- ◆ Interviewing the City of Marysville's Mayor and City Council members,
- ◆ Interviewing the Commissioners and staff from Snohomish County Fire District 12, the City's partner in the Marysville Fire District,
- ◆ Reviewing and analyzing the City's and the District's performance, workload, and financial data,
- ◆ Identifying and analyzing different financing and organizational alternatives for providing fire protection and EMS, and
- ◆ Developing the cost of service and the financing for the different alternatives.

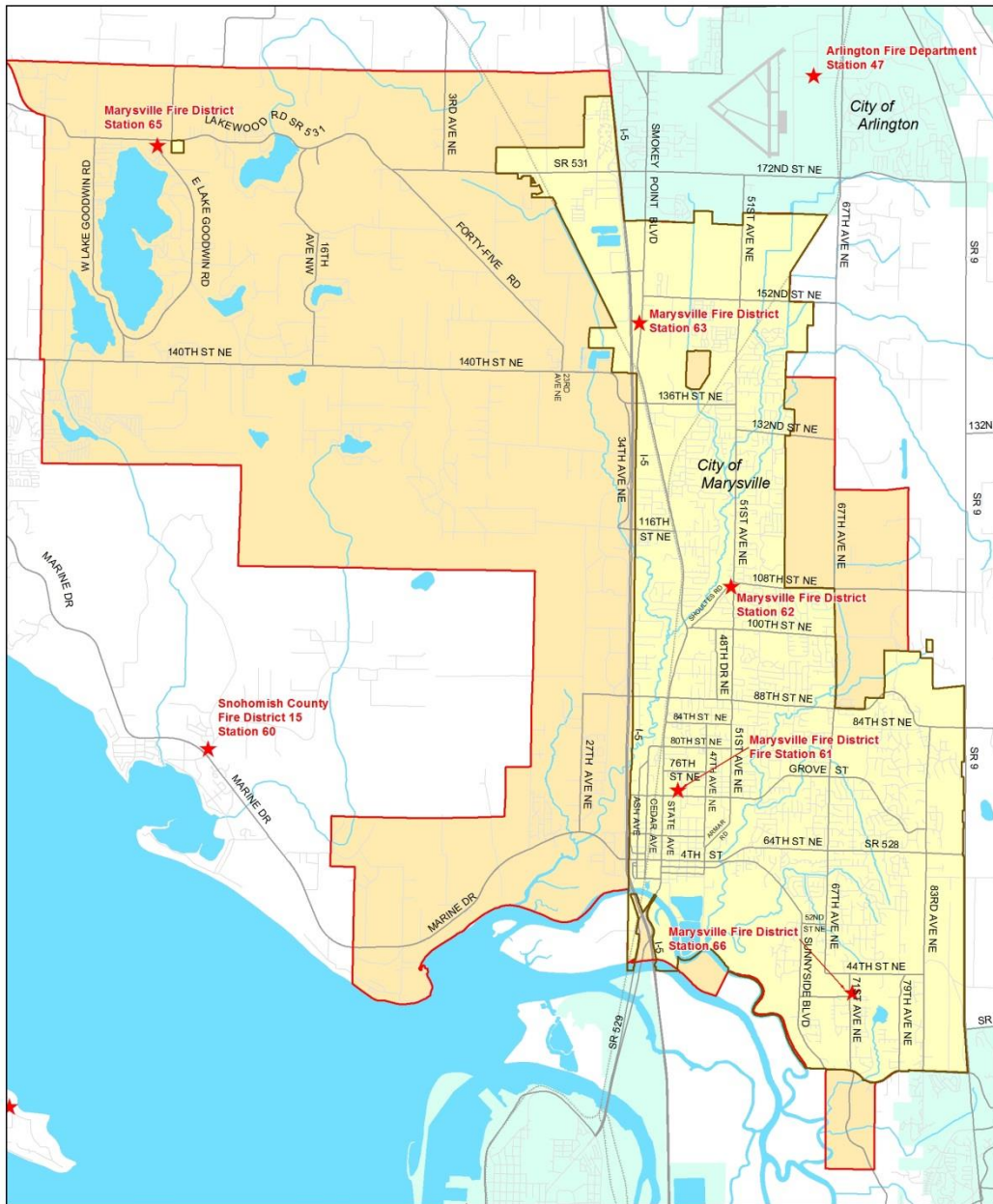
We want to acknowledge and thank the staff from the City and MFD for their assistance in gathering and providing information needed for the study.

MARYSVILLE FIRE DISTRICT BACKGROUND

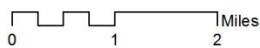
The Marysville Fire District (MFD) was formed through an interlocal agreement between Snohomish County Fire District 12 and the City of Marysville in January 1992. According to the MFD, the agreement was initiated as a means of reducing duplication of efforts and expanding services to the community. In 1998, Snohomish County Fire District 20 was consolidated into Fire District 12, and in 2002 Fire District 20 formally merged into Fire District 12. The Marysville Fire District is governed by a six member Board of Directors, the three Fire District 12 Commissioners and three City Council members from the City of Marysville.

The MFD protects approximately 55 square miles including the City of Marysville, Seven Lakes, Quil Ceda Village, and the East side of the Tulalip Indian Reservation as well as a diverse area of unincorporated Snohomish County. According to the MFD, the population served is estimated at about 77,000 residents with approximately 62,600 citizens (82%) living in the City, and 14,000 (18%) living in District 12's unincorporated areas. Exhibit 1 shows a map of the District.

Exhibit 1 MFD Station and District Map



Marysville Fire District Fire Stations



- ★ Fire stations
- Marysville Fire District
- Marysville city limits
- Other city limits



The Marysville Fire District employs about 85 full-time personnel that staff MFD's five fire stations (Stations 61, 62, 63, 65, and 66). The personnel support four Engine Companies, one Ladder Company, three Aid Cars, and two Medic Units on a 24/7 basis. According to MFD, full-time personnel are supplemented by 45 part-time firefighters. There are three emergency response shifts that each operate under the command of a Battalion Chief. The MFD also participates in two countywide special operations response groups for hazardous materials and technical rescue. The administrative staff includes the Fire Chief, Assistant Chief, Fire Marshal, Assistant Fire Marshal, Deputy Chief of Support Services, Human Resources Manager, Finance Manager, Fire Inspector, and two office employees.

The MFD's 2014 budget is about \$16.2 million compared to \$14.5 million in revenues, and as a result, fund balance is being used to cover the gap (\$1.6 million) between its estimated 2014 revenues and expenditures. However, MFD started 2014 with an estimated \$14.7 million in unreserved fund balance. MFD major revenue sources are the City's contribution and District 12's contribution which represent about 84% of MFD's revenues. Ambulance fees represent 12% of the revenues, and two other smaller revenue sources are for contracted services to the Tulalip Tribe and District 15 and a SAFER grant. Fire suppression and EMS services represent 71% of MFD's costs. Exhibit 2 shows the 2014 budgeted revenues and expenditures.

**Exhibit 2
2014 MFD Budget**

<u>Revenues and Funding Sources</u>	<u>Budget</u>
Beginning Fund Balance	\$14,691,764
City of Marysville Contract	9,239,757
Fire District #12 Contract	2,904,658
Quil Ceda Village (Casino, MBR, Bingo, Retail Center, Hotel)	200,000
Tulalip Tribes Contract -Nightclub/Liquor Store	9,467
Tulalip Tribes Gaming Impact Funds	45,000
District 15 ALS Service Contract	25,000
Public Schools (Marysville, Lakewood)	2,500
Sno-Isle Library	2,000
Grants - Federal & Local	12,500
Grants - SAFER Only	238,139
Monthly Rental Income (St. 65 House, Medic Apt)	16,780
Service Fees (Add. Signs, Standby, Training Reg, Training Room, ESCA)	1,500
Private Donations	1,200
Miscellaneous	10,000
Investment Interest Income	90,000
Enterprise Fund Transfer (2013 Fund Close-Out)	-
Ambulance Revenues	<u>1,700,000</u>
Total Revenues	<u>\$14,498,501</u>
 <u>Expenditures</u>	
Government Services	\$137,450
Administration	1,415,100
Fire Suppression	7,834,875
Emergency Medical Services	3,637,810
Special Operations	10,300
Fire Prevention/Public Relations	481,000
Training	259,700
Health/Safety	25,050
Support Services - Fleet & Facilities/Communications	1,628,650
General Capital Outlay / One-Time Purchase	149,900
Federal Grant Expenditures (Non-SAFER)	23,000
Tribal Gaming Impact	50,000
Transfers Out	<u>500,000</u>
Total Expenditures	<u>\$16,152,835</u>
Ending Fund Balance	\$13,037,430

Source: 2014 Marysville Fire District Budget

The Marysville Fire District responds to approximately 10,000 calls annually. In 2013 86% of the incidents were EMS related, 9% were fire related incidents, and 5% were other types of incidents. Exhibit 3 shows the incident responses for each station based on the District’s data and the total responses among MFD’s stations. The responses are greater than the number of incidents because more than one unit might be dispatched to respond to an incident. The responses provide an indication of how busy each station is. The District does not keep track of the calls by jurisdiction, and consequently, it is not possible to determine how the workload from each jurisdiction is managed. With four of the five stations located within the City limits, the busiest stations are located near the City’s core.

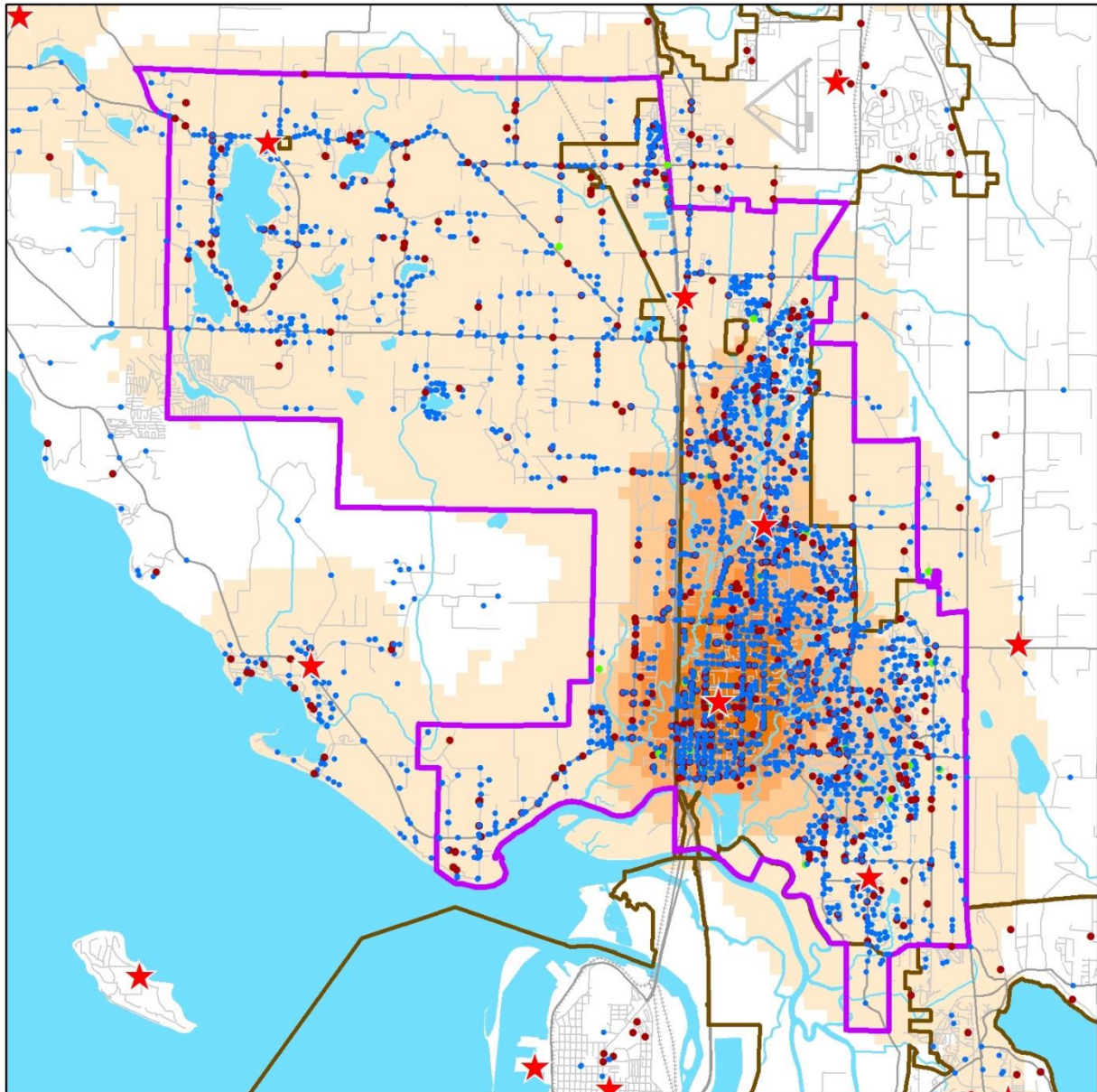
**Exhibit 3
2013 Station Responses**

	<u>Incidents</u>	<u>% of Incidents</u>	<u>Responses</u>	<u>% of Responses</u>
Station 61	3,453	37%	7,830	47%
Station 62	2,544	28%	3,213	19%
Station 63	1,551	17%	3,316	20%
Station 65	578	6%	1,066	6%
Station 66	<u>1,120</u>	<u>12%</u>	<u>1,309</u>	<u>8%</u>
Total	9,246	100%	16,734	100%

Source: 2013 Marysville Fire District and FCS GROUP

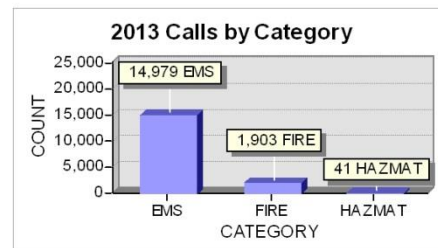
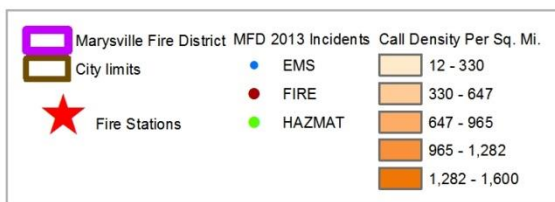
Exhibit 4 shows the incident locations and generally how many incidents occur within each sector of the MFD. According to the MFD, the median response time is about six (6) minutes.

Exhibit 4 2013 Incident Map by Location



Marysville Fire District 2013 Incident Responses

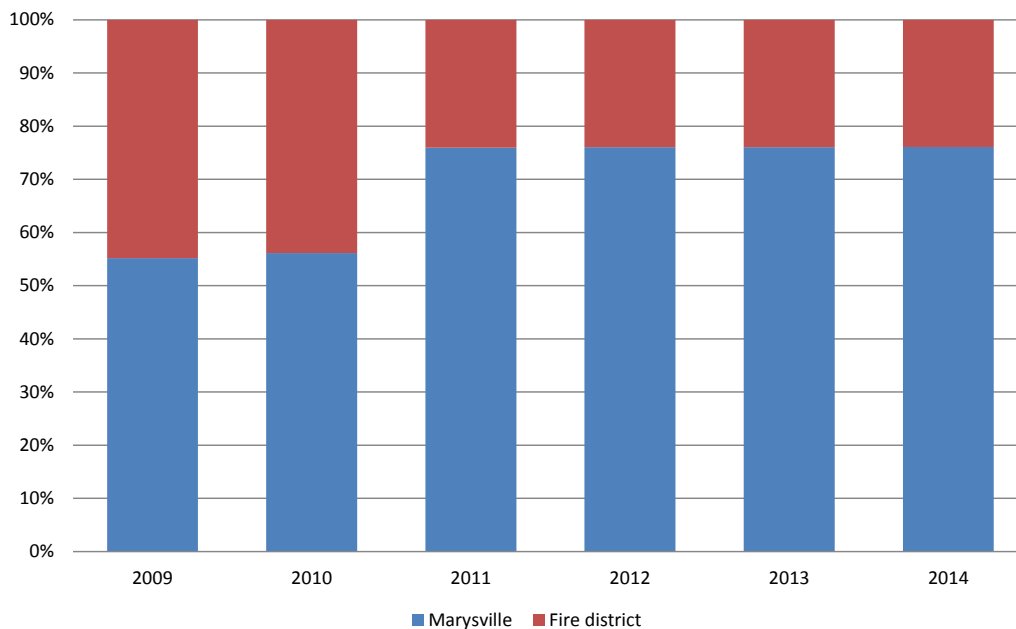
Total responses = 16,923
Median response time = 6 mins



CITY OF MARYSVILLE'S FIRE AND EMS COSTS

Based on the interlocal agreement governing the MFD, the City annually contributes an amount equal to the City's assessed value multiplied by District 12's levy rate. In addition, both jurisdictions have an EMS levy, and the EMS levy rates are about the same which are also applied to their assessed values. Over the past several years, the City has annexed portions of District 12's service area, and consequently, there has been a shift in the City's share of the MFD's combined assessed value. With the shift in assessed value, the City's total contribution share has increased from about 48% in 2007 to 76% in 2014. In November 2009, the City annexed a large area called Central Marysville that added 2,847 acres, 7,199 housing units, and 20,048 additional residents to the City. Although the City began providing services in 2010, the change in assessed value was not reflected until 2011. Exhibit 5 illustrates the shift in assessed value since 2009.

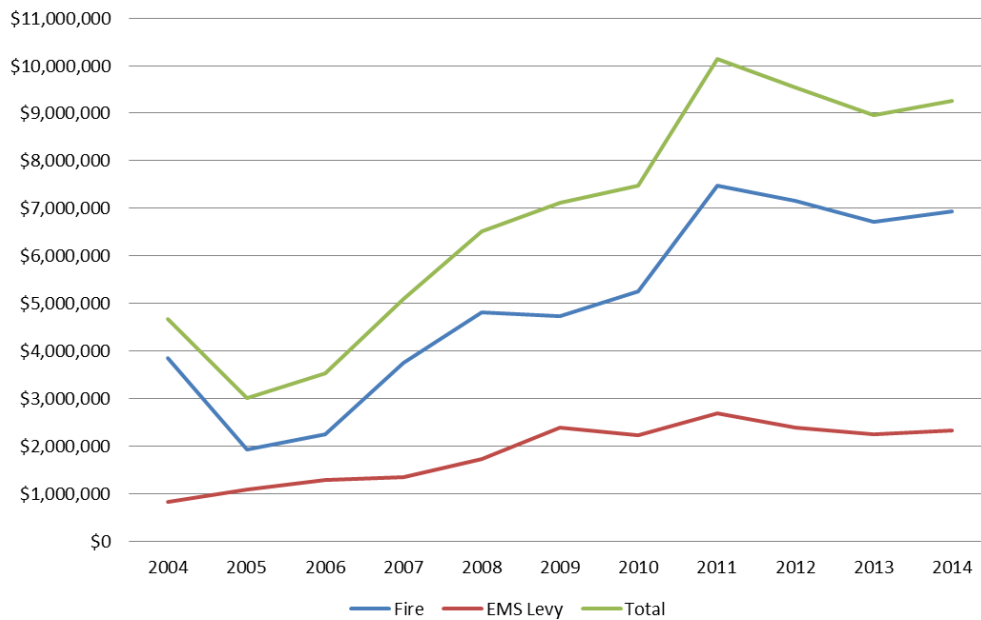
Exhibit 5
Share of MFD's Assessed Value by Jurisdiction



Source: Snohomish County Assessor Reports and FCS GROUP

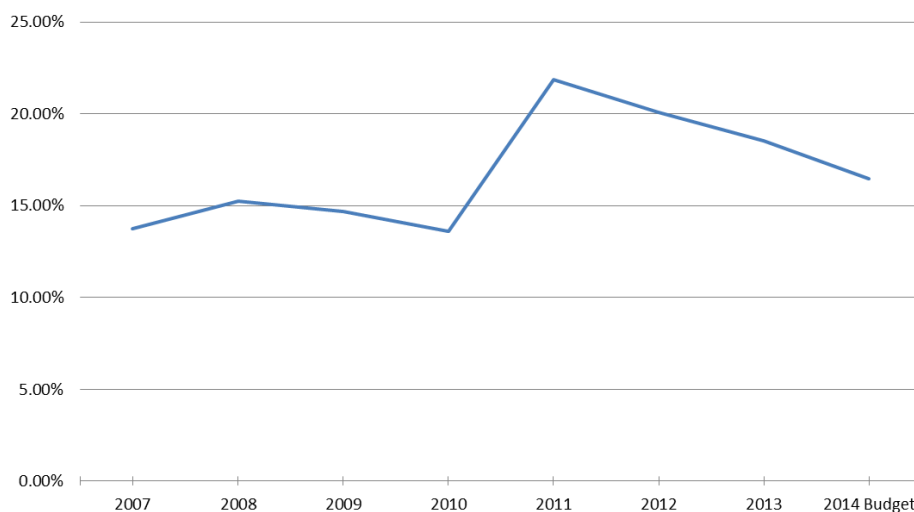
The City's EMS contribution is based on a separate and dedicated levy rate, but the City's MFD operating contribution is from the City's General Fund. Because of the shift in assessed value and the District 12 levy rate methodology for calculating the operating contribution, the City's General Fund contribution to the MFD has also increased significantly. However, the City's General Fund contributions were already increasing significantly prior to the annexation in 2009. In 2004 the City's General Fund contribution was \$3.8 million, \$4.7 million in 2009, and \$6.9 million in 2014. These represented increases of 23% from 2004 to 2009 and 32% from 2010 to 2014. Exhibit 6 shows the trend in General Fund contributions.

**Exhibit 6
Marysville MFD Contributions
2004-2014**



Although the City’s MFD contribution from the General Fund has increased significantly, the City’s General Fund expenditures increased concurrently between 2007 and 2010 so that the percentage of General Fund devoted to MFD remained relatively stable at around 15%. However, with the annexation and the changes in assessed value due to the recession, the 2011 MFD contribution represented almost 22% of the General Fund expenditures. Thus, annexation resulted in a MFD General Fund contribution that resulted in a greater proportion of the General Fund expenditures being spent on MFD. However, over the past three years, the percentage has started to decline back towards 15%. This information and the previous information on the growth of expenditures provide a context for understanding the impact that the City’s contribution to MFD has had on its General Fund expenditures. Exhibit 7 shows the percentage trends since 2007.

**Exhibit 7
Percent of Total 2007-2014 General Fund Expenditures Allocated to MFD**



CHAPTER II: ORGANIZATIONAL ALTERNATIVES

Besides maintaining the City's current arrangement with District 12, the City has three organizational alternatives for providing fire and EMS services. The City could annex into District 12, create a regional fire authority with District 12, or start its own fire department. For each alternative, the City will need to initiate a number of steps to implement any one of the three alternatives.

- ◆ To annex into District 12, the City Council needs to initiate the annexation by adopting an ordinance stating its intent to join District 12 and a finding that the public interest will be served as a result. If the board of fire commissioners for District 12 concurs with the annexation, the Snohomish County Council would then be notified. Once the County Council is notified, it then calls for an election by resolution, and if a majority of both the City residents and the District 12 residents vote for the annexation, it is approved.
- ◆ To create a regional fire authority, the City and District 12 would need to do the following:
 - Establish a planning committee consisting of three elected officials from each jurisdiction
 - Develop and adopt a regional fire authority fire protection plan that covers governance, design, financing, facilities and operations, and recommended revenue sources (e.g. property taxes and/or a fire benefit charge). The process also requires public input.
 - Obtain approval of the plan from each jurisdiction before sending it to the ballot,
 - Requires a majority vote if the revenue source is only property tax, but requires a 60% approval vote if a benefit charge is included as part of the revenue package.
- ◆ To create a City Fire Department, the City would notify the District that it plans to terminate the interlocal agreement, and according to the agreement, the City or District 12 must give such notice three years in advance of the termination date. A key issue and factor in this alternative is whether the District would still contract with the City to provide fire and EMS services to District areas, especially the areas currently served by Station 65.

To determine which alternative best meets the City's needs, there are several policy issues involving governance, service levels, and finances that need to be considered. Depending on their policy choices, the City's elected officials might make a decision to continue or change how the City's fire and EMS services are organized and financed. The following are several key policy questions that the City needs to address before a decision can be made.

- ◆ What is the City's goal concerning how fire and EMS services are provided?
- ◆ Does the City want or need to have some control and responsibility for fire and EMS services or is the City willing to give up control and responsibility for fire and EMS services to a separate organization or District 12?
- ◆ Can either the City or District 12 by themselves maintain the services that the current agreement provides for each jurisdiction?

- ◆ Are there any potential savings to the City sufficient to warrant making a change in how the City is organized to provide fire and EMS services?

Exhibit 8 summarizes how the alternatives are implemented, the governance structure, and the financing mechanisms.

Exhibit 8 Summary of Alternatives

Issue	Current Contract	Regional Fire Authority	Fire District Annexation	City Fire Department
Formation	City and District 12 Approval	Public vote	Public vote	City Approval
Governance	City/District Board with equal representation	Can specify board membership and representation	Elected commissioners, need to have City residents elected	Mayor & City Council
Primary Financing Method	Existing City General Fund revenue sources, EMS levy	Separate property taxes and/or benefit charges, EMS levy	Separate property taxes and/or benefit charges, EMS levy	Existing City General Fund revenue sources, EMS levy

STAKEHOLDER ISSUES

To identify and understand issues related to the current fire and EMS organizational and service model and the above policy questions, the elected officials from the City and District 12 were interviewed about their opinions concerning the District’s services and alternatives. These interviews provided the elected officials with an opportunity to share their perspectives and concerns about the MFD’s current strengths, weaknesses, and key factors for analyzing alternatives.

From these interviews, comments were made about operational, financial, and policy issues as well as on the different alternatives. Several City Council members have first-hand knowledge and history about the MFD because they are current or past members of MFD’s Board of Directors. The interviews provided some common themes. The following generally represents more than one person’s comments. The MFD’s strengths included the following

- ◆ High quality, exceptional, and great service,
- ◆ Meeting community needs,
- ◆ Efficient, effective, and good with resources,
- ◆ Excellent, modern, expensive equipment, and
- ◆ Well trained staff.

Four issues concerning weaknesses and opportunities for improvement were identified and included the following:

- ◆ Labor relations,
- ◆ Governance, representation,
- ◆ Financial oversight, and
- ◆ Communication.

As part of the interviews with the elected officials, they also identified several factors that are important to their decision about alternatives. However, some of the factors are not directly related to how the City and District 12 are currently organized to provide the services. These factors include the following:

- ◆ Provide the same level of service,
- ◆ Increase transparency,
- ◆ Have a City-weighted governance model and/or better representation model,
- ◆ Consider having a City-only Fire Department,
- ◆ Improve strategic planning,
- ◆ Improve cost containment, and
- ◆ Specify asset ownership.

The following chapter discusses the alternatives, and the above comments have been considered as part of the alternatives analysis.

CHAPTER III: ALTERNATIVES ANALYSIS

As mentioned in the previous chapter one of the key factors in analyzing alternatives involved representation and governance. Each of the alternatives offers a different variation on governance and who is responsible for oversight of the fire and EMS services. One of the key questions concerning governance is whether the City desires to have some control and oversight over fire and EMS services, and based on interviews with the Mayor and City Council members, they generally want to remain involved with fire and EMS services. Financial issues and analysis about the alternatives were also a concern.

GOVERNANCE

The current governance structure of the MFD consists of a Board of Directors that includes three elected officials from the City and the three Commissioners from District 12. Prior to the Central Marysville annexation in 2010, the population served in each jurisdiction was about the same, but after the annexation, the City now has about 82% of the population served by the MFD. Several elected officials mentioned that a change in the governance structure is needed to reflect the shift in population. The three alternatives provide different governance structures that can range from no City involvement to complete City control.

- ◆ For a regional fire authority, the governance structure is established as part of the planning process and can be designed in any format or in any representation method that the City and District 12 can agree upon. Thus, the regional fire authority board can have a more proportional representation structure, such as one District 12 representative and three City representatives.
- ◆ In a City annexation into District 12, the governance structure would be based on the commissioner elections. If the City wanted to be represented on the District's board of commissioners, a resident from the City would need to be elected to the District's board of commissioners.
- ◆ If the City created its own fire department, the Marysville Mayor and City Council would be responsible for the fire department. This alternative provides the City with the most control and responsibility for fire and EMS services. However, if District 12 continues contracting with the City for fire and EMS services at Station 65 and other parts of the District, District 12 would not be represented unless the City and the District have an arrangement where the District has one or more representatives serving on an advisory board. The City would still, however, have the final authority over the fire department's operations and finances.

Given the long history of collaboration and cooperation between the City and District 12 for the combined MFD operations, the alternative that provides the most flexibility compared to the current agreement is the regional fire authority because it allows the City and District 12 to create a new governance model that both jurisdictions can agree to. At the same time, the City and District 12 could also amend their interlocal agreement and change the current structure. However, the financial aspects would not necessarily be the same as discussed in the next section.

FINANCIAL ISSUES

Because the City and District 12 already operate a consolidated fire department through their interlocal agreement, the cost of providing fire and EMS services through MFD's five stations has been established. In 2014, the total operating cost to provide MFD's services is about \$16.2 million. Under the current agreement, the City's financial contribution to the MFD is based on the levy rate established by District 12. In 2014, District 12's levy rate was about \$1.42 per \$1,000 of assessed value. Because the levy rate is established by District 12 and its voters, the City's residents have no role in determining or approving the rate. However, the agreement states that District 12 cannot seek a voter approved lid lift unless the City provides its consent. As previously mentioned, City funding for its contribution comes from the City's General Fund which is funded by many different tax and revenue sources and supports a wide range of City services. The other main funding source is an EMS levy that was passed by voters from both the City and District 12. The EMS levy rate is at \$.43 for both jurisdictions. The contributions from both jurisdictions provide 84% of MFD's revenues.

In 2014, MFD's \$16.2 million operating expenditures exceed the budgeted revenues by \$1.6 million. However, MFD had a starting 2014 fund balance of \$14.7 million that is being used to close the gap between MFD's expenditures and revenues. MFD has a significant fund balance that is at 91% of its expenditures. In addition, the MFD reserve fund has an additional fund balance of \$1.3 million. The Government Finance Officers Association's best practice regarding the level of unrestricted general fund balance is to have at least a minimum amount equivalent to two months of revenues or expenditures (17%). For MFD a two month amount based on expenditures is about \$2.7 million. MFD does have the same policy in its procedures, but it does not address management of the fund balance when it is greater than the minimum. A historical overview of MFD's fund balance growth and the operating levy rate can be found in Appendix A. Higher amounts of fund balance can be established by adopted financial policies regarding reserves and other financial needs such as one time expenditures, working capital, or budget stabilization. It should be noted that even at the maximum levy rates of \$1.50 and \$.50 for the operating and EMS levies, respectively, the 2014 revenue generated by these amounts is still not enough to cover the difference between the estimated 2014 revenues and expenditures. In 2014 if the levy rates were at their maximum, the City and District 12 contributions would have only increased from \$12.1 million to \$12.8 million, a \$700,000 increase compared to the \$1.6 million gap in 2014. It should also be noted that MFD has a SAFER grant of about \$238,000 that will eventually end and that will need to be replaced by local funding if MFD wants to continue supporting the staff and other expenses previously paid by the grant.

As long as the City's share is based on District 12's levy rate, the City's match will always remain at no more than the equivalent of \$1.50 per 1,000 in assessed value. However, this may be a problem as costs increase or if the City's assessed value grows faster than District 12's assessed value. For example with the recent United States Court of Appeals decision regarding tribal property, District 12 will lose an estimated \$84.2 million in 2014 assessed value which translates into about \$159,509 of 2014 lost revenue at the \$1.42 regular levy rate plus the EMS levy rate. In addition, District 12 will also have to give refunds for previous taxes paid, and MFD estimates that the refund amount might be between \$400,000 to \$460,000. If District 12 increases its levy rate to compensate for the lost revenue, the City will also have to raise its contribution even though its revenue was not affected by the decision. Consequently, the City residents will be paying more and the amount of additional tax revenue will be more than the amount paid out by District 12 for refunds. If there is no increase in District 12's rates, less revenue will be collected, and District 12 will need to use its fund balance or find another funding source to compensate for the refund. According to MFD's 2103 Annual Report, District 12 had a 2013 ending fund balance of \$1.8 million.

Given the above background, the three alternatives present the following financial impacts. For a regional fire authority or an annexation to District 12, the costs should remain the same to provide the current level of service. For a City fire department alternative, however, the cost will be about the same if the City

continues to serve District 12 as MFD currently operates and staffs Station 65. If District 12 decides not to contract with the City, the costs will change for both the City and the District.

Regional Fire Authority and Annexation

For a regional fire authority or in an annexation into District 12, the maximum property tax rate is a \$1.50 if the authority and District do not have a benefit charge. If there is a benefit charge, the maximum property tax rate can only be \$1.00. A levy rate change can be approved by a majority of the voters while a benefit charge must be approved by the 60% of the voters. In contrast to the current agreement, any rate change as part of a regional fire authority or as part of District 12 will be voted on by both the City residents as well as District 12 residents once either alternative is implemented. Because there is a maximum property tax that can be levied for operations and because any changes beyond the allowed authorized increase in the levy rate must be authorized by a public vote, costs are restricted by the revenue generated unless a majority of the residents vote for an increase.

With either of these two alternatives, the City's maximum property tax rate changes by \$2.00 (\$.50 for the library district and \$1.50 for either a regional fire authority or fire district annexation) from its current \$3.60 maximum to \$1.60. The City's current general property tax rate is about \$2.72, and if the amount is adjusted for the City's MFD contribution at the \$1.42 rate, the equivalent property tax rate after creating a regional fire authority or annexing into District 12 is about \$1.30, 30 cents below the City's new maximum.

The 2014 equivalent \$1.30 property tax rate makes the changes revenue neutral (i.e. the property tax changes result in no additional taxes to the City's property owners). Because the City has additional remaining taxing capacity with its new maximum, the City might chose not to lower the property tax at the full amount and set the property tax rate at the new maximum to help fund other City needs. The additional 30 cents would generate almost \$1.5 million in equivalent 2014 revenue. Based on 2014 assessed values, every 5 cent increase in the property tax rate generates about \$243,000 in additional revenue. It is assumed that the City's portion of the property taxes will pay for the Fire Marshal's code enforcement and fire prevention services as they are currently paid for. If the City has to pay separately for those services, the City will need to determine whether it should continue using either the regional fire authority or District or another alternative for development review and fire code enforcement as well as how it will pay for these services. The 2014 MFD budget for the Fire Prevention and Public Relations Division is \$481,000, and any associated City fees or revenues for Fire Marshal activities are given to MFD.

Because the MFD has such large fund balances, the City might also negotiate as part of the regional fire authority planning process or as part of the dissolution of the current agreement to reduce the fund balances to a more reasonable level and distribute a share of the excess amount to the City. Because of the City annexations, the City is also entitled to a share of the assets for the annexations when the agreement is terminated. The value and use of these assets might also be negotiated as part of the regional fire authority planning process or prior to any annexation vote into District 12.

City Fire Department

Creating a new City fire department means that the City will bear the full cost of providing services to its residents as well as District 12's residents assuming that District 12 decides to contract with the City for services. District 12 staff and commissioners indicated that it would be difficult to provide fire and EMS services as a stand-alone district because of the geographic spread of the District and because Station 65 is the only fire station outside of the City. If District 12 continues to participate with the City, the total cost of service will generally not change significantly except at the administrative level. In developing the costs for a City fire department and the costs for operating Station 65 the following assumptions were used:

- ◆ The administrative support staff would change slightly. The MFD currently has four support staff costing about \$407,000 in salary and benefits. Based on discussions with the City staff, three staff would be needed to support a City fire department’s administration, financial management, and human resources activities. The three staff consists of a human resources analyst, an accountant, and a confidential administrative assistant to support the Fire Chief. These positions have lower salaries than their equivalent staff at MFD. The salary and benefits cost for these positions cost about \$295,000, a cost reduction of about \$112,000. In addition, the City will not have any expenses for a Board since the fire department would become part of the regular duties of the City Council members and Mayor. Thus, the overall operating cost for a City fire department is estimated at \$15.9 million. There might also be additional start-up costs that cannot yet be determined depending on how the MFD’s assets and equipment are distributed between the City and District 12.
- ◆ If District 12 decided not to continue its partnership with the City, the City would not have to staff and equip Station 65, and its overall costs would decrease. To calculate the staffing and operating costs for Station 65, the staffing was identified and the average salary and benefits costs for each position classification were used. It is assumed that the on-duty staffing at the station consists of one captain, and two firefighters and that a total of 10 staff are needed to meet the 24/7 schedule (3.6 captain FTEs and 6.4 firefighter FTEs) plus a share of the part-time staffing costs. The salary and benefits costs for these positions total \$1.4 million. Other station costs included a share of the costs for training, fleet and vehicle support, communications and technical support, and specific capital projects. These costs were allocated based on the percentage of total operating staff, incidents, vehicles, vehicle miles, and other factors. The estimated costs for operating Station 65 is about \$1.8 million. These costs do not include any allocated costs for the administrative staff or allocated costs for services provided by other stations, such as advanced life support. These costs would not change if District 12 did not use the City’s services.

Exhibit 9 shows the different estimated revenues and costs for a City Fire Department based on MFD’s 2014 budget, which uses fund balance to offset a \$1.6 million deficit. There are two scenarios: A City department serving District 12 and a City Department without District 12 and Station 65.

Exhibit 9
City Fire Department Scenarios Based on
2014 Revenue and Cost Estimates

Category	Scenarios	
	City Department Serving District 12	City Department Without District 12 (Station 65)
2014 Revenues (Current City Funding - \$9.2 million)	\$14.5 million	\$11.2 million
2014 Costs	\$15.9 million	\$14.1 million
Differences	(\$1.4 million)	(\$2.9 million)
Added District 12 Contribution at max levy	\$155,000	Not Applicable
Funding Gap	(\$1.245 million)	(\$2.9 million)
Total City Funding	\$10.445 million	\$14.1 million
Added City Property Tax Equivalent Needed to Cover the Funding Gap	\$0.26	\$0.60

In both scenarios, a City fire department operates at a deficit, and if sufficient fund balance is not available, the City will eventually have to compensate for the difference or reduce costs and service levels. Even if District 12 provided funds at its maximum levy rate (i.e. \$1.50), the deficit will only decrease by about \$155,000, thereby leaving the City to fund the remaining \$1.245 million. The total City contribution would then equal about \$10.5 million compared to the current \$9.2 million. To generate the additional revenue, the equivalent operating levy rate increases from \$1.42 to \$1.68. An even greater increase (\$.60) is needed if District 12 decides not use the City's services because District 12 is not contributing to the fire department's overhead and other administrative costs. The City must fund the entire department at a \$14.1 million cost.

In contrast to the current situation, a regional fire authority, and an annexation, there would be no specific statutory limit on how much funding is available for the fire department. As discussed previously in the first chapter, the amount of General Fund support for fire and EMS services has grown over the past several years. Because there is no statutory restriction on the amount that can be spent for fire and EMS services, the City is not limited to spending no more than the equivalent of \$1.50 of property taxes on the fire department as discussed in the previous paragraph. Because the City has other revenues besides property taxes, such as sales taxes and other types of tax revenues that supplement property taxes and which can increase at a greater rate than property taxes, the City might find it more difficult to contain fire department costs. If the City decides to maintain funding and services for the fire department in the future, it might need to reduce other services supported by the General Fund if the fire department needs to increase its share of the General Fund expenditures as it did in 2011. Consequently, the long term ability of the City to sustain its financing and current fire department services might be difficult.

If the City was part of a regional fire authority or it was annexed into the District, property tax rates are restricted to \$1.50 and if the property tax rate is lower, a levy rate proposal to raise the rate beyond the currently allowed amount to \$1.50 could be placed on the ballot. As a City department, the City Council might have to use other General Fund revenue sources or ask for excess levies to be passed to support the fire department.

Besides financing a City fire department's operations, the City will also need to negotiate with District 12 on the transfer of assets and equipment, personnel transfer issues and liabilities, and potential service issues. Depending on the negotiations with District 12, the City might incur additional start-up costs that cannot be determined yet. In addition, a City fire department will also mean the City must work with another organized labor group.

CURRENT AGREEMENT CHANGES

If the City and District 12 do not want to continue with the existing agreement and do not choose one of the three alternatives, there are several modifications that might improve accountability and the funding formula. The MFD Board of Directors should consider the following:

- ◆ Adopt level of service standards. RCW 35.103.030 requires the City to have service delivery objectives and establish level of service standards. Such standards are also required for fire districts (RCW 52.33.030). As part of this effort, the MFD should also be required to identify the incidents by jurisdiction, especially if there are different standards for District 12 because it is a more rural area.
- ◆ Consider having District 12 use its fund balance to pay for the Tulalip refunds and alter the funding formula so the City does not pay an increased amount just because District 12 raises its rate to compensate for the lost assessed valuation.
- ◆ Change the funding formula so each jurisdiction's contribution is based more on a share of the costs rather than only District 12's levy rate and each jurisdiction's assessed valuation.

- ◆ Establish financial policies especially for the uses and amount of fund balance and reserves above MFD's minimum requirement. Such policies should address what a maximum amount of fund balance should be and what any excess fund balances can be used for such as emergencies, one-time or capital expenditures, or a reduction and stabilization of property tax rates.
- ◆ Define how assets will be divided between the two jurisdictions if the agreement is terminated in addition to the appropriate RCWs related to city annexations of fire district areas.

ALTERNATIVE ADVANTAGES AND DISADVANTAGES

As discussed in the governance and financial issues sections, each of the alternatives provides the City with a combination of different advantages and disadvantages. Exhibit 10 provides a matrix that shows the advantages and disadvantages of each alternative.

Exhibit 10
Summary of Advantages and Disadvantages

Current Agreement	Regional Fire Authority	Annexation to District 12	City Fire Department
<p>Advantages:</p> <ul style="list-style-type: none"> ◆ Continues consolidated operations ◆ Maintains City involvement with Fire & EMS services ◆ Funding is limited by District 12's \$1.50 tax rate ◆ Does not affect general property tax limit ◆ Overall revenues not affected by future City annexations 	<p>Advantages:</p> <ul style="list-style-type: none"> ◆ Continues consolidated operations ◆ Established by public vote ◆ Provides for any agreed upon governance structure, including proportional representation ◆ Maintains City involvement with Fire & EMS services if Board includes City elected officials ◆ Dedicated funding source that is limited by a \$1.50 property tax rate and requires public vote by all residents on raising the tax rate ◆ Not affected by future City annexations ◆ Eliminates the need for an agreement on asset ownership 	<p>Advantages:</p> <ul style="list-style-type: none"> ◆ Continues consolidated operations ◆ Established by public vote in both jurisdictions ◆ Dedicated funding source that is limited by \$1.50 property tax rate and requires public vote by all residents on raising the tax rate ◆ Not affected by future City annexations ◆ Eliminates the need for an agreement on asset ownership 	<p>Advantages:</p> <ul style="list-style-type: none"> ◆ Established by Mayor and City Council ◆ Keeps City involvement with Fire & EMS services ◆ Provides the City with complete control and responsibility over its fire & EMS services ◆ Does not affect general property tax limit and does not rely only on property tax revenues to fund fire and EMS services ◆ Eliminates the need for an agreement on asset ownership
<p>Disadvantages:</p> <ul style="list-style-type: none"> ◆ Representation is not proportional to population served or funding contribution ◆ Approval of operating taxes only voted on by District 12 residents ◆ Must have two EMS levies that pass ◆ City contributions affected by City annexations ◆ City can have competing priorities for funding ◆ Must have a variety of provisions related to termination of the agreement ◆ Does not have level of service standards 	<p>Disadvantages:</p> <ul style="list-style-type: none"> ◆ May require that the City pay for fire prevention and fire code enforcement activities separately ◆ Reduces general property tax limit ◆ Requires termination of existing agreement and post termination agreement on disposition of assets and liabilities to City or the regional fire authority 	<p>Disadvantages:</p> <ul style="list-style-type: none"> ◆ No currently elected City of Marysville representatives, needs a City resident to be elected to the Board to represent City residents ◆ May require that the City pay for fire prevention and fire code enforcement activities separately ◆ Reduces general property tax limit ◆ Requires termination of existing agreement and post termination agreement on disposition of assets and liabilities to City and District 12 	<p>Disadvantages:</p> <ul style="list-style-type: none"> ◆ Can continue consolidated operations if District 12 agrees to continue with the services ◆ City has the full responsibility for funding and does not have a dedicated funding source, or a revenue restriction to contain costs ◆ City revenues from District 12 can be affected by annexations ◆ Another labor organization will be added to the City's workforce ◆ Requires termination of existing agreement and post termination agreement on disposition of assets and liabilities to City and District 12

CHAPTER IV: RECOMMENDATIONS

Based on the interviews with the City's elected officials, several issues were identified about the current operations. These issues focused on representation and governance, finances, and management. As mentioned in Chapter II, the City's elected officials want to continue their involvement in overseeing the fire and EMS services provided to City residents. Each alternative has advantages and disadvantages that affect governance and financial issues. Cost containment, strategic planning, asset ownership, transparency, and communication were all issues that were mentioned by various officials. Some can and some cannot be resolved by changing just how the City is organized to provide fire and EMS services.

Based on the characteristics and the advantages and disadvantages of each alternative, the most appropriate alternative that meets the needs of the City is a regional fire authority. This alternative represents a more formal and modern evolution of consolidating fire and EMS services provided by cities and fire districts. The regional fire authority is recommended primarily for the following reasons:

- ◆ Maintains the current operational consolidation aspects of the current agreement,
- ◆ Establishes a new, separate, and dedicated jurisdiction and organization devoted to fire and EMS services,
- ◆ Provides for a governing board that can be more representative of the population served and can be negotiated with District 12,
- ◆ Requires a planning process to develop a regional fire authority plan that can be communicated to the City and District 12 residents and elected officials and that provides them with a strategic type plan and greater transparency about what they will be voting for or against,
- ◆ Has its own dedicated funding source that will not impact the City's current ability to provide other City services,
- ◆ Has a property tax levy limitation that can act as a mechanism for cost containment,
- ◆ Allows all residents within the regional fire authority's service area to vote on property tax levies, and
- ◆ Avoids the necessity of having an agreement that defines the relationship between the City and District 12 and that determines how assets will be transferred. A regional fire authority is a more permanent organization compared to the current agreement.

To implement the regional fire authority, the City should begin the planning process so a vote on establishing a regional fire authority for the City and District 12 can occur in early 2015 with an operational target date starting no later than January 1, 2016. Once the Marysville/District 12 regional fire authority is established, other jurisdictions can join later. Because there are issues unique to the City and District 12 that should be resolved before other jurisdictions become involved, it might be better to initially keep the planning process focused on only the City and District 12.

Based on discussions with the City, there are concerns about property ownership, asset transfers, and the fund balance and reserves. Either as part of the current interlocal agreement or as part of the regional fire authority planning process, the City and the District will need to resolve issues related to what assets and funds should be transferred to the regional fire authority. As part of those discussions, Section 24 of the interlocal agreement delays the provisions of RCW 35A.14.380 and

35A.14.400 until the agreement is terminated. These provisions generally state that depending on whether the annexation is less than sixty percent of a fire protection district, a district shall pay a city a percentage of the value of district assets equal to the percentage of the value of the annexed area. If an annexation is more than sixty percent of a fire protection district, then the city assumes ownership of all a district's assets and must pay the district its share based on the percentage of the district's remaining share of the assessed value.

Key reasons for not recommending an annexation or a City fire department include the following:

- ◆ An annexation does not guarantee representation for City residents and require a transparent planning process, and eliminates the City's required participation on fire and EMS service issues, and
- ◆ A City fire department might negatively impact the good will and cooperation that the City and District 12 have established as MFD's Board of Directors, places the funding burden on the City, will require current and maybe future support beyond the current funding levels, and will compete for funding with other City services.

If the City determines that a regional fire authority is not appropriate, suggestions for improving the current agreement were identified in the previous chapter as follows. Even if the regional fire authority moves forward, the first four items should be resolved in the near future as they can affect the 2015 budget.

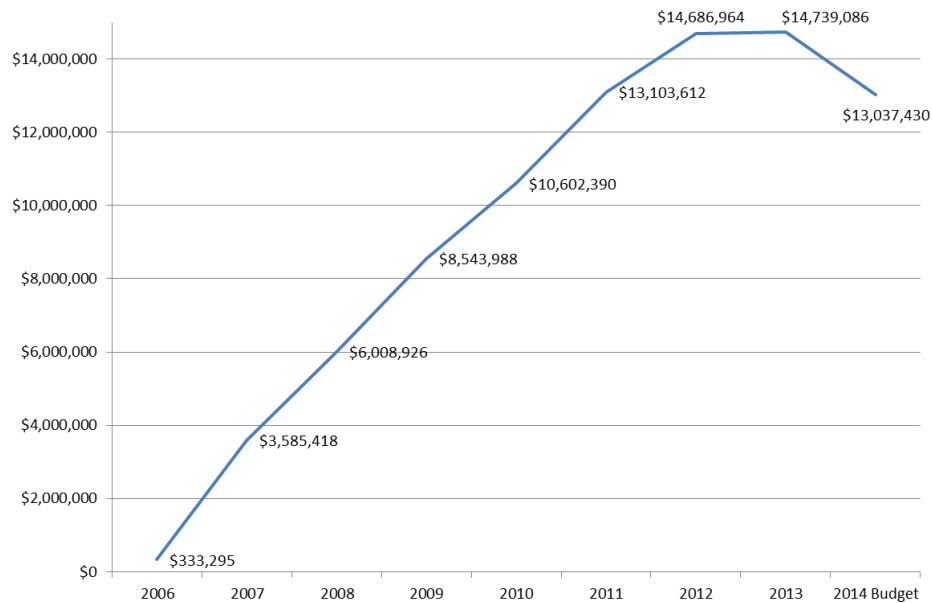
- ◆ Adopt level of service standards. RCW 35.103.030 requires the City to have service delivery objectives and establish level of service standards. Such standards are also required for fire districts (RCW 52.33.030). As part of this effort, the MFD should also be required to identify the incidents by jurisdiction, especially if there are different standards for District 12 because it is a more rural area.
- ◆ Consider having District 12 use its fund balance to pay for the Tulalip refunds and alter the funding formula so the City does not pay an increased amount just because District 12 raises its rate to compensate for the lost assessed valuation.
- ◆ Change the funding formula so each jurisdiction's contribution is based more on a share of the costs rather than only District 12's levy rate and each jurisdiction's assessed valuation.
- ◆ Establish financial policies especially for the uses and amount of fund balance and reserves above MFD's minimum requirement. Such policies should address what a maximum amount of fund balance should be and what any excess fund balances can be used for such as emergencies, one-time or capital expenditures, or a reduction and stabilization of property tax rates.
- ◆ Define how assets will be divided between the two jurisdictions if the agreement is terminated in addition to the appropriate RCWs related to city annexations of fire district areas as previously mentioned.

APPENDIX A: FUND BALANCE HISTORICAL OVERVIEW

Fund Balance Historical Overview

In 2014 the MFD started the year with an estimated \$14.7 million in fund balance for its current expense fund, and as part of the 2014 adopted budget, MFD is using about \$1.6 million of the fund balance to offset the gap between its revenues and expenditures. The fund balance has been increasing every year prior to 2014 because of periodic increases in the District 12 levy rates and increases in the EMS levy rates. Between 2007 and 2011, MFD averaged an increase in fund balance of \$2.5 million per year. Exhibit A-1 shows the cumulative fund balance totals since 2006 based on the audited financial statements and recent budgets, while Exhibit A-2 shows the District 12 operating levy rates during the same period.

**Exhibit A-1
2006-2014 Cumulative Fund Balance Trends**



**Exhibit A-2
District 12's 2006-2014 Operating Levy Rates**

