

Five Year Financial Forecast for the Fire Department/District FY 2005-2010

This five year financial forecast focuses on changes in Revenue and Expenditure levels for Fire Operations. It does not include Office of Emergency Services or Hazardous Materials Unit Programs.

Executive Summary

The financial forecast for the next five years shows that the Fire Department's health is relatively stable and positive but an inherent structural funding deficit remains. Over the next four years, the Department will be able to begin addressing some of the long-standing capital needs. However, in order to ensure minimal General Fund support and a positive fund balance each year, the Department must still forego a number of critical capital projects. Current estimates reflect a \$9M shortfall in funds available to improve Fire facilities during this five year period. Given the current state of Fire facilities, the postponement of capital project improvements has long lasting and detrimental consequences to field operations and to the long-term budget. General Fund support to maintain current service levels ranges from a low of \$2.3M to a high of \$2.6M.

Background and Introduction

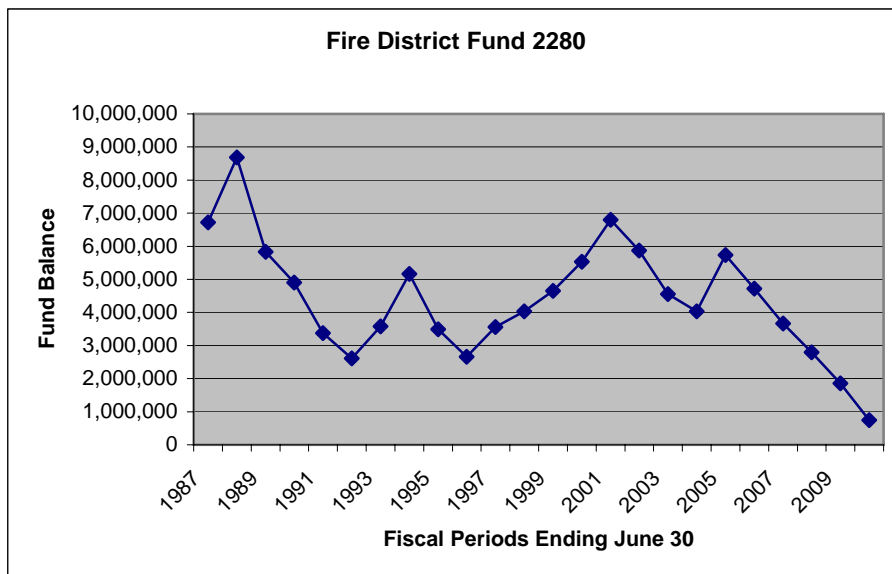
The Santa Barbara County Fire Department, established in 1926, fulfills its mission of serving and safeguarding the community from the impacts of fires, medical emergencies, environmental emergencies and natural disasters through education, code enforcement, planning and prevention, rescue, emergency response and disaster recovery. It does this through its three divisions of Administration and Support Services, Code Regulation and Planning and Emergency Operations with a current total of 250 positions. The Department strives to provide a wide array of high quality public safety services within existing fiscal constraints. In addition to the standard firefighting emergency response services, the Department focuses a large level of resources on wildland firefighting due to the geography and urban interfaces of Santa Barbara County. Other specialized programs include paramedic services, ambulance transport services, helicopter operations, reserve firefighter services, fuels/fire crew services, vegetation management, hazardous materials response capabilities, water rescue, urban search and rescue, airport firefighting services, federal excess property program, fire code development, monitoring and enforcement, land use planning, public information and education services. Many of the Department's employees function in a multitude of programmatic areas. All of these programs could operate at a higher level of service given a greater allocation of dollars. However, the Department has historically weighed the costs versus benefits of each successive higher level of service for each program and has balanced that with the desire to provide as many high quality services to the community as possible given the existing funding constraints.

While considered a County department, Fire is also a dependent special district. The Fire District is primarily a funding mechanism, providing the majority of the Department's funding (60% in FY 05-06) via property taxes derived from parcels within the Fire District's jurisdiction in the unincorporated areas of the County as well as the Cities of Buellton and Goleta. The share of property tax revenues received by the Fire District is a function of its relative share of the

Five Year Financial Forecast for the Fire Department/District FY 2005-2010

property taxes levied prior to Proposition 13 in 1978. The tax rate for Fire prior to Proposition 13 was relatively low and thus has contributed to an inherent structural funding deficit. (The on-going Fire management study being conducted by the County addresses this in further detail.) However, the Department does also receive General Fund support of approximately 7% to cover the costs of countywide functions related to the Office of Emergency Services (OES) and Hazardous Materials Services (HazMat), as well as covering a portion of Fire Operations. ***For the purpose of accurately forecasting the financial health of Fire Operations, the General Fund supported programs of OES and Hazmat have been excluded from this forecast.*** Therefore, the General Fund support predicted in the forecast is for the maintenance of exclusive Fire operations (i.e. it makes up the funding shortfall that is necessary to maintain current service levels).

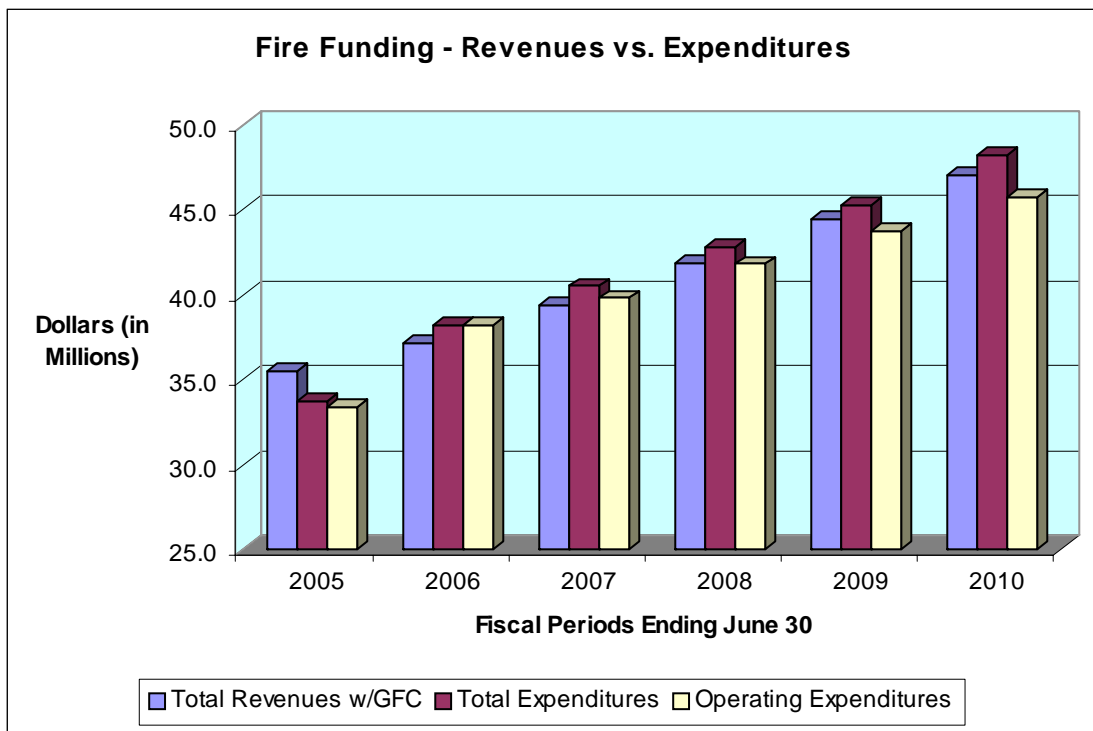
Before examining the financial future of the Department, it is first worth understanding where the Department has been. Over the past two decades, the Fire District fund balance has fluctuated from a high in 1988 of nearly \$9M to a low of \$2.6M in 1992 and 1996 with the overall trend showing a decline in fund balance. As illustrated in the chart below, the fund balance of the District is cyclical in nature. This is due to the volatility in expenses, primarily salaries and benefits (i.e. negotiated salary increases, retirement cost increases, workers compensation cost increases etc.), the impacts of economic fluctuations on property tax revenues, property tax assessment appeals, capital projects and fluidity in other departmental revenues (i.e. the State Contract, incident revenues etc.). Fund balances would have been lower throughout this period had several capital projects and major equipment purchases not been deferred and had the General Fund not contributed extra dollars during the lean years. The Department has historically deferred capital improvements in order to allocate sufficient dollars to on-going operations to sustain service levels. However, the Department can no longer afford to continue deferring capital improvements and is projecting to use just under \$6M over the next five years on facility improvements and apparatus acquisitions. This still leaves approximately \$9M in unfunded capital projects over the five year period.



Five Year Financial Forecast for the Fire Department/District FY 2005-2010

Overall Five Year Forecast Projections

As reflected by the chart below, revenues are predicted to increase 32% over the next five years, an average of 6.5% per year. Even with this healthy revenue growth, General Fund contributions will continue to be needed in order to sustain current operational service levels. In addition, capital needs, although beginning to be addressed during the five year time frame will continue to exceed the funding availability. The total funding picture for Fire continues to be affected by the inherent structural funding deficits created when Proposition 13 was approved in 1978.



Dollars (in millions)	2005	2006	2007	2008	2009	2010
Total Revenues w/GFC	35.5	37.2	39.4	41.9	44.4	47.0
Total Expenditures	33.7	38.2	40.5	42.8	45.3	48.2
Operating Expenditures	33.4	38.2	39.8	41.8	43.7	45.7
Use of Fire District Fund Bal	-	1.0	1.1	0.9	1.0	1.1
General Fund Contribution	2.1	2.4	2.3	2.4	2.5	2.6

Five Year Financial Forecast for the Fire Department/District FY 2005-2010

Five Year Forecast: Revenue Projections & Assumptions

The forecast uses several revenue assumptions that have a significant impact on the financial position of the Department. First, the forecast includes property tax revenue estimates for FY 05-06 based on the allocation information provided recently by the Auditor-Controller. This results in an overall 8% property tax rate of growth from FY 04-05 to FY 05-06. In addition, the forecast assumes the current secured property tax growth rate is 7.5% in FY 06-07 and 6.5% each year onward. This is in line with the historic average increase in assessed values in Santa Barbara County and assumes that the current tax base remains intact (i.e. no annexations of unincorporated areas by the cities).

Second, it assumes no changes to the contract with the California Department of Forestry and Fire Protection (CDF), which provides funding to the County in exchange for fire protection of the State Responsibility Areas located within the County. While the current contract was approved by the Supervisors in June 2005 and specifies an amount to be received each year, the receipt of the actual funding is contingent upon the State's budget and the amount allocated to the CDF. Currently, the forecast assumes CDF revenues of \$5.1M in FY 05-06 then 3% annual increases each year thereafter.

Third, the forecast assumes that reimbursements from the Federal and/or State governments for incidents (emergency responses) will remain at the same average level that has occurred during the past few years. FY 05-06 reflects an estimated \$1.8M for these revenues with increases for the next four years based on projected salary cost increases. These increased salary costs translate into higher billing rates for incidents.

Fourth, the forecast assumes the continuation of revenues received from other entities for fire protection services. This includes \$130K from the City of Buellton for 1/3 of a firefighter/paramedic post position, \$300K from AMR for Fire responding to medical emergencies in specific areas of the County, \$400K from the Chumash for a firefighter/paramedic post position in Santa Ynez, \$770K from Plains Exploration for fire protection services in Gaviota and in the Lompoc Valley.

The forecast does not assume any revenues received from UCSB for fire protection services to the campus and surrounding areas.

The forecast does include on-going General Fund Contributions with projected increases consistent with current budget principles whereby the General Fund Contribution increases based on the General Fund's proportionate share of cost-of-living salary increases. It also includes a one-time contribution from the General Fund of \$262K to be used for equipment and salaries related to the Fuels Crew in FY 05-06.

Finally, the forecast includes an increase in Fire's share of Proposition 172 revenues, escalating by 1.5% in each year starting with FY 05-06 until a 9.75% share is reached in FY 09/10. This

Five Year Financial Forecast for the Fire Department/District FY 2005-2010

results in estimated Proposition 172 revenues increasing from \$1.1M in FY 05-06 to an estimate of \$3.4M in FY 09/10.

Five Year Forecast: Expenditure Projections & Assumptions

Since 85% of the expenditure budget is for salaries and benefits, it is a natural starting point for the discussion on the assumptions built into the expenditure forecast. The forecast uses a cost of living adjustment of 5.7%, 4.5%, 3.9% and 3.4% per year beginning in FY 06-07. This is estimated to cover salary and benefit increases, as well as retirement rate increases in FY 06-07 and 07-08 to offset the existing deficit in the retirement fund. The forecast does not assume any changes to retirement benefits such as “3% at 50” or other alternative configurations. The new Firefighters Local 2046 contract is scheduled to begin in March 06, which could result in different salaries and benefits increases from those assumed in this forecast. Workers’ compensation is escalated at 2% each year.

The forecast does assume additional staffing based on the incremental revenues related to the increased share of Proposition 172 revenues. This includes estimated post position staffing increases at three fire stations to add additional paramedic services, a staff Battalion Chief, a Public Education/Information assistant and three support staff in the Training, Logistics and Finance sections of the Department.

Services and supply expenditures are generally escalated at 2% each year and do not reflect the potential purchase of equipment or training contingent upon the receipt of various grants.

Several assumptions are made regarding capital expenditures. First, the forecast includes the debt payment for the rebuilding of Station 51 in the Lompoc Valley. The General Fund is slated to pay the debt service for this station. Second, the forecast does *not* include the construction of an Emergency Operations Center nor the construction of new stations in Orcutt and Goleta. These new stations should be funded via dedicated mitigation impact fees.

Additional capital outlay is included in this forecast for those projects funded with District funds (i.e. no debt service identified). These projects are identified in the County’s Five Year Capital Improvement Program and include the construction of the Operations Complex in Los Alamos, the remodel of Station 11 in Goleta, the expansion of the apparatus bay at Station 23 in Sisquoc, the rebuild of Station 24 in Los Alamos and the purchase of two water tenders, two brush trucks and 1 bulldozer. There is \$2.4M of the Station 24 project that falls outside of the 5-year window. In addition, the Training Facility, remodels and expansions of Station 13 (Hollister Ave.), 14 (Los Carneros) and 21 (Santa Maria Airport), as well as the expansion of Fire Headquarters are *not* included in this five year projection due to the lack of funding available. The total capital funding shortfall for this five year plan is \$9M.