

AGENDA STAFF REPORT



DATE: June 11, 2018

TO: Honorable Mayor and City Council

THRU: Jill R. Ingram, City Manager

FROM: Victoria L. Beatley, Director of Finance/City Treasurer

SUBJECT: **Citizen-Council Fire Services Advisory Ad Hoc Committee Recommendations**

SUMMARY OF REQUEST:

That the City Council discuss the Citizen-Council Fire Services Advisory Ad Hoc Committee recommendation to remain with the OCFA as the fire and emergency medical services provider for the City of Seal Beach and the Committee's recommendation to provide direction to staff regarding funding options for fire and emergency medical services, and public safety costs in general, including formal notification to OCFA that cost reductions are necessary and the need to increase revenues in order to pay for those services. The Committee also found that it is critical for OCFA to minimize program and service enhancements that result in service charge increases in order for the City to continue to sustain ongoing annual JPA contract payments through 2030 in addition to implementing other revenue generation programs, including a potential ballot measure.

BACKGROUND AND ANALYSIS:

The City of Seal Beach has been a member of the Orange County Fire Authority (OCFA) since 1982, well before OCFA's formation as a Joint Powers Authority (JPA) in 1995. OCFA presently consists of the County of Orange and 23 other cities.

The original agreement forming the OCFA was dated February 3, 1995 (Original Agreement). That agreement was amended and superseded in its entirety effective September 23, 1999 (Amended Agreement). A First Amendment was entered into effective July 1, 2010 (First Amendment). A Second Amendment to the Amended Agreement was adopted to be effective November 18, 2013, but was successfully challenged in court by the County of Orange and ruled invalid in a 2016 unpublished appellate court decision, *Orange County Fire Authority v. County of Orange*. A Third Amendment was entered into in 2015 (Third Amendment). Collectively, we refer to the Original Agreement and all its amendments as the JPA Agreement. In addition to the JPA Agreement, the City and OCFA are parties to a separate Fire Services and Emergency Medical

Services Agreement dated July 27, 2000, which controls the services that OCFA provides to the City and the costs the City pays for those services.

There are two types of member cities in OCFA, cash contract cities and structural fire fund cities. Structural fire fund cities are those cities, and the County of Orange, whose property taxes include structural fire funds. As part of the annual property tax allocation process under the Revenue and Taxation Code, the County of Orange transfers those cities' structural fire funds to OCFA to pay their respective shares of fire services. The other cities, whose property taxes do not include structural fire funds, pay for fire services directly out of their General Funds. Cash contract cities pay for fire services annually in quarterly payments based on a formula set out in the First Amendment. Seal Beach is one of 8 cash contract cities, including Buena Park, Placentia, San Clemente, Santa Ana, Stanton, Tustin, and Westminster.

Seal Beach, as a cash contract city, pays for fire services on a quarterly basis out of its General Fund. The annual payments are based on a cost calculation methodology set out in the First Amendment. OCFA calculates the cost of services during its annual budget process for each cash contract city, as the amounts necessary to pay the general administrative expenses, operating expenses and necessary reserves of OCFA to be incurred during the period covered by the budget. The annual costs include a service charge, vehicle replacement costs, and station maintenance costs for both of our fire stations. The service charge is the sum of the prior years' service charge plus cost increases capped at 4.5%. Per the JPA, cash contract cities must also pay for OCFA-required capital improvements to City-owned stations or facilities, irrespective of the cap, though OCFA has never exercised this provision with any of its cash contract cities. A capital improvement is any improvement or repair in excess of \$15,000.

The First Amendment also provides for determination and payment of a Five-Year Shortfall. Beginning with FY 2014-15, and every five years thereafter, OCFA compares actual costs for operational services for the fiscal year with the capped service charge for each cash contract city for that year; the difference is referred to as the Five-Year Shortfall. If the Five-Year Shortfall is less than 7.5% of actual costs, no additional amounts are owed by the City. If the Five-Year Shortfall exceeds 7.5%, the City must pay the portion of the shortfall necessary to reduce the shortfall below 7.5%. If the Five-Year Shortfall is between 7.5% and 15%, the amount must be paid entirely in the following fiscal year. If the Five-Year Shortfall is more than 15%, that amount must be paid in equal amortized installments over the subsequent five-year period. The calculated Five-Year Shortfall amount paid is added to the service charge in subsequent years.

Additionally, pursuant to the First Amendment, each cash contract city must also pay the "2010 Shortfall", which is the difference between the actual OCFA cost of operational services to the respective city for FY 2009-10 and the capped cost of those services. Beginning July 1, 2010, each cash contract city must pay its

2010 Shortfall in equal quarterly payments amortized from July 1, 2010 to June 30, 2020. In that regard, below is a breakdown of contract payments in FY 2017-18:

Contract Base Charge	\$5,019,095.00
Contract – Shortfall	59,479.00
Contract - Facilities Maintenance	13,508.00
Contract - Vehicle Replacement	71,722.00
TOTAL OCFA CONTRACT CHARGE	<u>\$5,163,804.00</u>
PERS Retirement (former SBFD firefighters)	<u>278,604.00</u>
TOTAL FIRE SERVICES COST	<u>\$ 5,442,408.00</u>

Under the current JPA Agreement that expires on June 30, 2030, the City may withdraw from OCFA by giving two-year's advance written notice of withdrawal to OCFA not later than July 1, 2018, in order to withdraw as of June 30, 2020.

The City Council formed the Fire Services Subcommittee comprised of Mayor Massa-Lavitt and Council Member Deaton. The Subcommittee met with staff on August 1, 2017 and the outcome of their discussion was Mayor Massa-Lavitt's request that the City Council form a Citizen-Council Fire Services Advisory Ad Hoc Committee (Committee). Therefore, at the August 14, 2017 City Council meeting, Mayor Massa-Lavitt directed staff to prepare a staff report recommending the establishment of a Citizen-Council Fire Services Advisory Ad Hoc Committee to analyze the options for funding current and/or alternative fire and emergency services for the City of Seal Beach.

On September 11, 2017, the City Council adopted Resolution 6763, establishing the Seal Beach Citizen-Council Fire Services Advisory Ad Hoc Committee (Committee). The Committee is comprised of citizens representing all five (5) Council Districts with knowledge, education or experience in the delivery of fire or emergency medical services. The City Council appointed one (1) resident from each District (Attachment A). The Fire Services Subcommittee (Council members Massa-Lavitt and Deaton) also served as members of the Committee. The purpose and goal of the Committee was to review, analyze and recommend funding options for the current and/or alternative fire and emergency services. The City Manager, Finance Director Vikki Beatley, and contract project manager Michele Hernandez served as non-voting staff liaisons to support the Committee's efforts.

Analyses of the deployment of contract fire and emergency medical services were conducted and presented to the Committee by the Long Beach Fire Department, Huntington Beach Fire Department, and OCFA to identify preliminary cost comparisons for each service provider. At its final Committee meeting on May 21, 2018, the City Attorney discussed a legal analysis regarding the JPA Agreement, Finance Director Vikki Beatley outlined finance options to

help mitigate the continued annual cost increases, and Project Manager Michele Hernandez presented a final cost comparison of the Long Beach Fire Department, Huntington Beach Fire Department, OCFA, and the City operating its own fire department (See attachment - Final Comparison). Following completion of presentations and Committee discussion, Committee member Kalmick made a motion to recommend that the City remain with OCFA due to the lower annual cost and that the City Council look at all financial options to fund ongoing and escalating public safety costs. The motion carried 6-1 with Committee member Maronta voting no.

ENVIRONMENTAL IMPACT:

There is no environmental impact related to this item.

LEGAL ANALYSIS:

The City Attorney has reviewed the OCFA JPA Agreement and was present at the final Ad Hoc Committee meeting to present a legal analysis of the OCFA JPA agreement.

FINANCIAL IMPACT:

The current cost of services billed by OCFA is approximately \$5.2 million, which is fully supported through the General Fund. The future increases in the contract costs for continuing fire services with OCFA is capped at 4.5% annually. In addition to the contract costs, there are additional potential costs for capital expenditures.

RECOMMENDATION:

That the City Council discuss the Citizen-Council Fire Services Advisory Ad Hoc Committee recommendations and provide direction to staff regarding whether or not to remain with the OCFA for the City's fire and emergency medical services and direction to implement funding options for fire and emergency medical services, and public safety costs in general. These include, but are not limited to, formal notification to OCFA that cost reductions are necessary and a potential increase in fees and/or taxes so the City can continue to provide the necessary public safety our community requires.

SUBMITTED BY:

[Victoria L. Beatley](#)

Victoria L. Beatley, Director of
Finance/City Treasurer

NOTED AND APPROVED:

[Jill R. Ingram](#)

Jill R. Ingram, City Manager

Prepared by:

ATTACHMENTS:

- A. Committee Member list
- B. Final Comparison Presentation