



BOARD OF SUPERVISORS
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Department Name: CEO
Department No.: 012
For Agenda Of: March 13, 2012
Placement: Departmental
Estimated Tme: 45 minutes
Continued Item: No
If Yes, date from:
Vote Required: Majority

TO: Board of Supervisors

FROM: Department Chandra L. Wallar, County Executive Officer, 568-3400
Director(s)
Contact Info: Dennis Bozanich, Assistant to the CEO, 568-3400

SUBJECT: Funding of Santa Barbara County Fire Protection District ongoing Operations

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: N/A

Recommended Actions:

That the Board of Supervisors:

- Receive the report from the CEO on possible funding sources for ongoing Fire Department Operations, and
- Defer funding decisions and direct ongoing funding of Fire Department Operations to be discussed as part of the FY2012/13 CEO proposed budget

Summary Text:

Department Operational Needs

As stated in the Citygate report and public testimony, there is no national or state standard for the level of fire services provided by a community. Communities make the decision to provide the level of fire services they can afford.

The Citygate Fire Service Deployment and Departmental Performance Audit, presented on February 14, 2012 to the Board of Supervisors, identified challenges for the fire department including:

1. Annual costs of maintaining the current level of service are rising faster than the revenue available. The gap between revenue and expenses to maintain the current level of service is likely to grow to approximately \$4.0 million per year and to a cumulative gap of \$13.9 million over the next four budget cycles.
2. A continued effort to reduce costs will be essential while evaluating and implementing new revenue options.

3. The list of capital needs (e.g. station renovations or expansion, equipment, etc.) is growing with virtually zero identified funding sources.

With this agenda item, the Board will be provided with information about existing Fire District revenues and increased detail on the additional revenue options presented in the Citygate report.

Background:

Department Operational Needs

As stated in the Citygate report and public testimony, there is no national or state standard for the level of fire services provided by a community. There is a requirement that any fire services must be provided with attention to the safety of firefighters. Santa Barbara County has emergency and fire risks attributed to geography, distance, age of housing stock, transportation of hazardous materials and widely dispersed population centers. In Citygate's examination of the Fire District, current operations are able to provide enough coverage to the majority of the unincorporated areas with area-appropriate response times. The report does identify some need for additional fire fighters in three person engine companies that protect high population densities or are located far from other units as funding allows. The efforts to maintain the current service levels delivered may be limited by an inadequately staffed headquarters, particularly safety and training. The most significant risk is that without implementing some or all of the revenue options laid out in this staff report, salary and benefit expenditure growth and other increased costs of doing business will cause a reduction in available staffing and Fire District services.

Funding History and Future Needs

Beginning in 2009 the County Executive Office's Fiscal Outlook report has identified and projected a funding gap for the Fire Department to maintain existing service levels. The size of the projected gap has increased over these years as updated information has become available regarding salary, benefit, and revenue increases.

Over the past ten years, the Fire Department budget has grown by approximately \$20 million or 40%. This is largely a reflection of increased property tax and Prop 172 revenues to the Fire District.

In July 2004, the Board adopted a resolution that changed the Fire District's share of Proposition 172 (Prop 172 revenues). The phased-in percentage of Prop 172 funds grew from 2.25% to 9.75% over a five year period. The intent of the Board was to help the Fire District to fund five post positions (approximately 18 total firefighter positions) and various fire facility related capital projects. In FY2011/12 Prop 172 funding is anticipated to be approximately \$2.6M.

In July 2011, the County and Fire District approved a tax transfer agreement for properties in the Los Padres National Forest that were annexed into the Fire District. This tax transfer agreement will provide approximately \$312,000 in additional annual revenue beginning this coming fiscal year to the Fire District.

During Fiscal Year 2011-12, property taxes provide the Fire District with 52% of the allocated revenue, contracts for provision of fire services provide 17% of budgeted revenue and the County General Fund provides 9%. Since FY 2006-07, staff has been reduced by 6.5% while expenditures have increased 18% over the same period. Pension and benefit cost increases are the most significant of the increases.

The existing Fire District revenue sources are not projected to increase fast enough to keep up with the rising cost of providing the current level of fire services. The Citygate report identifies the need for an additional \$1.8 million during FY 2012-13 and then approximately \$4.0 million per year during each of the next three budget years. This will result in an additional cumulative funding need of \$13.9 million by FY 2015-16 to provide the same level of fire service delivered today. It is important to note that the Citygate report documented that the Fire District has additional capital improvement requests estimated at \$89 million which would require as much as \$6.0 million per year in debt service payments.

Over the next five years, it is anticipated that Fire District property taxes will increase by approximately \$1 million or 3-3.5% per year and Prop 172 revenue will increase by \$100,000 or 3% per year.

Cost Reduction Strategies

Salary and Benefit Concessions

Fire Fighters Local 2046 members are scheduled to receive salary increases of:

- 2.5% in June 2012,
- 2.5% in September 2012,
- 3% in March 2013,
- 3% in September 2013, and
- 3% in February 2014.

These increases were originally, part of the 2009-2013 Memorandum of Understanding (MOU). These five increases were scheduled to be implemented between December 27, 2010 and September 3, 2012 but were deferred as part of a cost saving discussions. There has been a number of salary increase delays negotiated since then. Further deferrals or elimination of scheduled increases would result in savings to the Fire Department.

Retirement Alternatives

All bargaining groups for general pension members have adopted a new retirement tier for County employees hired on or after June 25, 2012. The Retirement Program Alternatives Advisory Commission recommended the Board consider one of the following alternative formulas for safety employees coupled with a defined contribution component:

- Alternative 1: 2% @50 for all safety bargaining groups; or
- Alternative 2: 2% @ 50 for Probation and 3% @ 55 for Fire and Sheriff

Alternative 2 would not change the existing defined benefit for Fire or Sheriff personnel.

In addition, the Commission recommended the following:

- Pension benefit to be based on the highest final three years of salary,
- Elimination of half-rate arrangements,
- Elimination of Employer Offset,
- Reduction of the post-retirement COLA from 3% to 2%,
- Elimination of the ability to convert vacation hours into pay, and
- Elimination of lump sum performance-based payments.

Revenue Enhancement Strategies

The Citygate report identifies a variety of additional revenue sources for the Board's consideration. The report also states that it is "probable that any combination of the possible revenue sources will be inadequate to fully implement all of the recommendations in this report." It is important to note that without significant future cost reductions, these additional revenue sources combined will not even cover the expected increased cost of delivering the current level of service. Options that have been or could be considered are:

- Enacting an oil production tax (Board declined on February 14, 2012),
- Increasing the department's General Fund allocation each year,
- Shifting the tax rate percentage dedicated, from the General Fund to the Fire District,
- Increasing the Transient Occupancy Tax rate and allocating all or a portion of the increase to the Fire District,
- Proposing a parcel tax, and/or
- Increasing fees for fire-related services.

This staff report will detail the possible annual projections from each revenue option, the growth potential, potential impacts to other County services and the process required to enact the option.

General Fund Allocation

Current General Fund allocations account for 9% (\$4.9M) of the Fire District's budget (includes \$1 million for aviation services). It is anticipated that the FY2012-13 will include a General Fund increase of \$1 million raising the percentage to 10.4% of the department's budget. Over the next five years the Board would need to increase the General Fund allocation to the Fire District by 82% just to continue to deliver the same level of service. The General Fund allocation would need to increase 190% to meet the expected increased cost of the current service level and to fund the first tier of Citygate recommended services over the next four budget cycles.

Property Tax Transfer

Since the establishment of the Santa Barbara County Fire Protection District, well before Proposition 13 was enacted, the share of the property tax revenue allocated to the District has been lower than other adjacent southern California fire districts and lower than all fire districts in Santa Barbara County. Development in parts of unincorporated Santa Barbara County has driven the need for suburban and small amounts of urban levels of fire service, especially with homes abutting wildland fire-prone areas. During this development there was not an accompanying increase to the Fire District tax rate. Given a historically low tax rate combined with many areas of the County having fewer taxable parcel densities, the overall Fire District property tax revenues cannot keep up with current and future fire service demands.

The Citygate report identifies Ventura County as the closest comparable fire district for Santa Barbara County though Santa Barbara has fewer parcels. The chart below demonstrates that a difference exists between the countywide average percentages of property tax allocated to the Santa Barbara and Ventura fire districts. The difference closes when you adjust for the fact that the Santa Barbara County Fire Protection District currently receives \$2.6 million of public safety sales tax revenue (Proposition 172) and \$4.9 million in County General Fund. Discretionary General Fund and Proposition 172

funding in addition to the property tax designated to the Fire District, results in a comparable percentage of property tax revenues of 15.08% for the Santa Barbara County Fire Protection District.

In fiscal year 2011-12, Ventura County Fire Protection District is budgeted to receive 15.07% for their proportional share of the property tax and the County contributes a discretionary \$2.0 million of their General Fund to the Ventura County Fire District. The combination of the property tax and general fund results in a comparable rate of 15.36%.

Comparison of Property Tax Rates Designated for FY2011-12	Countywide Average	Comparable Rate*
Santa Barbara County Fire Protection District	11.97%	15.08%
Ventura County Fire Protection District	15.07%	15.36%
* Includes Prop.172 and/or General Fund		

The Board of Supervisors may be able to approve an ongoing property tax transfer from the General Fund to the Fire District. This would not change the amount of property taxes paid by property owners. The transfer would internally reallocate the ratio of property tax designated to the County General Fund and the Fire District. A property tax agreement between Santa Barbara County and the Fire District would not change the funding to cities, schools or other special districts. Each 1.0% increase in the percentage of property tax designated to the Fire District would increase their revenue by approximately \$2.4 million and decrease the General Fund by the same amount.

Revenue and Taxation Code Section 99.02 (e) states that prior to approval or adoption of a transfer of property tax revenues, pursuant to this section, each agency shall hold a public hearing to consider the effect of the proposed transfer on fees, charges, assessments, taxes or other revenues.

Revenue and Taxation Code Section 99.02 (f) states that no agency shall transfer property tax revenues, pursuant to this section, unless each of the following conditions exists:

- Transferring agency determines that revenues are available for this purpose,
- Transfer will not result in any increase in the ratio between the amount of revenues of the transferring agency that are generated by regulatory licenses, use charges, user fees or assessments and the amount of revenues used by the transferring agency used to provide existing services,
- Transfer will not impair the ability of the transferring agency to provide existing services, and
- Transfer will not result in a reduction of property tax revenues to schools.

Before approving the transfer between the County and the Fire District, your Board must determine that each of the preceding conditions exists.

Transient Occupancy Tax

Voters approved a Transient Occupancy Tax (TOT) of 10% that covers all hotels and motels in the unincorporated portions of the county. In FY 2012-2013, the portion of TOT for rooms in Goleta will no longer be provided to the County. The expiration of the Revenue Neutrality Agreement will reduce the TOT proceeds by an estimated \$1.3 million annually. This fiscal year, TOT is budgeted to bring in a total of \$7.0 million.

Increasing TOT from 10% to 12% (equal to City of Santa Barbara and proposed increases in other cities) is estimated to bring in an additional \$1.1 million annually. Voter approval would be required to increase the County TOT. A general increase would require 4/5 vote by the Board to put on the ballot and majority voter approval. To designate an increase in TOT to the Fire District would require a 3/5 vote by the Board to put on the ballot and a 66.7% vote of the public. Given the sensitivity of TOT funding to recessionary economic conditions it may be an unreliable source for funding ongoing fire services.

Parcel Tax

Voter approval would be required to initiate a parcel tax. A general parcel tax would require 4/5 vote by the Board to put on the ballot and majority voter approval. To designate a parcel tax to the Fire District would require a 3/5 vote by the Board to put on the ballot and a 66.7% vote of the public.

In 2011, successful parcel tax initiatives for fire protection districts were held in El Dorado (\$85 per parcel/year), Calaveras County (\$78.50 per parcel/year) and Tuolumne County (\$80 per parcel/year). In the same year, parcel tax measures for fire districts failed in San Joaquin, Riverside and Siskiyou Counties.

The Citygate report estimates that \$1.5 to 2.5 million might be generated annually if a parcel tax was approved by the voters in the unincorporated areas.

Fire-service Fees

Fire service related fees (e.g. inspections and certifications) are monitored and updated on a regular basis. All fees must recover the cost of providing that service. Currently the department revenues from fees are budgeted to be \$3.1 million. Use of these fees for anything other than the delivery of inspections or permits would be considered a tax requiring voter approval under Proposition 218.

Proposition 172

Currently, the Fire District receives 9.75% of the County's Prop 172 revenue, Sheriff receives 46.29%, Probation receives 22.46%, District Attorney receives 12.38% and Public Defender receives 9.01%. An additional \$4.2 million dollars could be allocated to the Fire District by increasing their share of Prop 172 funds to 25%. This would reduce revenue in the other departments currently receiving Prop 172 funds by a like amount.

Proposed Solution for Funding Ongoing Operations

Given the total projected revenue-expenditure gap over the next four years, a balanced solution could consider funding half of the gap with salary and benefit concessions and half with additional General Fund. Any salary and benefit concessions would need to be ongoing savings, not deferrals. Each 1% in salary concessions would result in approximately \$275 thousand in savings. In this solution if savings or revenues fall short, service level reductions would likely result.

Below is an example, using the projected revenue and expenditures for the next four years to illustrate the proposed solution:

<i>(Dollars in millions)</i>				
	FY 12/13	FY 13/14	FY 14/15	FY 15/16
Anticipated Revenue	\$ 54.6	\$ 55.9	\$ 57.5	\$ 59.1
Anticipated Expenditures *	\$ 56.4	\$ 60.1	\$ 61.5	\$ 63.0
Operational Current Yr. Gap	\$ (1.8)	\$ (4.2)	\$ (4.0)	\$ (3.9)
Cumulative Gap before Solution	\$ (1.8)	\$ (6.0)	\$ (10.0)	\$ (13.9)
Solution (a)	\$ 1.8	\$ 4.2	\$ 4.2	\$ 4.2
Cumulative Gap after Solution	\$ 0.0	\$ -	\$ 0.2	\$ 0.5

* - Includes an average of \$415k per year in capital expenditures.

<u>(a) Composition of Solution:</u>	<u>Incremental Change</u>				<u>Cumulative</u>
New Concessions	\$ 0.9	\$ 1.2	\$ -	\$ -	\$ 2.1
New General Fund Contribution	\$ 0.9	\$ 1.2	\$ -	\$ -	\$ 2.1
Annual Incremental Solution	\$ 1.8	\$ 2.4	\$ -	\$ -	\$ 4.2
Cumulative Solution	\$ 1.8	\$ 4.2	\$ 4.2	\$ 4.2	

When economic conditions improve, the budget is structurally balanced, and all countywide department existing needs are met, it may be valuable for the Board to consider dedicating a percentage of any increased General Fund resources to fund improvements to the current levels of service identified in the Citygate report.

Fiscal and Facilities Impacts:

No direct fiscal impacts associated with recommended actions.

Attachments:

A – Presentation

Authored by:

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cc:

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