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# Feasibility Analysis for Providing Multi-City Fire Services Under Joint Powers Authority Jurisdiction

PERFORMED BY CITYGATE ASSOCIATES, LLC

## Cities of Fullerton and Brea, CA

January 9, 2017



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## SECTION 1—EXECUTIVE SUMMARY

### 1.1 INTRODUCTION

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The Cities of Brea and Fullerton (Cities) retained Citygate Associates, LLC (Citygate) to perform a Feasibility Analysis for Providing Multi-City Fire Services Under Joint Powers Authority (JPA) Jurisdiction. The Cities are currently sharing Fire Department Management of their fire services under a contractual arrangement.

### 1.2 GOALS AND OBJECTIVES FOR MERGED SERVICES

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Government agencies have sought cost control and efficiency of services long before the last national recession. The Joint Powers Authority law in California is decades old, as the Cities know well given their lengthy service histories. Even with fire departments that are solidly operating and fiscally sound, determining the most cost-effective and service efficient size can be difficult, and should be periodically reviewed. In general, very small fire departments or JPAs have fragile abilities to provide redundant, reliable services on small revenue bases. Safe minimum levels of operating personnel, management overhead, and technology expenses are fixed, and thus can serve a larger customer demand at the same cost. At the other extreme, there are units of government that are too large, inflexibly bound by layers of personnel, policy, and political decision makers that limit their ability to quickly adapt to changing times.

To determine an agency's ideal size, appropriate staffing of divisions and functions, and the most effective use of service providers, a high-level agency review should first be performed. Such a review assesses the scope of an agency's services and requisite management and staffing configuration, technology systems and services, and facility size.

Most individual agencies, if they are healthy, typically have the needed number of line personnel and, since those positions are typically 80-90% of an agency's budget, a merger that cannot reduce line staff does not reduce costs immediately. This is even true when agencies do not typically contain overlapping fire stations that can be closed due to a merger. Merged agencies may be able to gain cost control and future efficiencies in management team and logistical support costs, but these modest changes do not always drive changing local control into a larger partnership.

The Cities investigated shared fire services and began with a shared fire headquarters team under a contract structure in May 2011. Employment of management and line staff stayed separate to the city that initially hired the staff. While this now long-term operation has been successful, it has meant the fire management team needed to supervise employees and handle finance under two different city systems. The governance of the joint fire headquarters team was simple as the two City Managers, jointly and, where needed, separately, managed fire services as they did



when the departments were separate. There is an additional fire management and City Hall support services burden to this configuration with separate employers managing differing personnel and compensation structures. The shared fire management partnership was found successful by the Cities, so to further increase efficiency and reduce the complexity of having differing employment structures, the next step is to form a single fire department system as allowed under California's JPA law.

The cost assumptions used by Citygate in this study assume that the Cities, at present, have fire crews and stations that do not overlap, and thus no fire stations would be closed in a full JPA merger to create cost savings from that alone. This study discusses the strengths and opportunities that can be found with a combined operation over two separate operations under a single Fire Chief, such as:

- ◆ Single personnel system and labor agreements
- ◆ Single budget, payroll, and logistical services
- ◆ A fire headquarters building with adequate space for offices, small group training, and meetings (in the long-term, not at the moment of a JPA merger)
- ◆ Increased ability to recruit, train properly, and retain qualified firefighters with an agency large enough to provide a more varied career ladder
- ◆ Succession planning and redundant staff for critically needed, specialized positions
- ◆ Costs of operation spread over a larger base where economic uncertainty can be reduced with a variety of agencies and revenue sources
- ◆ Assurance for the communities that a critical personnel, technology, or other loss will not unreasonably disrupt quality operations for such an essential service
- ◆ The ability to purchase and maintain fire apparatus
- ◆ The ability to repair and, if needed, replace fire stations
- ◆ The details of merging and then governing the fire department employees into a Joint Powers Authority structure.

Given this overview, an on-going question to be answered by the leaders of both Cities is, "If fire department operations continue with shared fire management, can they realistically meet all of the operational and fiscal needs listed, knowing that even if the costs of duplication are small, there is still duplication and lack of redundant depth in areas that affect or slow the efficiency of the joint fire headquarters team?" In addition, "Can each City fund its desired fire service needs, and recruit and retain employees in a competitive market if they were to revert to separate fire departments?"



If the answer to these questions is “no” or “unknown,” Citygate suggests that conducting extensive due diligence to determine JPA merger feasibility is appropriate for the Cities. If establishing a Brea-Fullerton Fire Department JPA proves feasible, it is appropriate to consider if similar agencies would choose to join for even greater economies of scale. However, Citygate points out that the headquarters staffing assumptions in this economic analysis do not include the administrative and incident command supervision needs of adding even one more agency. At a minimum, adding another agency means adding Battalion Chiefs for incident command officer coverage in the added jurisdiction.

Increases in the JPA fire agency membership could produce further cost savings and increased levels of productivity and efficiencies over time. Fire regionalization, whether through cooperative agreements or Joint Powers Authority structure, continues to demonstrate operational efficiencies and synergies that ultimately produce economic advantages.

### **1.3 CAPSTONE OPINION AND SPECIFIC FINDINGS AND RECOMMENDATIONS**

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Citygate strongly endorses that the Cities continue the on-going JPA merger implementation work. Given our research during this project, and experience with fire agency mergers, we find the slight cost increases projected in Citygate’s cost model to be within “model variance” of costs at this point. The economics and benefits of joint sharing are positive enough in this study for Citygate to endorse proceeding with the final detailed JPA merger research work to provide the final economics and agreements to each council for consideration. A summary of the results of this study’s cost of JPA merger projections are presented below. The current command staff cost share for the Battalion Chiefs is 41% to Brea and 59% to Fullerton; for the Chief and two Deputy Chiefs, the cost share is 50% to each agency.

The cost allocation per City in the working JPA cost model results in a ratio of 40% to Brea and 60% to Fullerton, which is close to the current fire administration budget cost ratio of both agencies, as seen in the following table.

**(Table 9 from page 37)—Total Expenses Over the Next Five Years After Start-Up (\$ Thousands)**

Projection	Year 2	Year 3	Year 4	Year 5	Year 6
<b>Fullerton</b>					
Fully Separate Departments*	\$20,831	\$21,486	\$21,913	\$22,339	\$22,760
Full JPA - All Personnel	\$20,248	\$20,908	\$21,307	\$21,704	\$22,100
Shared Fire Management (As Is)	\$19,931	\$20,559	\$20,958	\$21,355	\$21,747
<b>Brea</b>					
Fully Separate Departments*	\$13,870	\$14,148	\$14,304	\$14,306	\$14,479
Full JPA - All Personnel	\$13,518	\$13,789	\$13,937	\$13,922	\$14,084
Shared Fire Management (As Is)	\$13,270	\$13,530	\$13,667	\$13,651	\$13,803

\* The fully separated department projections include *stopping* the merged management team and the current joint savings of \$1.5 million divided back to each agency (60% to Fullerton and 40% to Brea) as added cost and then increased by 3% per year.

**(Table 10 from page 37)—Comparison of Total Expenses Over the Next Five Years After Start-Up (\$ Thousands)**

City	Year 2	Year 3	Year 4	Year 5	Year 6
<b>Full JPA vs Separate Departments</b>					
<b>Fullerton</b>					
Dollar Savings	\$583	\$578	\$606	\$635	\$660
Percentage Savings	2.88%	2.76%	2.85%	2.93%	2.98%
<b>Brea</b>					
Dollar Savings	\$352	\$359	\$367	\$385	\$395
Percentage Savings	2.60%	2.60%	2.63%	2.76%	2.80%
<b>Shared Fire Management vs Separate Departments</b>					
<b>Fullerton</b>					
Dollar Savings	\$900	\$927	\$955	\$983	\$1,013
Percentage Savings	4.52%	4.51%	4.56%	4.61%	4.66%
<b>Brea</b>					
Dollar Savings	\$600	\$618	\$637	\$656	\$675
Percentage Savings	4.52%	4.57%	4.66%	4.80%	4.89%

Operating with the current shared fire headquarters team saves the Cities the expense of five costly management positions of approximately \$1.5 million dollars per year. In a full merger JPA, this savings is only partially eroded by the modest cost increase to merge the line fire

station personnel into one common labor agreement. Even with other slight merged operating cost increases, the full JPA implementation still produces savings to each city.

The cost models presented in this report are very detailed estimates, but are still *estimates*. At this point, there are many factors in bargaining the merger of the labor agreements and California Public Employees' Retirement System (CalPERS) contracts that can produce full JPA costs substantially lower than the projections contained in this study. There is also the opportunity for some portion of cost impacts to be covered by increased ambulance revenue under another approach the Cities are considering, once fire personnel and CalPERS contracts are re-negotiated. Any cost projection model has uncertainty as multiple factors are being closely assumed. Stated again, Citygate believes the cost increases for merging are within "model variance" and, as such, implementation efforts provide a considerable opportunity for success and should continue to obtain binding final agreements and refined costs.

As Citygate's cost analysis shows, using a conservative cost model estimate, the merging of all the personnel into a JPA only slightly increases costs at this step of feasibility analysis. Final employee cost decisions could nearly eliminate the slight increase. Separately, the ambulance transport feasibility study shows that if the Cities implement ambulance transportation, their efforts, depending on the staffing model chosen, will realize revenues *in excess* of costs from \$842,490 to \$1,963,326 annually.

Even after a positive experience with a long-term, shared fire headquarters team, an intergovernmental merger takes a series of progressively serious steps until final, binding agreements and benefit providers' contracts are approved by elected officials. During this process of due diligence and final choices planning, the two groups of elected officials are not yet making a binding, irreversible decision.

It is clearly more cost-efficient for headquarters team sizing and operationally smoother for the partners to form a single Fire Department JPA. Separating would cost each partner more money. If the merged JPA is implemented, the on-going savings and cost efficiencies will cover some of the inevitable increases in pension and health care costs. Eventually, pension reform will lower pension rates and then the Cities would enjoy greater cost stability. There are also operational advantages of having a larger work force, such as reduced competition for recruitment, greater management team depth, more opportunities for management team succession planning, and the operation of a joint, city-provided ambulance system with revenues in excess of costs.

Based on our analysis of all the factors in this and the companion ambulance feasibility study, and given our experience of estimated costs at this point, versus the reality of the end result, Citygate *strongly endorses that the Cities continue* the on-going JPA merger implementation work. There are at least four major components to this, each of which will require separate City Council approvals: a merged labor agreement, the merged CalPERS contract with the option to include unfunded liability agreement, a merged financial budget, and a new JPA agreement. As

such, most merger partners accept the risk that if any one of these detailed final agreements cannot be successfully reached, the merger effort will fail. There is simply no shorter way than this to “approve” a merger given that labor agreements drive CalPERS costs, and that CalPERS desires a year to complete its own contract revisions.

Citygate’s specific findings regarding costs and merging are contained sequentially throughout the technical analysis sections of this report. In summary, our findings are:

- ◆ A fully merged department is more cost efficient than managing and bargaining with two separate workforces.
- ◆ Both Cities are funding sufficient fire services and have the fiscal resources and options to make a merged fire department feasible.
- ◆ At the point of employee merger, the costs of the fire stations and apparatus stay the same per City and ownership does not have to be merged until the Cities are ready to do so for the for ease of budget, insurance, and operation administration.
- ◆ Unfunded retirement system and retiree medical insurance expenses will stay the same in a merger and are still the responsibility of each City that accrued them.
- ◆ Over time, the merged fire management team will need modest increases as workload and regulatory requirements continue to increase.
- ◆ Another option for the Cities to consider, either as a JPA or in a continued shared fire management agreement, is providing ambulance service directly or applying ambulance revenues in excess of transport costs to their overall on-going fire service costs.
  - Fullerton has several feasible options to restructure existing fire unit coverage to assist with one method of directly providing ambulance service.

Our recommendations are:

- A. Continue with the due diligence steps identified in this study to reach final cost and employee bargaining unit changes due to a JPA merger.
- B. Pursue the steps to set up a Joint Powers Authority structure for operations and employment.
- C. Make the policy decisions as to pursuing the provision of ambulance services and if so, under which service delivery method and cost model.

## 1.4 NEXT STEPS

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During the final pre-merger work period in which personnel and JPA agreements are finalized, the cost for which the Cities are at risk is the staff time and specialist costs that are needed to obtain contractual agreements, such as legal or human resources. Based on this and the JPA merger elements identified in Section 6 of this report, Citygate recommends the following short-term steps:

1. Each City Council should choose whether to proceed with further due diligence regarding a fully merged JPA.
2. If the Cities choose to proceed, the Councils should appoint a JPA implementation manager and steering committee to:
  - a. Conduct “meet and confer” with the bargaining groups and reach agreement on a merged Memorandum of Understanding (MOU), which will *only* be implemented if the fully merged JPA is legally stood-up.
  - b. Give formal notice to CalPERS for a fresh-start JPA employer CalPERS contract, and request negotiation regarding the handling, over time, of the unfunded liabilities separate to the agencies that incurred them.
  - c. During the one-year CalPERS notice period, expend the effort on a fully merged JPA agreement meeting legal, finance, and human resource needs.

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## SECTION 2—PROJECT PURPOSE AND BACKGROUND

### 2.1 STUDY PURPOSE

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In May 2011, the Cities, under a contractual arrangement, implemented a joint fire headquarters team to share the administration of both Fire Departments. In 2011, Brea was budgeted for the following headquarters fire suppression staff positions, but had a vacant Fire Chief position:

- ◆ 1 Fire Chief (vacant)
- ◆ 1 Operations Division Chief
- ◆ 1 Division Chief Fire Marshal
- ◆ 1 Training Captain
- ◆ 3 Shift Command Battalion Chiefs

Fullerton was budgeted for the following headquarters staff positions including a Fire Chief:

- ◆ 1 Fire Chief
- ◆ 1 Operations Division Chief
- ◆ 1 Administration Division Chief and Fire Marshal
- ◆ 1 Training Battalion Chief
- ◆ 3 Shift Command Battalion Chiefs

At the *beginning* of the shared fire headquarters team contract, there were a total of eight positions being shared. This allowed for:

- ◆ 1 Fire Chief
- ◆ 1 Division Chief of Operations
- ◆ 3 Shift Battalion Chiefs for 24/7/365 incident command and fire station supervision
- ◆ 1 Division Chief Administration / Fire Marshal for fire prevention and fire code enforcement duties
- ◆ 1 Training Officer at the Battalion Chief rank
- ◆ 1 Battalion Chief for support services

These eight management positions were supported by office support professional positions that had been assigned to each City's Fire Department. Other specialty and/or contract positions for



areas, such as fire inspection and paramedic program oversight, were left as is under the city that employed them. The line fire station staffing was not merged, but was managed by the single Fire Chief and headquarters team.

By 2015, the headquarters team included eight chief officers, a subset of a total of 18 full- and part-time or contract personnel managing or supporting all headquarters programs, and 10 fire stations deploying 114 line personnel on 11 fire companies responding to 17,000 emergency incidents per year across 34.8 square miles of north Orange County. The current command staff positions are:

- ◆ 1 Fire Chief
- ◆ 1 Deputy Chief of Operations
- ◆ 1 Deputy Chief of Administration and Fire Marshal
- ◆ 1 Training Division Chief
- ◆ 1 Support Services Division Chief
- ◆ 3 Shift Command Battalion Chiefs
- ◆ 1 EMS Manager

Given the scope of the operation and the successful shared management agreement for more than five years, along with a continuing need to maximize economic efficiencies since the recession, the leadership of both Cities voted to explore establishing one single fire department and, if possible, control their line fire station expenses and management team expenses.

At the outset of this process, the Cities determined that the most stable, long-term shared fire department would be a single new agency. This agency would have shared governance and separate finances as allowed under JPA law in California, instead of one City “owning” all of the fire services and then contracting (billing) the other City. Citygate was then hired to look at the operational, financial, and personnel costs of establishing a fire service JPA where costs could be shared fairly to each partner community.

In addition to the feasibility of setting up and operating a single fire department, the Cities also commissioned a companion study of the ambulance system economics and services in both Cities. The study was to determine if ambulance services could be improved, and all revenues in excess of cost be retained by the Cities if the new Fire Department JPA operated the ambulance service instead of a private sector contractor, which is the current model. This will be discussed more fully in Section 5 of this report.

## **2.2 OUR RESEARCH PROCESS**

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Citygate reviewed opportunities for the agencies relating to the future needs of the provision of services to include personnel, facilities, infrastructure, City Hall logistical services (finance, legal, human resources, risk management), and technology systems. The Citygate team used focused listening and documentation review, as necessary, to identify the opportunities for a fully merged JPA or continuation of the shared fire management operations. We also reviewed the deployment options for the Cities to directly provide ambulance services.

The Cities sought clarity of the following items and the options for addressing these items in a fully merged JPA:

1. A large study of personnel, total compensation, and labor agreements.
2. Operating the ambulance service, including staffing alternatives for that model in the City of Fullerton.
3. Future technology needs.
4. The ability to purchase and maintain fire apparatus.
5. The ability to repair and, if needed, replace fire stations.
6. The details of merging and then governing the fire department employees into a Joint Powers Authority structure.
7. Advantages of a merged JPA.
8. Disadvantages of a merged JPA.
9. Conversion and long-term operating cost projections.
10. Public policy and political realities of a merger scenario.
11. A macro-level implementation path timeline and steps.

## **2.3 USE OF BEST PRACTICES AND STANDARDS AS APPLICABLE**

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Citygate is well versed in the operations of Joint Powers Authorities. We have participated in the formation, operation, evaluation, and dissolution of JPAs of all types in California. Additionally, many of our consultants have rich histories prior to working for Citygate as practitioners in not only the fire service, but also in the City finance and human resources fields. Citygate representatives remain in contact with clients who have either been involved with JPAs, or continue to operate JPAs, and routinely receive feedback on how they are performing, or the net effects of dissolution.

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Citygate consultants continue to be members of various nationwide and international organizations that set standards and practices in areas relevant to fire and EMS system design, such as the National Fire Protection Association, Insurance Services Office, Orange County EMS Agency, and others.

**2.4 EXISTING AGENCY DEMOGRAPHICS**

The following table provides an overview of the key metrics for each City and its services. Some of these measures have been used in this report for JPA workload and cost-per-call estimates.

**Table 1—Overview of Key Metrics for Each City**

<b>Brea</b>	<b>Metric</b>	<b>Fullerton</b>
12.5	Area Served (Square Miles)	22.3
43,280	Population Protected	139,000
4	Fire Stations Served	6
4,370	Total Incidents Dispatched in 2015	12,630
293 (Full-time)	Total Number of Employees	632.7 (Full-time)
39	Line Firefighters	75
3	Engine Companies	6
1	Ladder Companies	1
Brea City Hall	Fire Administration Offices	Fullerton Fire Station #1
\$11,831,769	2015/2016 Budget Total	\$18,092,782
Metro Net (Anaheim JPA)	Fire Dispatch Provider	Metro Net (Anaheim JPA)
<b>Combined JPA Metrics</b>		
Fire Stations	10	
Number of Engines	9	
Number of Ladder Trucks	2	
Total Square Miles	34.8	
Total # Incidents (2015)	17,000	

## SECTION 3—OPERATING EXPENSES

### 3.1 OVERVIEW

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Three cost and operational models were developed to analyze the potential for a Fullerton and Brea Fire Department JPA merger. These models serve as a baseline “as-is” foundation to which we compare each City’s projected costs under a full JPA merger:

- ◆ Continuation of shared fire management for Fullerton
- ◆ Continuation of shared fire management for Brea Fire
- ◆ Fully merged JPA to include all fire department employees.

Given the success of shared fire management agreement, Citygate’s detailed JPA cost models compare projected shared fire management costs against a projected full JPA that would include all fire department employees. The sections to follow do not compare the shared fire management costs to once again fully separating the fire departments, as the partner agencies already know the number of fire headquarters positions they save in sharing that would have to be added back if the departments were fully separated.

The shared fire management model assumes continuation of the existing staffing, operational cost, capital replacement, and other internal services assumptions based on recent trends. A factual review process occurred in which Citygate received input from the staff of each City and the Fire Chief on the initial draft cost projection models. Citygate’s cost model projections include moderate inflationary assumptions to the operating costs. We projected existing staffing levels and modest changes in emergency incident demand to assess what can be absorbed into the existing staffing plans. The primary shared fire management assumptions are based on the individual City trends, policies, and management orientation and perspective.

Due to total compensation issues, differences, the best *cost modeling approach* is to estimate fully merged JPA personnel model costs by migrating Fullerton employees into the Brea classification and pay system to *estimate* the likely line personnel expenses after negotiations yield a combined labor agreement. Both partners know that until “meet and confer” is conducted with the bargaining groups, there are too many unknowns to precisely calculate final costs.

Citygate’s model for determining probable start-up and initial merged costs in the early years of the JPA utilizes a modified classification structure for the reorganization of roles and responsibilities under the new JPA. Fullerton is expected to provide the responsibilities for JPA finance, accounting, human resources, and risk. Fullerton will need to add one account clerk level position and other appropriations, expected to cost approximately \$100,000. This cost will initially be split—60% to Fullerton and 40% to Brea—using a fire budget cost share allocation

based on the first-year proportional relationship of the total costs. This is typical in allocation of indirect administrative costs.

Brea has initially indicated that the support service costs it will provide, such as in information technology, can be done with existing personnel. Brea will also have cost savings in the form of productivity time in its finance, accounting, human resources, and risk positions. These gains in time should be taken into consideration given the added expenses to be remitted to Fullerton for the JPA services. During final merger implementation work, Brea should place a cost on these services and then, under the cost sharing agreement, apportion some of its fire department internal service costs to Fullerton, as Fullerton will do. Once the final internal support costs are known, it is typical for the JPA partners to reach a cost share agreement formula on these issues and that agreement may or may not be the same as how the costs of the personnel are shared.

As the JPA relationship continues, the internal services cost ratio can be carefully re-evaluated, and then periodically updated. For purposes of this study, Citygate is of the opinion that, given the pay change impacts and total employees in Fullerton, a 60/40 ratio represents a reasonable first-year allocation of all internal support service costs to the Fire Department JPA.

Both Fullerton and Brea have similar, yet slightly different, salary and benefit structures. From an overall perspective, Brea base salary levels are higher than Fullerton's; however, Fullerton has higher health care benefit costs than Brea. Employee expenses are the primary drivers of ongoing cost, although material, supplies, professional, and contractual services expenses do play a role in estimating total ongoing costs. Capital equipment and/or facility acquisition and replacement costs are also variables, and typically depend on depreciation and replacement requirements. From an operations perspective, both Fullerton and Brea have very similar employee-to-operations cost ratios.

The following table shows the current employee and other costs as ratios across the Cities as they were in Fiscal Year 15/16. The primary point of the table is to demonstrate the similarity of the cost component ratios between the two agencies which supports Citygate's finding that transition to a JPA merger model is relatively straightforward and uncomplicated from a budgetary/cost perspective:

**Table 2—Component Cost Ratios Between the Cities**

Costs	FY 15/16 Fullerton		FY 15/16 Brea	
	Budget	Ratio	Budget	Ratio
Salaries	\$7,250,034	37%	\$4,970,551	38%
Overtime	\$1,834,552	9%	\$1,263,270	10%
Retirement	\$3,587,647	18%	\$2,225,415	17%
Other Employee Benefits	\$2,931,557	15%	\$1,569,536	12%
Operations	\$1,679,216	9%	\$1,626,105	12%
Internal Services	\$1,658,516	9%	\$1,480,107	11%
Capital Non-CIP	\$470,822	2%		
<b>Total</b>	<b>\$19,412,343</b>	<b>100%</b>	<b>\$13,134,984</b>	<b>100%</b>

A cost projection must start at a point after *today* to allow for implementation planning and final cost decisions that are a result of bargaining with employee groups, including the determination of final benefit costs from pension and health care providers. As such, Citygate’s merged time line projects that the earliest a JPA merger could take place would be in Fiscal Year (FY) 2017/18. Given the complex and tentative timeline, the multi-year projection shows as year 1 through 20, as opposed to indicating a specific fiscal year. The merged JPA includes an estimate of one-time costs associated with the transition to the new JPA. These estimated one-time expenses are projected over a three-year period of JPA formation. They include retirement system transition, legal expenses, and unanticipated contingencies.

The JPA merged cost model at this point does not project cost savings in non-employee-related operating cost items; however, economies of scale should ultimately produce cost avoidance, reduction in duplication, and/or cost savings over the long-term.

Examples of future operating cost avoidance through a larger organization include reduced span of control as the organization grows, increased opportunity for specialized classifications in critical areas, increased efficiency in developing workload coverage, scaling advantages related to supplies and equipment purchasing, as well as contracting for professional and specialized services. A larger organization can also provide a greater organizational depth of resources and specialization, which enhances the organization’s flexibility and adaptability for managing special projects, unpredictable issues that emerge, and succession planning for future leaders.

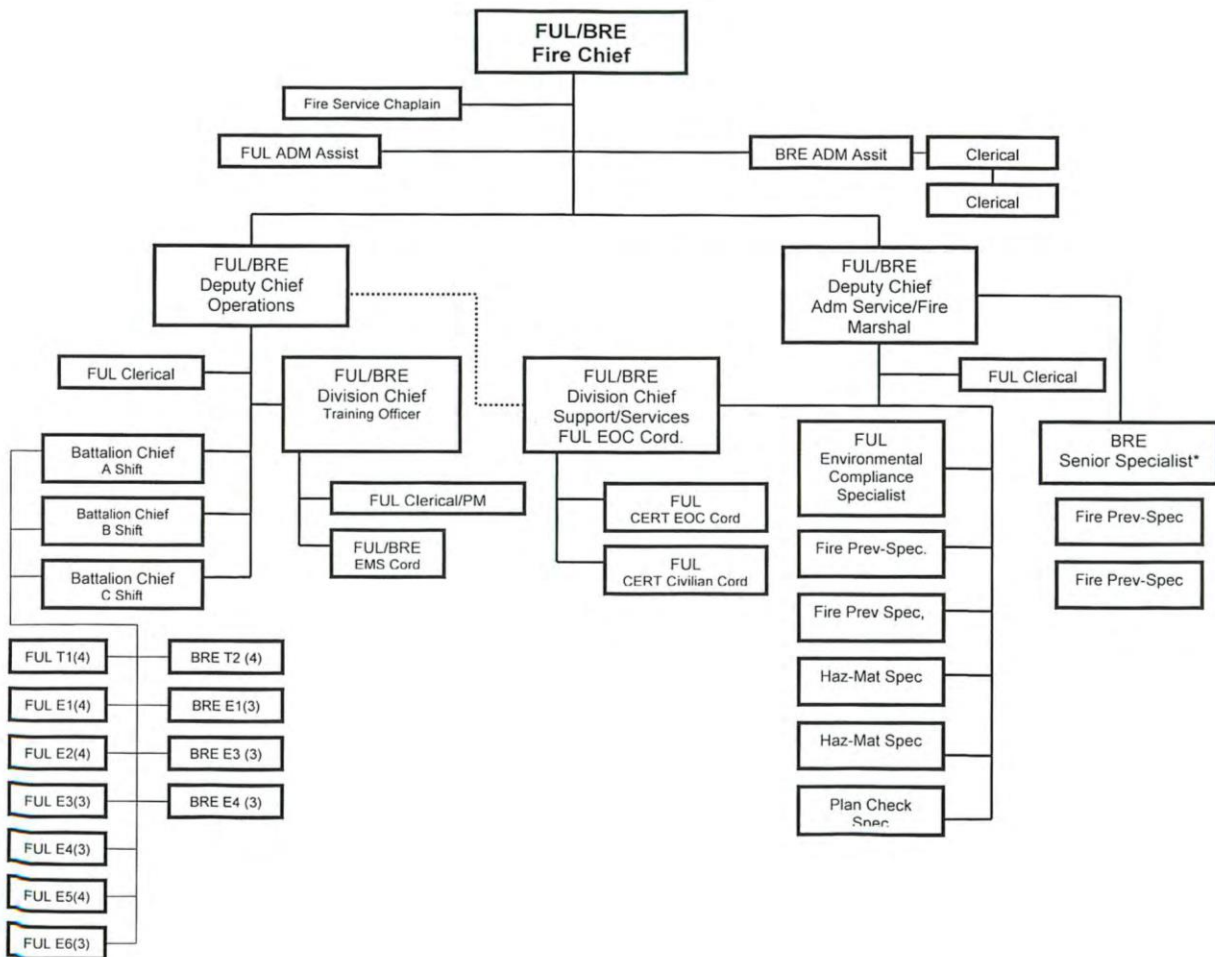
The merged JPA alternative assumes that each entity will continue to pay its unfunded liability payments for which it continues to be responsible. In California, a merger cannot vacate unfunded liabilities, nor wave an employer’s obligation to “meet and confer” with recognized

employee bargaining groups regarding the impacts of a merger on wages, hours, and working conditions. The handling of unfunded liabilities *will further be explained* in the CalPERS section of this study (Section 4.2).

**3.2 FULLERTON FIRE DEPARTMENT OVERVIEW**

The Fullerton Fire Department dates to 1908, when a volunteer fire company was formed. The first permanent fire station was opened in 1926. Fullerton is a department of many “firsts,” including adding paramedics in 1974 among others. Given the five-year-old headquarters team merger with Brea, the current merged Department organization is displayed in Figure 1:

**Figure 1—Post-Headquarters Merger Fullerton Organizational Chart**



**3.2.1 Fullerton Base Compensation**

It should be noted that MOU-related employee compensation is the result of labor negotiations developed over many years. The individual employee salary and benefit structures that result in



total compensation are variable depending on many factors related to an individual’s skill set and working hours on any given year. Based on discussions with staff, planned salary adjustments through 2018 were included in the projections to provide the most accurate comparison between the merged JPA and continued shared fire management scenarios.

The following table provides an approximate estimate of fire-related compensation by rank for comparison to Brea’s compensation. This table does **not** include various special pay categories such as career enhancement and education that are specific to the individual employee, nor does it include optional payouts (e.g., compensated leaves). This table is provided for informational purposes. The Citygate detailed cost projection includes estimates of all categories of pay as well as using each employee’s current pay step to provide a more comprehensive cost estimate. Please also note that for comparison purposes, the table below does not split out the CalPERS cost sharing agreement included in the Fullerton MOU. The current annual compensation for Fire-related classifications is:

**Table 3—Fullerton Fire Classification Annual Compensation**

Classification	Base Salary and Paramedic Pay	Retirement	Health	Total
Firefighter	\$75,623	\$37,736	\$20,700	<b>\$134,059</b>
Firefighter/Paramedic	\$85,834	\$42,831	\$20,700	<b>\$149,365</b>
Engineer	\$86,045	\$42,936	\$20,700	<b>\$149,681</b>
Engineer/Paramedic	\$96,254	\$48,031	\$20,700	<b>\$164,985</b>
Fire Captain	\$100,273	\$50,036	\$20,700	<b>\$171,009</b>
Fire Captain/Paramedic	\$110,482	\$55,131	\$20,700	<b>\$186,313</b>
Battalion Chief	\$142,329	\$71,022	\$20,700	<b>\$234,051</b>

**3.2.2 Fullerton Benefits**

Fullerton contracts with CalPERS for employee pensions. It provides the 3% at age 50 plan for “classic” members, with the employer contribution rate for FY 16/17 at 46.221% of reportable compensation. Employees hired on or after December 23, 2012 are covered under the 3% at age 55 benefit formula. In FY 17/18, the employer rate is estimated to increase to 49.9% of reportable compensation. This plan is in a CalPERS “Safety” risk pool, and the employer pension rate is inclusive of its unfunded liability. The California Public Employees’ Pension Reform Act (PEPRA) plan is 2.7% at age 57, with a normal cost in FY 16/17 of 22.081%, with the employee contributing 11% for a net employer cost of 11.00%.

Fullerton also contracts with CalPERS for medical benefits. It contributes a maximum of \$1,502.40 per month per employee (at the family coverage level) in a cafeteria plan for medical

and dental insurance. Employees pay the difference between the total premium cost of the selected plans and the City’s monthly contribution.

As required by CalPERS rules, the City contributes \$122.00 per month per eligible retiree electing retirement medical insurance through CalPERS.

### 3.2.3 Fullerton Internal Services Funds (ISF) for Capital Equipment, Technology, and Other Internal Services Costs

Like many full-service cities, Fullerton uses an internal service fund (ISF) budget center to identify and account for the long-term cost of equipment replacement and other long-term costs and liabilities. The following table shows the projected ISF costs to the Fire Department for the next five-year period:

**Table 4—Fullerton Internal Services Fund Costs over the Next Five Years**

Internal Service Charges	Year 1	Year 2	Year 3	Year 4	Year 5
Insurance Allocation – Public Liability	\$256,800	\$262,000	\$267,200	\$272,500	\$278,000
Building Maintenance Service Allocation	\$25,000	\$25,500	\$26,000	\$26,500	\$27,000
Facility Capital Repair Allocation	\$37,500	\$38,200	\$39,000	\$39,800	\$40,600
Vehicle Related	\$258,800	\$264,000	\$269,300	\$274,600	\$280,100
Vehicle Maintenance Allocation	\$614,600	\$626,900	\$639,400	\$652,200	\$665,300
IT Services Allocation	\$386,700	\$394,400	\$402,300	\$410,400	\$418,600
Benefits Administration Allocation	\$79,100	\$80,700	\$82,300	\$84,000	\$85,700
<b>Total ISF</b>	<b>\$1,658,500</b>	<b>\$1,691,700</b>	<b>\$1,725,500</b>	<b>\$1,760,000</b>	<b>\$1,795,300</b>

### 3.2.4 Fullerton Fire Stations

The City owns its fire stations and, through the above ISF allocations, maintains them. The City does not save towards eventual replacement of the fire stations through a capital replacement fund as it does for fire apparatus. Given the long life cycle of a fire station, if eventually the station has to be completely replaced or moved, the agency then identifies capital funds sources, including debt service, to fund the project.

This early in a merger analysis, it is not necessary to completely merge the fire station maintenance costs into the JPA. Cities have the option in a Fire Department JPA to retain ownership and repair costs, so Citygate’s JPA expense projection currently only includes the aforementioned ISF charges, and it does not include replacement station funding.

Each City in our projection would continue to be responsible for the ownership, repair, and eventual replacement of its fire stations. Thus, these station-related costs are not factored into our cost model for the merged JPA or continued shared fire management scenarios. Once the JPA is stood up, the Cities can discuss which partner should perform facility maintenance and whether cost savings can be realized. The Cities must, whether through the JPA or on their own, and to the degree fiscally possible, ensure the working conditions and safety of the fire stations are maintained to the same level.

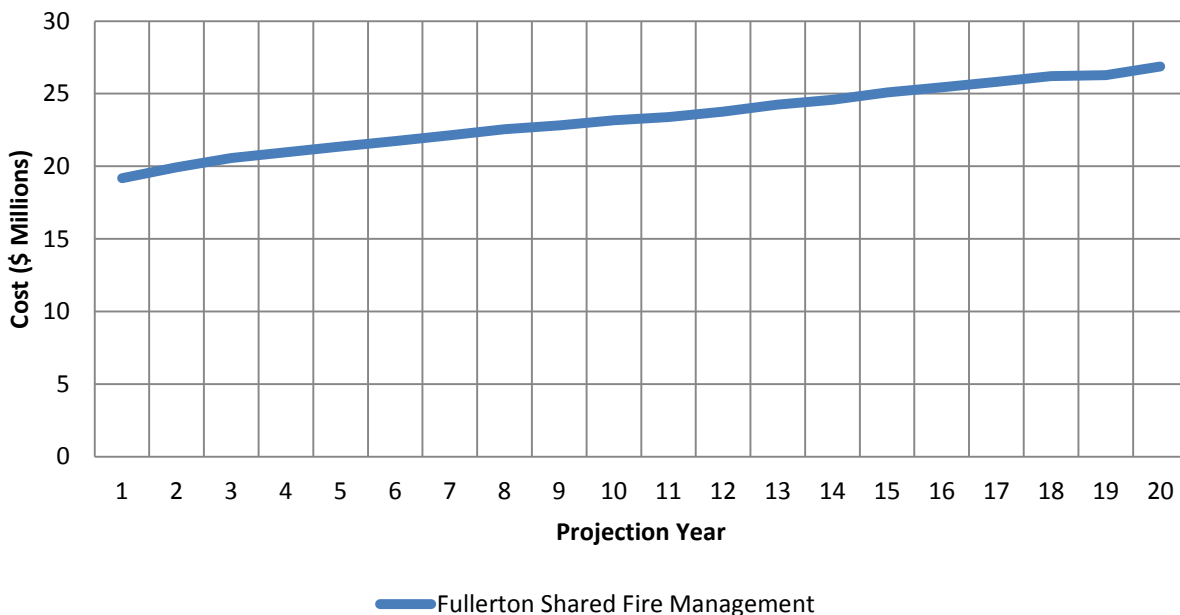
Based on our interviews with the building maintenance staffs, a modest amount of staff hours are expended annually on fire station repairs. If those hours/costs were transferred to a Fire Department JPA, neither City would realize enough workload savings to lower their building maintenance staffs. Thus, a JPA agency performing facility maintenance would not likely result in significant staff savings for either City.

### 3.2.5 Fullerton Shared Fire Management Cost Projection

Fullerton, with continued shared fire management, is on track to continue as a viable service delivery department from a long-range fiscal perspective given continued stable revenue growth in the City’s General Fund. Its business plan appears to be stable from an operating perspective; however, continued capital asset replacement funding will be needed to maintain capital assets, such as stations, which depreciate in the future.

The following figure shows the expenditure levels for operating and asset replacement purposes. It also assumes continuation of the existing capital funding levels.

**Figure 2—Fullerton Shared Fire Management Cost Projection (\$ Millions)**

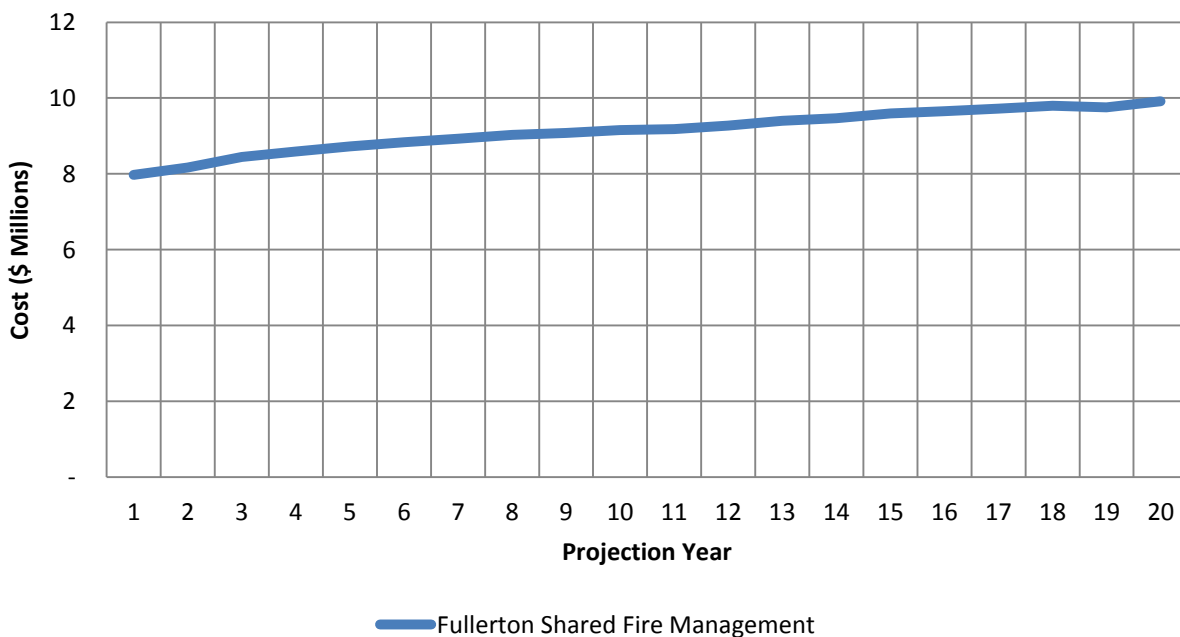


Citygate’s primary cost projection assumptions for Fullerton include:

- ◆ Continuation of a joint fire headquarters arrangement
- ◆ Existing staffing levels
- ◆ Existing known CalPERS retirement rate
- ◆ Projected retirements (30 years of service) utilizing PEPRA and beginning at initial salary step
- ◆ No additional payments for unfunded liabilities
- ◆ Cost of Living Allowance (COLA) growth in salary of 1%
- ◆ Estimated CalPERS and other benefits increases based on current employer costs and published CalPERS trends
- ◆ Operations and maintenance accounts estimated at 2% inflation
- ◆ Costs related to internal services projected at 2% inflation
- ◆ Utilities costs projected at 3% inflation
- ◆ Health care costs projected at 5% inflation.

The next chart uses salary-related assumptions to project the basic salary costs:

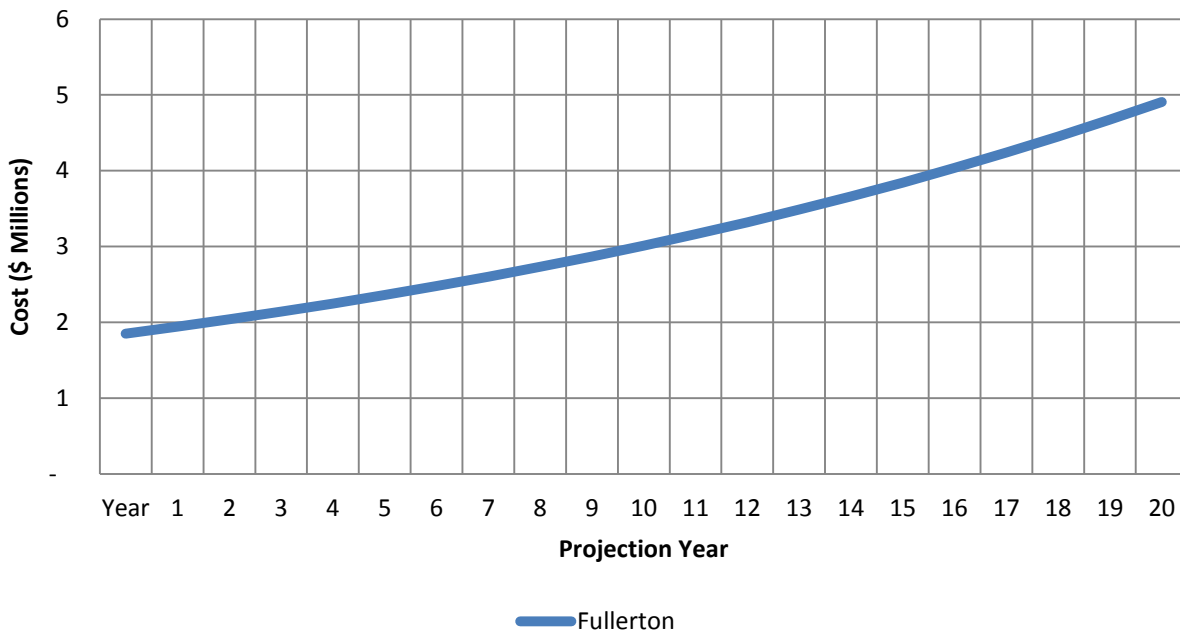
**Figure 3—Fullerton Basic Salary Cost (\$ Millions)**



Fullerton labor costs are generally lower, per classification, than Brea. In some classifications, base salary levels are lower than Brea. However, the Fullerton classification and pay approach utilizes special pays above base salary per rank for technical skills in areas such as paramedic duties. This type of approach is typically developed over time through the negotiation process with the firefighters’ bargaining unit.

The following chart shows projected health-related costs. Health care costs are inflated by 5% annually because they are generally higher than basic inflation.

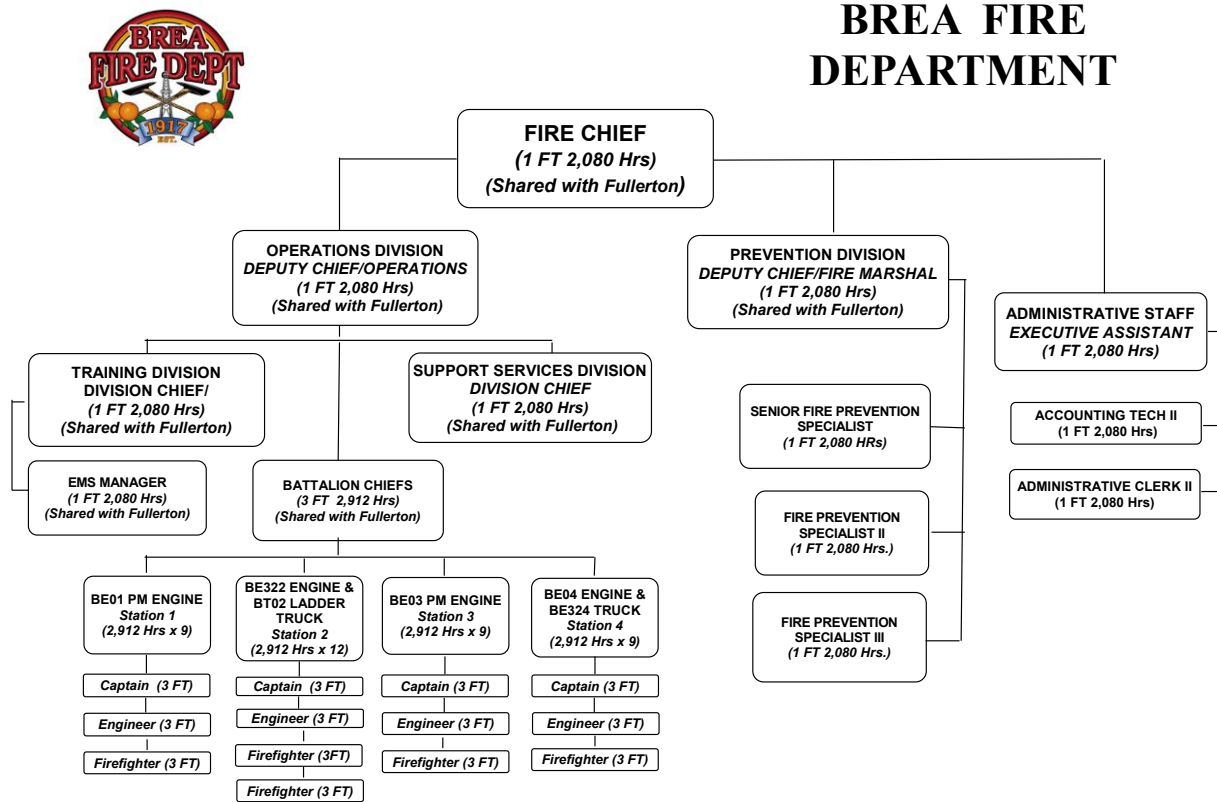
**Figure 4—Fullerton Health-Related Cost (\$ Millions)**



### 3.3 BREA FIRE DEPARTMENT OVERVIEW

The Brea Fire Department was started in 1917 when the City incorporated. Over the early decades, the Department slowly transitioned from volunteers to career staffing. The Department’s paramedic program was started in 1978. Given the five-year-old headquarters team merger with Fullerton, the current merged structure is displayed in Figure 5:

**Figure 5—Post-Headquarters Merger Brea Organizational Chart**



**3.3.1 Brea Base Compensation**

The MOU for Brea Fire Department employees covers the period from April 1, 2015 through March 31, 2018. The following table provides an approximate estimate of compensation by rank. This does not include various special pay categories that are specific to the individual employee. It does not include optional payout (e.g., compensated leaves). This table is provided for informational purposes. The Citygate cost projection includes estimates of all categories of pay as well as using each employee’s current pay step to provide a more comprehensive cost estimate. The current annual compensation for Fire Department classifications are:

**Table 5—Brea Fire Classification Annual Compensation**

Classification	Base Salary and Paramedic Pay	Retirement	Health	Total
Firefighter	\$84,205	\$43,113	\$17,000	<b>\$144,318</b>
Firefighter/Paramedic	\$96,835	\$49,580	\$17,000	<b>\$163,415</b>
Engineer	\$94,611	\$48,441	\$17,000	<b>\$160,052</b>
Engineer/Paramedic	\$107,241	\$54,907	\$17,000	<b>\$179,148</b>
Fire Captain	\$111,081	\$56,873	\$17,000	<b>\$184,954</b>
Fire Captain/Paramedic	\$123,712	\$63,341	\$17,000	<b>\$204,053</b>
Battalion Chief	\$142,300	\$72,858	\$17,000	<b>\$232,158</b>

**3.3.2 Brea Benefits**

Brea contracts with CalPERS for employee pensions. It provides the 3% at age 50 plan for “classic” members, with the employer contribution rate for FY 16/17 at 46.798% of reportable compensation. Employees hired on or after September 17, 2011 are covered under the 2% at age 50 plan. CalPERS estimates that for FY 17/18, the employer rate will increase to 51.2% of reportable compensation. The PEPR plan is 2.7% at age 57, and has a normal cost of 20.703%, with a member rate of 10.25% for a net employer cost of 10.25%.

Brea also contracts with CalPERS for medical benefits. It contributes \$1,400 per month per employee (at the family level of coverage) in a cafeteria plan for medical and dental insurance. Employees pay the difference between the total premium cost of the selected plan and the City’s monthly contribution.

As required by CalPERS rules, the City contributes \$335 per month per eligible retiree electing retirement medical insurance through CalPERS.

**3.3.3 Brea Internal Services Funds (ISF) for Capital Equipment, Technology, and Other Internal Services Costs**

Like many full-service cities, Brea uses an ISF budget center to identify and account for long-term cost of equipment replacement, and other long-term costs and liabilities. The following table shows the projected ISF Fire Department costs for the next five-year period.



**Table 6—Brea Internal Services Fund Costs over the Next Five Years**

Internal Service Charges	Year 1	Year 2	Year 3	Year 4	Year 5
Vehicles Charges	\$621,100	\$633,500	\$646,200	\$659,100	\$672,300
Technology Charges	\$355,800	\$362,900	\$370,200	\$377,600	\$385,100
Building Occupancy Charges	\$190,500	\$194,300	\$198,200	\$202,200	\$206,200
Retiree Benefit Charges	\$146,700	\$149,600	\$152,600	\$155,700	\$158,800
General Liability Charges	\$166,000	\$169,300	\$172,700	\$176,100	\$179,700
<b>Total ISF</b>	<b>\$1,480,100</b>	<b>\$1,509,600</b>	<b>\$1,539,900</b>	<b>\$1,570,700</b>	<b>\$1,602,100</b>

### 3.3.4 Brea Facilities

The City owns its fire stations and, through the above ISF allocations, maintains them. The City does not save towards eventual replacement of the fire stations through a capital replacement fund as they do for fire apparatus. Given the long life cycle of a fire station, if eventually the station has to be completely replaced or moved, the agency then identifies capital funds sources, including debt service, to fund the project.

This early in a merger analysis it is not necessary to completely merge the fire station maintenance costs into the JPA. Cities have the option in a Fire Department JPA to retain ownership and repair costs, so Citygate’s JPA expense projection currently only includes the aforementioned ISF charges, and it does not include replacement station funding.

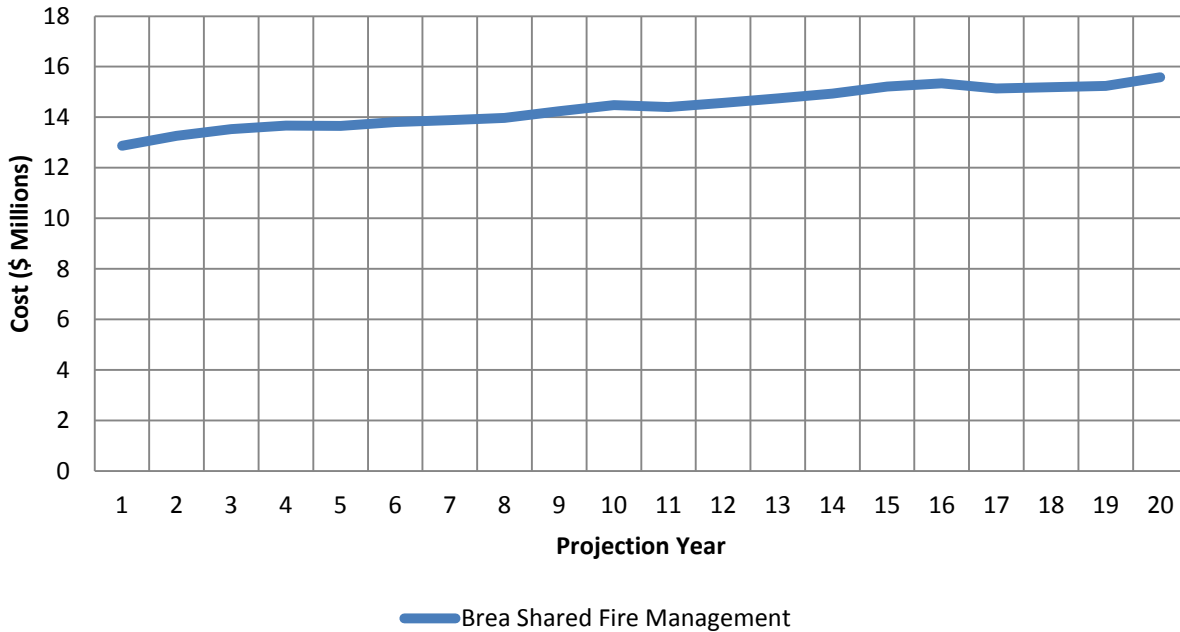
Each City in our projection would continue to be responsible for the ownership, repair, and eventual replacement of its fire stations. Thus, these station-related costs are not factored into our cost model for the fully merged JPA or continued shared fire management scenarios. Once the JPA is stood up, the Cities can discuss which partner should perform facility maintenance and whether cost savings can be realized. Based on our interviews with the building maintenance staffs, a modest amount of staff hours are expended annually on fire station repairs. If those hours/costs were transferred to a Fire Department JPA, neither City would realize enough workload savings to lower their building maintenance staffs. Thus, a JPA agency performing facility maintenance would not likely result in significant staff savings for either City.

### 3.3.5 Brea Shared Fire Management Cost Projection

Brea, with continued shared fire management, is on track to continue as a viable service delivery department from a long-range fiscal perspective given continued stable revenue growth in the City’s General Fund. Its business plan appears to be fiscally stable from an operating as well as a capital perspective. Given continuation of operations and capital funding with minor rate increases, stable long-term expenditures will be adequate to meet the Department’s funding needs.

The following figure shows the expenditure levels for operating and asset replacement purposes. It also assumes continuation of the existing capital funding levels.

**Figure 6—Brea Shared Fire Management Cost Projection (\$ Millions)**



Citygate’s primary cost projection assumptions for Brea include:

- ◆ Continuation of a joint fire headquarters arrangement
- ◆ Existing staffing levels
- ◆ Existing known CalPERS retirement rate
- ◆ Projected retirements (30 years of service) utilizing PEPRA and beginning at initial salary steps
- ◆ No additional in payments for unfunded liabilities
- ◆ COLA growth in salary of 1%
- ◆ Estimated CalPERS and other benefits increases based on current employer costs and published CalPERS trends
- ◆ Operations and maintenance accounts estimated at 2% inflation
- ◆ Costs related to internal services projected at 2% inflation
- ◆ Utilities costs projected at 3% inflation
- ◆ Health care costs projected at 5% inflation.

**Cities of Fullerton and Brea, CA**  
**Feasibility Analysis for Providing Multi-City Fire Services Under Joint Powers Authority Jurisdiction**

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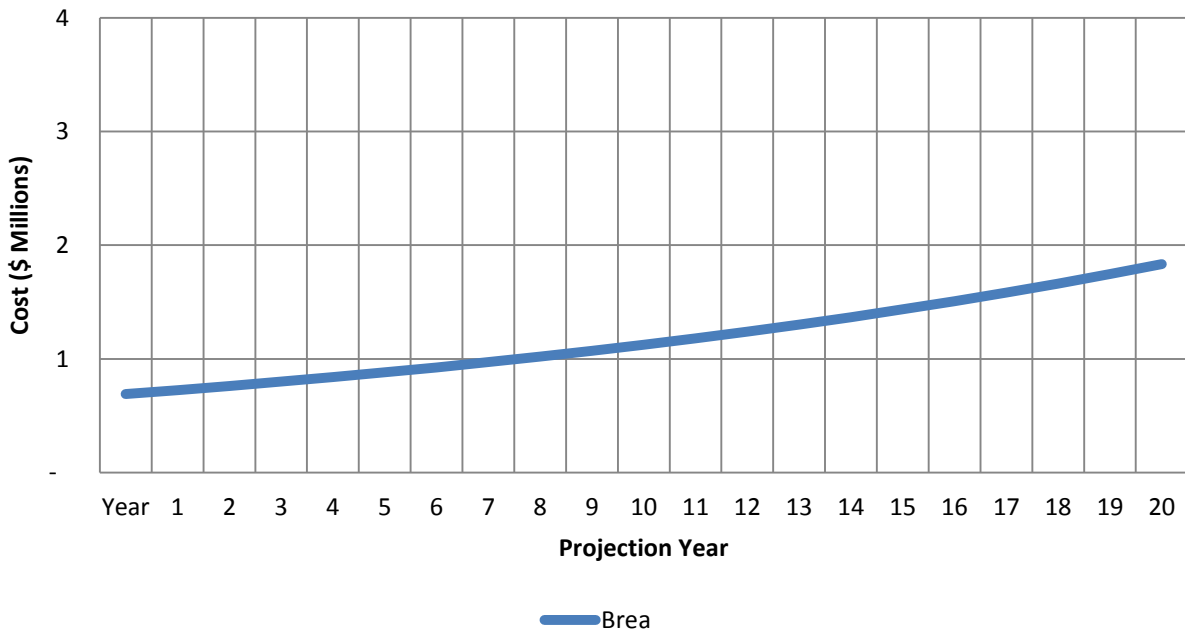
The next chart uses salary-related assumptions to project base salary costs:

**Figure 7—Brea Basic Salary Cost (\$ Millions)**



The following figure shows the projected health-related costs.

**Figure 8—Brea Health-Related Cost (\$ Millions)**



## SECTION 4—MERGED JPA ASSESSMENT

In a merger feasibility assessment, a cost model is produced that estimates the new fully merged JPA's costs. The following sub-sections detail each component of the cost model. The assumptions are explained for each main model component. Five-year projections have been produced that inflate each major category of expense differently due to differing historical cost increase trends. Thus, a standard, flat inflation rate per year has not been applied to a total budget. The cost inflation assumptions range from one to five percent.

A proportional “fair share” cost allocation has been set for each partner agency to pay its share, and then the model compares the current “as is” cost per city against the JPA share cost. Shared service JPAs typically use one or more “consumption” measures to share costs. Examples are:

- ◆ Volume of emergency incidents per city
- ◆ Number of fire stations or fire apparatus per city
- ◆ Number of firefighters per city
- ◆ Number of fire inspections per city
- ◆ Current fire budget cost as a percent of the merged cost total.

Occasionally, blended formulas are appropriate. In fire prevention, 50% of the cost is due to the number of inspectors, and 50% of the cost is due to the quantity of inspections per city. Each of these approaches has its benefits and shortcomings. Measures that typically do not work well include assessed property tax valuation and population. These are hard to measure closely, and do not sufficiently address the other reasons for fire service deployment, such as risks, and mobile populations, such as employees, visitors, and people in automobiles. The agencies in the JPA, at its creation, need to choose the formula they feel best suits them. Factors that could be considered include whether results:

- ◆ Can be closely measured (not estimated) every year.
- ◆ Represent fire risk, EMS incident volume, and headquarter staff needs.
- ◆ Are *not* likely to be extremely volatile year to year, as the agencies need budget projection predictability.
- ◆ Allow each agency to set *its* unique service levels (fire stations and staffing), and then pay for its service level choice without a subsidy from the other agency.
- ◆ Are perceived as fair by the JPA creators.
- ◆ Are likely to be perceived as fair far into the future by the successor managers and elected officials.

In Citygate’s cost model to follow, as a test of cost allocation, we chose a measure we believed to be a fair given the current services in both Brea and Fullerton. We tested many of the measures described previously, and the cost allocation percentages were around a 60/40 split, especially when formulated by the number of stations and current fire department budgets. Therefore, in the projections to follow, we used a cost allocation ratio of 40% to Brea and 60% to Fullerton.

**4.1 MERGED JPA PERSONNEL**

This section reviews the staffing model in a merged JPA given Citygate’s modified classification and human resources merged cost assumptions in the following table. Thus, the following cost model combines all aspects of both Cities’ fire departments including projected management, labor relations, and CalPERS decisions.

The fully merged JPA alternative assumes that the full merger would take place in the near future. Fullerton staff would transition into the classification and pay structure of Brea.

Citygate modeled the following staffing transitions:

**Table 7—Staffing Transitions for Merged JPA Services**

Fullerton	Brea	Merged JPA
Firefighter	Firefighter	JPA Firefighter
Firefighter with Paramedic Pay	Firefighter/Paramedic	JPA Firefighter/Paramedic
Fire Engineer	Fire Engineer	JPA Engineer
Fire Engineer with Paramedic Pay	Fire Engineer/Paramedic	JPA Engineer/Paramedic
Fire Captain	Fire Captain	JPA Fire Captain
Fire Captain with Paramedic Pay	Fire Captain Paramedic	JPA Fire Captain/Paramedic
Battalion Chief	Fire Battalion Chief	JPA Battalion Chief

The new staffing model provides no change in allocated positions and in basic functionality from an organizational perspective, and includes the following general Citygate assumptions:

- ◆ Headquarters staff transitioned into JPA employment.
- ◆ Fullerton fire employees cost modeled as a placeholder into the Brea classification structure as a cost surrogate until the required “meet and confer” with the bargaining groups has been concluded.

**4.2 CALPERS**

Both Fullerton and Brea contract with CalPERS for pension benefits, and offer the same “classic” and PEPRA pension plans. Both are “Safety” plans and include assets and liabilities for both police and fire employees. Should the two Cities decide to create a JPA for fire services, there are several considerations for the policy makers.

First, CalPERS will not enter into a newly-formed public agency (which includes JPAs) until the new public entity has existed for one year and has at least one employee. We confirmed our understanding of this requirement with the Contract Division of CalPERS. CalPERS staff cited Government Code Sections 6500 through 6538 in support of its position. Second, under most circumstances, a newly-formed public agency contracting with CalPERS would only be able to offer PEPRA plans to newly-hired employees; however, there is new legislation that would permit Brea and Fullerton fire employees who become employees of a newly-created JPA to retain their “classic” pension status at the moment of transfer.

However, any newly-hired external employees would be considered by CalPERS as PEPRA for pension purposes regardless of their previous CalPERS pension status earned elsewhere in CalPERS service. In the future, this may limit the JPA’s ability to recruit externally, particularly at higher ranks (e.g., Deputy Chief, Fire Chief). The issue is less significant at the entry firefighter level assuming the JPA hires at the trainee level. It is doubtful that a person at the rank of firefighter from another agency is willing to give up 3% at age 50 for a lesser benefit plan. PEPRA rules prohibit agencies from providing pension enhancements (e.g., supplemental pension benefits) to employees covered by PEPRA.

Another consideration for the two agencies is the CalPERS employer rate within a JPA environment, not only initially, but in future years as well. This of course holds true if the two Cities do not merge, as CalPERS rates will change with the economy. Given the recent trends in employer safety rates, and changes currently under consideration by the CalPERS Board pertaining to several actuarial assumptions, employer rates for active employees likely will remain high for the foreseeable future for both “classic” and PEPRA plans.

The CalPERS Actuarial Division, at the request of the two Cities, provided an estimate of each plans’ accrued liability, employer “normal” costs, the estimated unfunded accrued liability (UAL) annual payment, along with an estimate of the proportion of the UAL payment for the fire function for each City. The following table summarizes the estimated annual dollar payments for each agency’s unfunded liability:

**Table 8—CalPERS Estimated Annual Unfunded Pension Liabilities for Each Agency**

Brea	Fullerton
\$1,106,063	\$2,284,063

This information was provided to Citygate by the Cities from their CalPERS discussions. The calculations were based on the valuations as of June 30, 2014. We have not independently verified these figures. However, it is important to keep in mind that the unfunded liabilities will change as part of the annual CalPERS valuation update to employers. The unfunded liabilities are subject to fluctuations based on a number of actuarial assumptions, including the actual rate of investment return.

To examine the options for the unfunded liabilities, the Cities and Citygate participated in a conference call regarding CalPERS unfunded liabilities as it relates to potential JPA mergers. In that call, representatives from CalPERS indicated that they have a primary interest in seeing that the surviving JPA agreement contain tightly-constructed language ensuring that the prior City members will pay their share of prior unfunded liability. To handle the existing unfunded pension liability, the partners have three options that will require cost estimating by CalPERS and/or other experts:

1. Since each agency has a safety contract rather than a fire safety contract, the unfunded liabilities can remain with each agency, and each would decide how to pay it off (e.g., advanced annual payments to save on interest or monthly payments which CalPERS currently bills).
2. The JPA's CalPERS pension cost likely will be lower than the current pension *active* cost for both agencies, as in the first year there will not be any unfunded liability payments. It will take time for the CalPERS JPA pension contract to accrue unfunded liabilities. In the interim, the Cities could commit the difference between their current pension costs and the JPA's pension costs to start paying off their unfunded liabilities.
3. There are several options for the partner Cities to address their unfunded pre-merger liabilities. These range from paying annually as they currently do to CalPERS (pay go), to taking out a pension obligation bond or to set up a Public Agency Retirement Services (PARS) Pension Rate Stabilization Program (PRSP) which is an Internal Revenue Service Section 115 irrevocable trust designed for agencies to prefund pension costs and address Governmental Accounting Standards Board (GASB) 68 Net Pension Liabilities (NPL).

**Finding #1:** The partner Cities have choices in deciding how to pay their unfunded liabilities. The prior liability costs do not worsen in a full JPA merger, and in fact could be paid off faster with other revenues. As such, the liabilities are not a critical point in deciding to fully merge into a new JPA.



The CalPERS actuarial staff advised the two Cities that, upon entering into a pension contract with a newly-formed JPA, the initial *normal* cost employer rate would be the blending of each agency's normal cost plus the unfunded liabilities, stated as separate line items to each prior City for their separate payment. We did not, nor were we requested to, conduct an actuarial study to estimate the CalPERS employer rate upon the creation of a new JPA. We recommend that, if the Cities move forward with a new JPA, they engage the services of a qualified actuarial firm to provide the policy makers with that information to compare with the quote CalPERS provides as part of starting up a JPA pension contract.

#### 4.3 OTHER BENEFITS

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Both Cities contract with CalPERS for medical insurance for active and eligible retirees. For active employees, the Cities contribute different monthly amounts toward the cost of health insurance. Should the Cities create a new JPA, they would be required to execute a new contract with CalPERS for medical benefits. The newly-formed JPA's monthly contribution would be subject to collective bargaining. Fullerton contributes \$1,502.40 per month per employee at the family level of coverage; Brea contributes \$1,400 per month per employee at the family level of coverage. Upon the creation of a JPA, the parties would be obligated to "meet and confer" regarding the wages, hours, and working conditions of the merger, to include the monthly contribution for medical insurance.

Since cities contract with CalPERS for medical insurance, they are required to enroll eligible retirees in the CalPERS retiree medical program. The basic CalPERS requirement is that contracting agencies must pay the same monthly amount of premium cost for retirees as they do for active employees (there are various contract procedures that allow unequal contributions that, over time, transition to an equal amount). Since both agencies have set up Internal Revenue Service (IRS) 125 plans (Cafeteria Benefit Plans), and designated different dollar amounts for CalPERS medical insurance (Fullerton: \$122.00 per month per employee; Brea: \$335.00 per month per employee), retiree health benefits would need to be determined for a newly-formed JPA, subject to collective bargaining and legal vesting requirements.

Fullerton conducted another Other Post Employment Benefit (OPEB) valuation in 2015, and a copy of the report was provided to Citygate. That report disclosed the long-term liability for fire employees (firefighters and fire management) at \$9.7 million, and recommended an annual required contribution of \$933,000.

The most recent data provided by Brea indicates a Citywide liability for retiree health (as of 2011) at \$18,200,000. The City's latest Comprehensive Annual Financial Report (CAFR) fiscal health report does *not* provide a breakdown of long-term liability by employee group.

As part of setting up the financial model of the JPA, the agencies need to reach agreement regarding whether they will exclude or include their prior historical OPEB liability. If excluded,

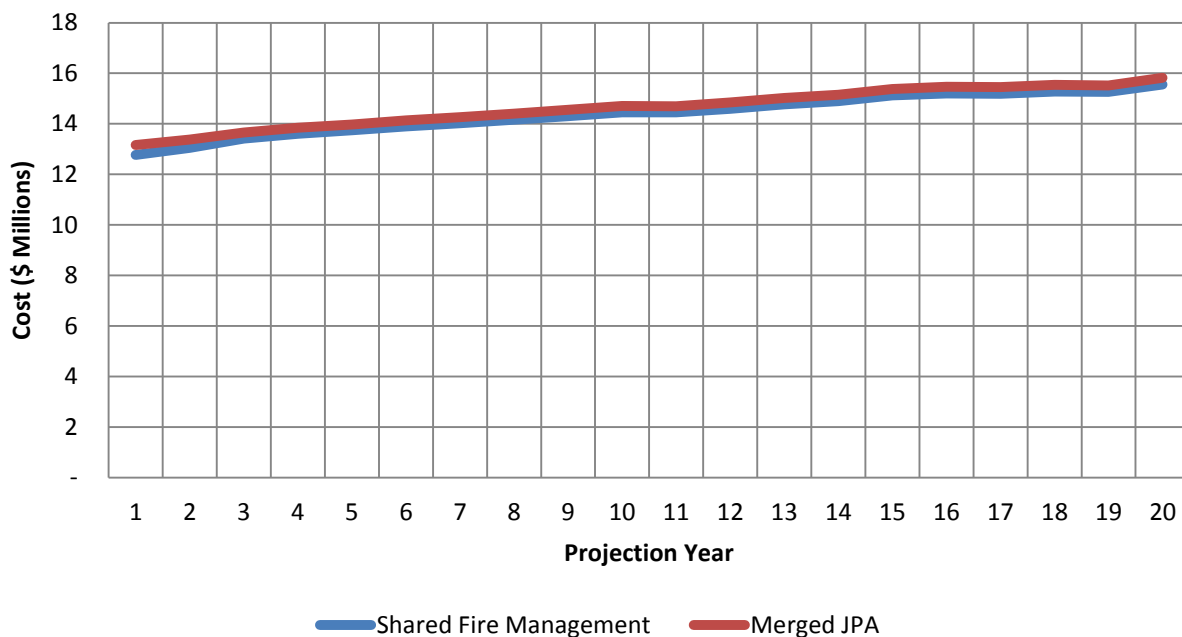
each agency pays the costs as they do now. If they want to determine the merged costs and how to fairly share them by formula, then Brea at a minimum will have to obtain a new OPEB actuarial valuation for its firefighters. As for active employee medical insurance, there is nothing to prohibit the new JPA from going out to bid for medical insurance for active employees.

**Finding #2:** The long-term liability for retiree health insurance will need to be addressed if the two Cities move forward with a JPA. The starting point for that is conducting another actuarial study so that the policy makers have a frame of reference for providing staff with direction.

**4.4 MERGED JPA PERSONNEL TOTAL COMPENSATION MODEL**

The overall employee costs in Citygate’s cost model increase *slightly* in a fully merged JPA because of small total compensation differences between the parties. Thus, Citygate’s model is conservative in that it assumes that, in each category, the existing higher cost base pay, specialty pay, or benefit will remain. However, all of these items are subject to “meet and confer” with the bargaining units and will likely result in a different final pay amount. Both Cities are in the same general Southern California region labor pool, so the labor costs of the two separate Departments would likely continue to equalize in the long-term.

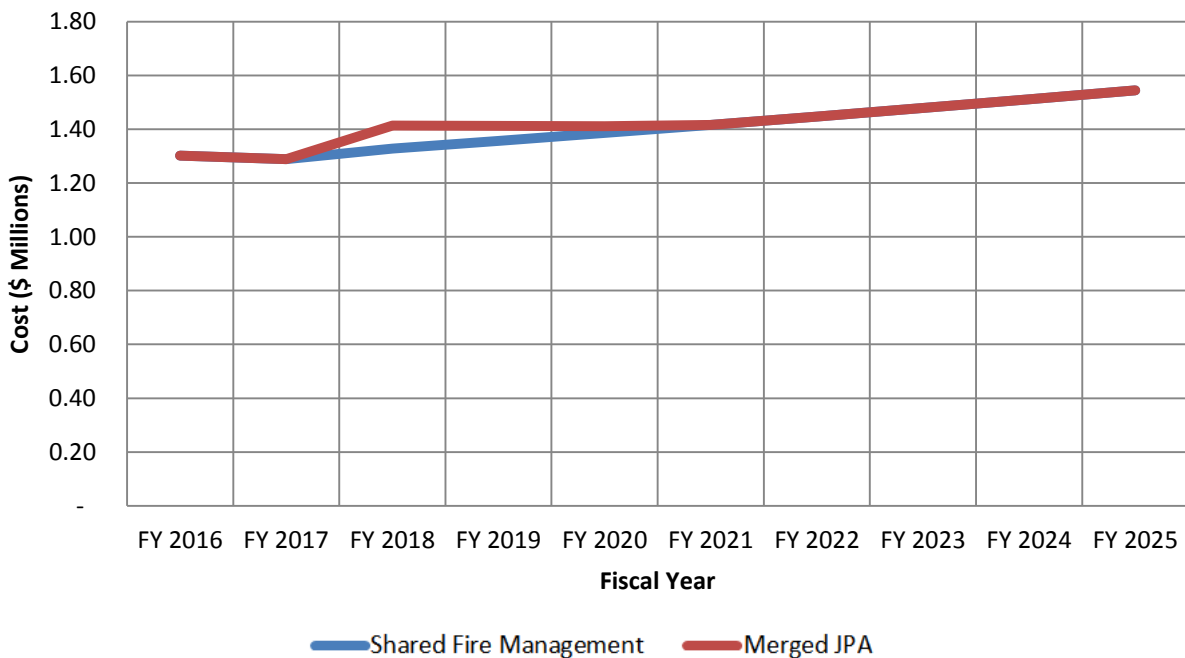
**Figure 9—Merged JPA and Shared Fire Management Basic Salary Cost (\$ Millions)**



**4.5 MAINTENANCE AND OPERATIONS EXPENSE MODEL**

The JPA cost model in this report does not project any significant changes in the operations and maintenance costs related to the merger, other than additional costs associated with the maintaining separate JPA accounting, financial, legal, and other administrative systems. Fullerton has estimated that they can accommodate the administrative support systems by adding one additional administrative staff member and supporting costs, totaling approximately \$100,000. This includes providing JPA audit and financial statement preparation. Citygate is projecting modest additional one-time start-up costs associated with the merger and JPA formation; these can be absorbed within the existing City budgets.

**Figure 10—Merged JPA and Shared Fire Management Operating and Maintenance Cost (\$ Millions)**



**4.6 MERGED JPA FIRE APPARATUS AND FIRE STATIONS COSTS**

As Section 3 described in each separate City’s fire budget analysis, each City repairs and eventually replaces or moves fire stations, within its fiscal ability to do so, consistent with each City’s obligations for its physical buildings. There is no requirement that the ownership or minor repair of fire stations be transferred to a JPA at implementation. The building costs incurred today would continue in either scenario. The way each City manages facility issues today is also typically found in other suburban cities. Once the fire JPA merger has been established, a separate City staff-level discussion can occur to determine whether moving building

maintenance, or also outright fire station ownership to the JPA, produces any advantages or cost savings. The two City maintenance teams, during the research phase of this study, thought there would not be any savings or advantages to merging the buildings into the JPA as each City would *not* reduce its existing maintenance staff if it did not have to manage the few fire stations.

While existing fire stations might have physical differences in form and style, Citygate is not aware of any merged department that chose to alter its internal fire station design to match a partner agency's design. Even in large departments, across decades of different fire station design choices, there are differences. Each City is responsible to maintain the fire stations it owns to reasonable health and safety codes and requirements for 24-hour-based shift workers.

Where there are *operating differences*, such as outside landscaping maintenance, shop towel and rug services, protective clothing specialty washers and dryers, the partner Cities strive to budget for, and “level,” these operating issues in the early years of a JPA merger.

The same is true for maintenance and replacement of fire apparatus. The one exception is that, for liability insurance reasons, some JPA legal teams prefer to have the apparatus owned by the employer of the firefighters—the JPA. This can be researched over time and is not a critical path item to implement a merger.

As for the repair and replacement of fire apparatus, each City Fleet Maintenance team thought there were no compelling fiscal or personnel advantages to immediately merging fire apparatus repairs and replacement programs. The JPA merger does not change the quantity of mechanic hours needed to maintain the units, and thus the cost is typically the same. Each City saves for fire apparatus replacement somewhat differently and, if shared ownership and replacement is desired under the JPA, then staff and the JPA Directors will have to reach agreement on how to fund replacement apparatus in the early years, given the differences in the ages and condition of the apparatus. The resultant agreement will have to fairly allocate costs to each partner so that one City does not feel it is subsidizing the replacement needs of the other.

As with fire stations, the fleet costs in the near term are going to be the same regardless, and merging the fleets is not a critical path item to implement the JPA merger. The station and fleet costs are far less than the personnel costs in a merger and, for that reason, Citygate believes the personnel costs and immediate City Hall team support costs will determine whether the merger passes fiscal scrutiny and can proceed. Determining how to manage physical assets can be separately discussed at a later time.

In the early years of a JPA merger, the fire apparatus will not be of the same manufacturer, and will not include the same features, due to differing prior specifications. As a merged department, an agency can agree on a standard specification for all apparatus and small vehicles and, over an approximately 15-year period of purchasing, the apparatus will become standardized.

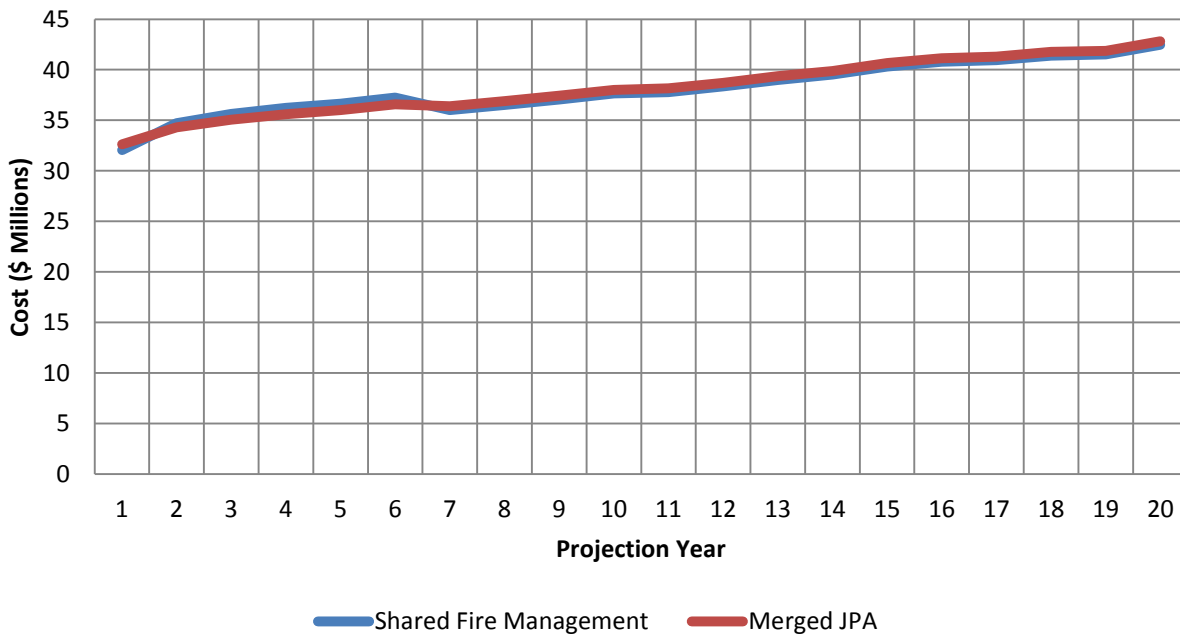
The Departments can, soon after a merging, standardize the type and manufacturer of small tools, and place them in common locations. Therefore, all firefighters will know where to find particular items.

**Finding #3:** At the time of full JPA merger, the costs for fire stations and fire apparatus are the same as before and each agency can continue its maintenance and replacement obligations. Eventually, the partner Cities can decide if they want to move the apparatus and/or station ownership to the JPA, *for ease of budget, insurance, and operation administration.* A merger of these items does not produce significant savings, unless the quantity of reserve fire apparatus needed can be reduced over time. Even then, the resultant savings are not significant and do not impact the viability of a fully merged JPA.

**4.7 MERGED JPA EXPENSE MODEL**

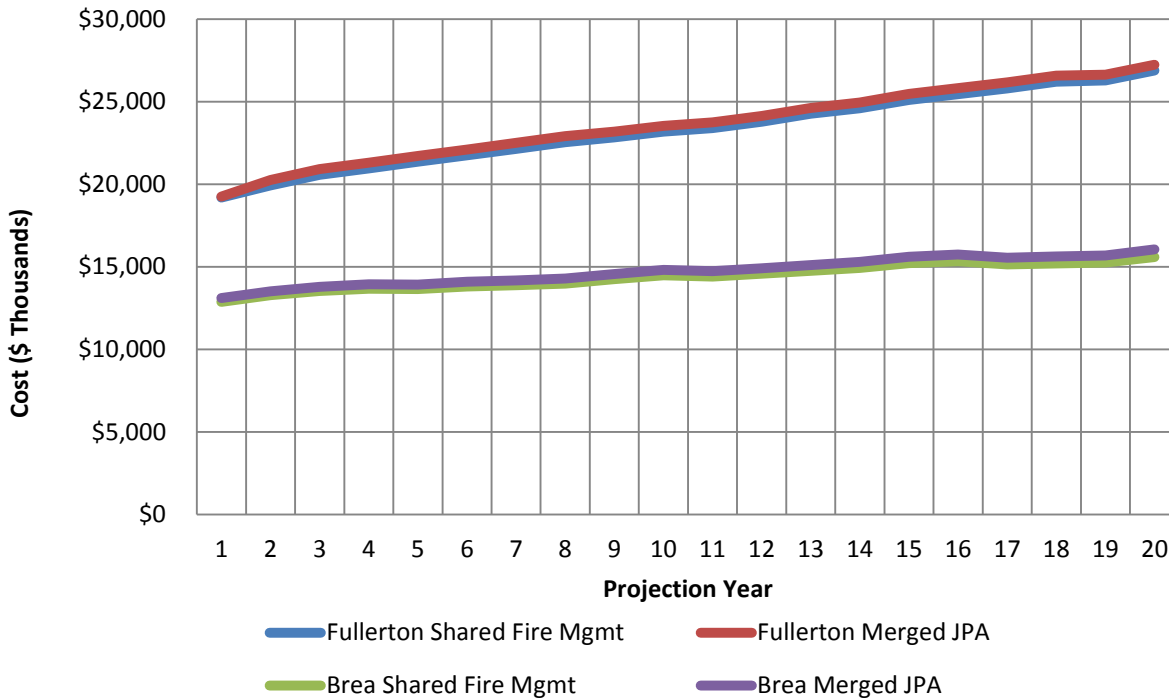
The following figure shows the projected cost of the merged JPA versus ongoing shared fire management operations.

**Figure 11—Merged JPA and Shared Fire Management Cost Projection (\$ Millions)**



The following figure breaks out the impact of Fullerton versus Brea cost impacts using the previously-discussed cost allocation ratio of 40% to Brea and 60% to Fullerton.

**Figure 12—Shared Fire Management Cost versus Projected JPA Cost (\$ Thousands)**



The primary driver of the JPA cost increase is related to equalizing the employee classification differences between the two agencies. The cost projection shown in Table 9 represents a conservative estimate; however, it does factor in the impact of new employees being enrolled in PEPR, and starting employment at the bottom step, with annual increases until they reach the top step.

The cost sharing ratios used to separate the cost for each agency are based on the agencies’ relative cost increases required to bring the agencies in line with a merged and equalized employee classification system and existing full-time employees. This is appropriate initially, given the weight of changing employee costs and number of firefighters per City. Moreover, in cases in which Fullerton employee costs would likely increase, those costs would be absorbed by Fullerton. This issue is a major driver in cost increases on both sides of the Citygate projection.

For example, Fullerton absorbs greater cost increases because its workforce is larger and its employee costs were proportionally lower than Brea’s before merging. Over time, a more sophisticated formula will need to be developed which can take into account factors such as service area, calls for service, population, and other factors that contribute to service level costs. This type of formula should be periodically re-evaluated and adjusted.

Cities of Fullerton and Brea, CA

Feasibility Analysis for Providing Multi-City Fire Services Under Joint Powers Authority Jurisdiction

**Table 9—Total Expenses Over the Next Five Years After Start-Up (\$ Thousands)**

Projection	Year 2	Year 3	Year 4	Year 5	Year 6
<b>Fullerton</b>					
Fully Separate Departments*	\$20,831	\$21,486	\$21,913	\$22,339	\$22,760
Full JPA - All Personnel	\$20,248	\$20,908	\$21,307	\$21,704	\$22,100
Shared Fire Management (As Is)	\$19,931	\$20,559	\$20,958	\$21,355	\$21,747
<b>Brea</b>					
Fully Separate Departments*	\$13,870	\$14,148	\$14,304	\$14,306	\$14,479
Full JPA - All Personnel	\$13,518	\$13,789	\$13,937	\$13,922	\$14,084
Shared Fire Management (As Is)	\$13,270	\$13,530	\$13,667	\$13,651	\$13,803

\* The fully separated department projections include stopping the merged management team and the current joint savings of \$1.5 million divided back to each agency (60% to Fullerton and 40% to Brea) as added cost and then increased by 3% per year.

**Table 10—Comparison of Total Expenses Over the Next Five Years After Start-Up (\$ Thousands)**

City	Year 2	Year 3	Year 4	Year 5	Year 6
<b>Full JPA vs Separate Departments</b>					
<b>Fullerton</b>					
Dollar Savings	\$583	\$578	\$606	\$635	\$660
Percentage Savings	2.88%	2.76%	2.85%	2.93%	2.98%
<b>Brea</b>					
Dollar Savings	\$352	\$359	\$367	\$385	\$395
Percentage Savings	2.60%	2.60%	2.63%	2.76%	2.80%
<b>Shared Fire Management vs Separate Departments</b>					
<b>Fullerton</b>					
Dollar Savings	\$900	\$927	\$955	\$983	\$1,013
Percentage Savings	4.52%	4.51%	4.56%	4.61%	4.66%
<b>Brea</b>					
Dollar Savings	\$600	\$618	\$637	\$656	\$675
Percentage Savings	4.52%	4.57%	4.66%	4.80%	4.89%

**Finding #4:** Both Cities are funding sufficient fire services and, as such, have fiscal resources and options available to them to make a merged Fire Department JPA feasible. Over the long-term, employee cost will continue to be the dominant driver of total fire department expense, and the countywide shared labor market will likely drive those impacts.

Most of the Fullerton cost changes result from Citygate’s estimated salary adjustments to bring Fullerton salaries in line with Brea’s. The increase in salary levels also impacts retirement costs. In cases where the salary difference between classifications was greater than 5%, Citygate used a ramping-up approach to project costs in early years. This only impacts the Fullerton projection for the early years of the projection. Most of the cost increases for Brea result from increased health care costs to adjust them to the Fullerton level.

In setting up the JPA, the Cities can work to control the escalation of personnel costs over time by:

- ◆ Identifying a strategic approach to collective bargaining for the initial JPA that includes setting compensation policy goals
- ◆ Maintaining an efficient use of resources to minimize overtime costs
- ◆ Keeping reportable CalPERS compensation increases no greater than the actuarial presumed rates of growth.

#### **4.8 WORKERS’ COMPENSATION**

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Agencies establish workers’ compensation retention funds to pay for injured worker medical costs. Typically, in a consolidation, both open and closed workers’ compensation claims remain the responsibility of each prior agency; if a JPA is created, the JPA will need to conduct the appropriate actuarial study to address the worker’s compensation retention funding level *going forward for JPA employees*.

Startup issues include establishing a retention pool, hiring a Third-Party Administrator (TPA) for the claim, developing workplace safety policies, and workers’ compensation reporting procedures for the JPA employees. All of these workers’ compensation programs need to be set up before the JPA can become the employer of record.



#### 4.9 HEADQUARTERS STAFF

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Citygate reviewed the current headquarters staff assignments, compared them to the current departments' needs, and interviewed the management team. The existing staff quantities have been in place since shared services started. Even at the start, neither department had what Citygate felt was a minimum effective headquarters team due to recessionary pressure. Since that time, incident volumes have risen, there is an ever-increasing amount of regulations to operate fire services within, and the Cities are considering entering the ambulance business.

Given that the original management share agreement was a test, and is now more than five years old, there is still considerable work to be done if a merged department JPA is implemented. Most of the internal department operating policies are still mostly separate, and there will be cross-training needed in the Cities before the workforce can easily work in each other's stations and operate fire apparatus together. Facilitating this work, along with implementing the new JPA MOU and personnel rules, will take considerable effort from the entire management team.

Ensuring the success of a blended culture and seamless operations takes a considerable, sustained effort throughout the early years. During this "adolescence" period, the management team should be properly staffed for the extra effort in addition to daily operations. At this point, in Citygate's evaluation, two additional headquarters positions are not yet included in the cost model.

After the JPA merger proceeds to implementation, if justified given revenues and workload levels, the Cities should seriously consider adding these following headquarters positions to the final costs of the JPA in year 2 or later:

- ◆ One Management Analyst for contracts, budgeting, and planning coordination at \$120,000. This position has been temporarily provided in an "acting" capacity.
- ◆ One Training Captain (40 hours per week) to increase training delivery and coordination at \$205,725.

#### 4.10 JOINT HEADQUARTERS FACILITY NEED

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During the shared headquarters team test period, the joint staff were split into two locations at their respective prior office locations. The team states that neither the Brea City Hall space nor the Fullerton Fire Headquarters space are large enough for the joint team, especially if fire prevention and office support professionals are included.

Citygate cannot emphasize enough, based on actual experience, that it is very difficult to design, negotiate with both workforces, and establish a joint fire department from two office spaces that are far apart. Citygate has not evaluated the cost of obtaining joint fire headquarters team office space, even if leased for a few years.

Citygate believes based on our prior experience in actually merging agencies that, during JPA implementation, the Cities should work to identify a joint headquarters site that can be implemented if economically feasible after the new JPA commences joint operations.

#### **4.11 HEADQUARTERS STAFF ADDITIONS IF DEPARTMENTS WERE TO ONCE AGAIN FULLY SEPARATE**

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There are currently eight shared fire headquarters positions:

- ◆ 1 Fire Chief
- ◆ 1 Deputy Chief of Operations
- ◆ 3 Shift Battalion Chiefs for 24/7/365 incident command and fire station supervision
- ◆ 1 Fire Deputy Chief of Administration / Fire Marshal for fire prevention and fire code enforcement duties
- ◆ 1 Training Officer at the Division Chief rank
- ◆ 1 Division Chief for support services

If the Cities were to end the shared fire management services program, they would need to staff, per fire department, the minimum headquarters they had previously:

- ◆ 1 Fire Chief
- ◆ 1 Operations Division Chief
- ◆ 1 Division Chief Administration / Fire Marshal for fire prevention and fire code enforcement duties
- ◆ 3 Shift Battalion Chiefs for 24/7/365 incident command and fire station supervision
- ◆ 1 Training Officer at the Battalion Chief rank

Therefore, a merged headquarters team saves the Cities the expense of five costly management positions at an approximate cost of \$1.5 million dollars per year.

**Finding #5:** A fully-merged JPA fire department is more capable, effective, and cost efficient for the same cost of two separate departments that would compete in the same labor market for talent, and do not have the same management team depth or succession planning ability as the larger agency alternative. In and of itself, a joint savings of \$1.5 million for both Cities annually in unneeded duplicative headquarters positions covers the slight increased JPA expense for City Hall support services and line fire staff total compensation leveling.

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## SECTION 5—BREA AND FULLERTON AMBULANCE DEPLOYMENT OPTIONS

Neither the Brea nor Fullerton Fire Departments staff ambulances. The services are privately provided under contract. If the separate EMS revenue study finds operational, fiscal, and legal reasons to enter into the ambulance business, the ambulances, of course, must be staffed.

For fire departments that provide ambulance services, there are several typical approaches *across California* to staffing the ambulances. The deployment model in this study has to be predicated on the deployment allowed in the County of Orange Emergency Medical Service Agency. The Orange County variations are listed below in order from most- to least-costly in terms of personnel expense:

- ◆ 2 Firefighter/Paramedics
- ◆ 2 Firefighter Emergency Medical Technicians (EMT) (1 or 2 Paramedics are then on each neighborhood fire engine)
- ◆ 1 Firefighter/Paramedic and 1 non-sworn Ambulance Operator/EMT
- ◆ 1 Firefighter/EMT and 1 non-sworn Ambulance Operator/EMT
- ◆ 2 Non-sworn EMTs (Firefighter/Paramedics on fire engines)

Each staffing model possible has operational and economic strengths and weaknesses. There is no single best model, and fire departments must assess their firefighting and technical rescue risks, and frequency of incidents versus the workload demand and clinical severity of the EMS patients being served. Historically, most fire departments that operated community ambulances (before and since paramedics were first allowed in 1970 in Los Angeles County) staffed both ambulance crew positions with firefighters as the low incidence rate of ambulance calls meant that the ambulance crew was typically available for firefighting duties—hence the term “Dual-Role Firefighter/Paramedic.”

Over the last 46 years of paramedic operations in California, there have been many changes—from the State regulating ambulance programs through each county’s Health Services EMS Agency, to a dramatic rise in the demand for 9-1-1 ambulance requests as more and more people lost extensive health care coverage, to the rising personnel cost per hour for Dual-Role Firefighter/Paramedics.

The result of these changes is that, during the waking hours of the day, ambulances are very busy, tend to transport acutely ill patients 25% or less of the time, meaning crews are not available as much for firefighting, and Medicare and Medi-Cal do not pay the full cost of a patient transport.

Most counties today still require that two paramedics treat and accompany acutely ill patients to the hospital. However, the two paramedics do not need to be on the ambulance. In some systems, one is on the fire engine, and one is on the ambulance. In other systems, such as in Orange County, the County EMS Agency requires a paramedic unit to be two paramedics that can be on any type of apparatus—a fire engine, ladder truck, squad, or ambulance. Where both paramedics are *not* on an ambulance, then the ambulance is typically staffed with two EMTs. Thus, across California there are several ways to deploy paramedics on fire first responder units and ambulances:

1. Currently, the Cities send the closest fire units on the low acuity EMS 9-1-1 incidents, which account for 38% of all calls in Fullerton and 39% in Brea. For these incidents, the two-EMT ambulance method results in the lowest cost per hour to transport the patient. If the Cities operated and staffed their own ambulances, they could choose not to send the fire engine paramedic crew on these low acuity incidents. Doing so would mean two fire paramedics stay in their assigned neighborhood to handle the next emergency. This is important at peak hours of the day when the ambulances are busy.
2. In a two-paramedic-on-the-engine and EMTs-on-the-ambulance system, one fire-unit-based paramedic is typically needed to accompany the patient to the hospital on about 30% of all transports in Fullerton and 39% in Brea. So when one paramedic goes to the hospital, the other fire unit paramedic is available with another firefighter on the engine in the neighborhood for other incidents.
3. In a fire engine or ladder crew staffed by only three individuals, two of whom are paramedics, operating with an EMT ambulance, there are incidents that require both paramedics to accompany the patient to the hospital. This occurs on about 32% of all transports in Fullerton and 36% in Brea. When two of the crew are sent to the hospital, the remaining 1-person engine is not effective for another response and either waits for the crew members to return, or must go to the hospital to retrieve them.
4. The most operational and cost flexibility is gained with a fire unit staffed by four persons, two of whom are paramedics. Again, in this case, 30 to 39% of the time, the lower-cost EMTs on the ambulance perform the transport. When only one paramedic is needed to transport the patient, the fire crew is still an effective firefighting unit with *three* crew members, and it still has one paramedic for another neighborhood EMS response and can respond to fires and other serious emergencies.

If the companion EMS economics study motivates the partner Cities to enter into the ambulance business with City personnel, there are design considerations to determine the quantity and type

of personnel to place on the fire units and ambulances. The approach must be based on the Orange County EMS Agency requirement for two paramedics to attend to one or more patients.

The City of Fullerton currently operates three, 4-person paramedic fire units, each of which has two paramedics. Another two Fullerton fire units operate with 3-person staffing, of whom one is a paramedic, thus the unit is a paramedic assessment unit (PAU). Finally, the City staffs one, 3-person Basic Life Support (BLS) fire unit containing no paramedics.

The City of Brea operates two 3-person paramedic engine crews and a 4-person paramedic truck, all of which have two paramedics on each crew. A third Brea engine is staffed at the BLS level with no paramedics.

Another possible system design would be to use *all* 3-person fire units staffed with two paramedics and an EMT ambulance staffed with one firefighter/EMT and an ambulance operator, then the fire unit is the “paramedic” unit, and one EMT ambulance is also dispatched. When one paramedic is sent to the hospital on the ambulance, then the crew is still at three (the firefighter/EMT moves to the engine), but the unit is now a single paramedic PAU and would need another paramedic engine to also respond on other incidents per Orange County policy. This would be the leanest, cost-efficient staffing plan *possible* to staff all fire units in both Cities with 3-person fire crews, *two* of whom are paramedics.

The ambulances could be staffed in Fullerton with a firefighter/EMT removed from fire unit staffing, along with an ambulance operator (AO) EMT who is paid less than firefighter wages and benefits. The ambulances in Brea could be staffed with one firefighter/EMT and one ambulance operator.

Moving to this model of *two* paramedics on all fire units, along with not sending engines initially, if at all, to the 30-39% low acuity EMS incidents, will substantially reduce wear and cost on the engines along with increasing their availability for more serious 9-1-1 requests.

Thus, the ambulance transport staffing options are:

- ◆ When the EMT crew can transport the patient, the two firefighter/paramedics stay on the fire engine in service for other calls.
- ◆ When a transport only requires one paramedic, a firefighter/paramedic is switched to the ambulance and the Firefighter/EMT is rotated to the engine. In this scenario, the fire engine would be in service as a PAU and can respond with another paramedic unit or PAU to deliver two paramedics to the next incident.
- ◆ When both firefighter/paramedics are needed for the transport, the engine is out of service until it can regain its crewmembers.

While in lighter-risk and less-fire-prone communities, a three-person fire engine crew is acceptable staffing for modest, infrequent fires, and when the crew provides paramedic care, other factors should also be considered when designing crew size. These factors include understanding the total emergency demand on the crew per shift, the acuity of the patients they serve, as well as workload at peak hours of the day. This workload concern occurs due to the need for one or, worse, two paramedics from the fire crew to accompany the patient during the ambulance transport.

The decision to staff three or four on an engine thus depends on total incident volume at peak hours of the day, the community’s fire risks to be protected, the severity of the patients being transported, and the total system revenues available to support three versus four on the firefighting units.

In the ambulance model, using three-person fire crews throughout Brea and Fullerton, the three versus four firefighting staffing change is an issue for Fullerton to resolve as it operates three of its fire engines per day with four firefighters each. In 2015, Fullerton responded to 12,630 incidents, which is an average of 34.6 incidents per day, or a little more than once per hour. Many departments respond 66% of the time to EMS events. Fullerton’s EMS ratio is on the high side of Citygate’s clients, with EMS workload comprising 82% of responses. Some units are busier than others.

The following table counts all apparatus responses and, as some incidents require more than one unit, the total responses in this table are more than the total incidents:

**Table 11—Fullerton 2015 Unit Responses**

Unit	Staffing	Responses	Percent
Engine 1	4	3,818	21%
Truck 1	4	2,484	14%
Engine 2	4	3,602	20%
Engine 3	3	2,079	12%
Engine 4	3	1,614	9%
Engine 5	4	2,895	16%
Engine 6	3	1,267	7%
<b>Total</b>		<b>17,759</b>	<b>100%</b>

While the total number of responses per City is different, the severity and types of medical incidents each City responds to are very similar. The regional dispatch system categorizes EMS incidents into five types, from A to E, or “Alpha, Bravo, Charlie, Delta, and Echo.” The least severe type is Alpha and the most severe is Delta and Echo. In Brea, as a percent of total



dispatches, the Alpha and Bravo dispatches are 39% of the total. In Fullerton, Alpha and Bravo dispatches are 38% of the total.

Some systems are now testing *only* sending an EMT ambulance to the very lowest severity incidents. If the Cities were able to successfully implement such a response model, the frequency of fire unit responses would decrease by, most likely, the current number of Alpha and some of the Bravo incidents in Fullerton, which is approximately 38% of all EMS dispatches. This approach would decrease the wear on the fire engines and increase the availability of fire units for more serious incidents.

As infill growth occurs and traffic congestion increases, fire unit travel time to emergencies does not improve. When multiple units are needed, or single units must cross the City to cover another unit's area, travel times are even longer. It is commonsense that if the Cities fielded their own ambulances with blended firefighter and ambulance operator (EMT) staffing, they would have multiple response choices for different types of incidents, and more units available at peak hours of the day.

If two transports at the same time needed *both* paramedics off of the two engines, then those two engines fall to two-person staffing which is insufficient for serious firefighting. However, in this occasional occurrence, the City would still have five fully-staffed firefighting units with 15 personnel available. National Fire Protection Association (NFPA) Standard #1710 for Career Fire Service Deployment, as well as the Commission on Fire Accreditation and Citygate, recommend that the initial "Effective Response Force" to a building fire in urban areas be a minimum of 15 personnel plus a command chief, all to arrive within 8 minutes travel time. Thus, Fullerton could field an Effective Response Force of four engines and one ladder truck with at least 15, and still have two units available for other emergencies.

### **5.1 FIRE CREW AND AMBULANCE STAFFING OPINION**

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For firefighting risks, Fullerton is a built-up, urban city with multiple serious risks to be protected in addition to typical housing. The higher risks include multi-story buildings, a California State University, student housing, and other commercial/industrial risks. Fullerton's current daily staffing is designed to deal effectively and quickly with these risks in case of a fire, to keep human and economic loss low. If three firefighters per day (one from each of three of the four 4-member engine crews) were placed onto ambulances, the firefighters on the ambulances still can be sent to fires and other non-EMS events *if not already on an EMS incident*.

Overall, the combination of a paramedic engine (staffed by three firefighters, two of whom are also paramedics) along with an EMT ambulance staffed with one firefighter/EMT and one non-sworn ambulance operator, offers the greatest cost flexibility and retains all ambulance revenues in excess of cost to the Cities. If the fire engines are additionally not dispatched to low patient acuity incidents, the system gains response capacity for back-to-back incidents.

However, while EMS events are a high percentage of the emergency incident workload, a fire department fundamentally exists to protect a community from the catastrophic effects of fires spreading building to building, to handle complicated technical rescues, hazardous materials spills, and small to large mass casualty incidents. If the stand-by force to deal with such serious emergencies is too often over committed to single-patient EMS incidents, then the community becomes too dependent on automatic aid and adjoining City units may be themselves over committed. This is why, if a city can afford to do so, it will operate a four-firefighter paramedic unit and an EMT ambulance. In that model, if transport revenues cover the cost of the fourth firefighter on the engine, then there is even greater EMS response flexibility as sending a firefighter/paramedic with the ambulance to the hospital, *still* leaves most engines staffed with three personnel in service more often.

**Finding #6:** A practical option is for the Cities to begin providing ambulance services by transferring, in Fullerton, three firefighter/EMTs per day off of three firefighter-staffed engines to ambulance duty, and hire an additional three ambulance operators per day as non-sworn EMTs to complete the staffing of the ambulances with two personnel each. In addition, the JPA must hire an additional three firefighter/EMTs and new ambulance operator staff for at least one ambulance per day in Brea.

The ambulance system economic report commissioned by the Cities estimates the cost of this staffing model at year one to be \$3,597,092. The estimated total ambulance revenues are approximately \$1,402,908 *in excess of this cost*.

**Finding #7:** If the ambulance revenues continue stronger than direct costs, then Fullerton and Brea could consider retaining the four-firefighter units in higher risk, higher incident volume areas. Citygate would recommend this model as having the most operational flexibility for *both* fire/rescue and EMS incident staffing.

**Finding #8:** Transferring three firefighter/EMT positions per day from three Fullerton fire engines should be considered a pilot program. Ambulance usage, costs to revenues, and impacts on the non-EMS Effective Response Force availability to serious incidents should be carefully measured. Given the ever-rising rate of EMS incidents, and delays in transferring patients from ambulance care to emergency department staff, Citygate is concerned that, at peak hours of the day, the City could end up having too many committed engines and ambulances, and then be less able to field, at the same time, an Effective Response Force to fires and other emergencies.

If this occurs repeatedly, then the Cities must have the transport revenue available to add another ambulance to the system at peak hours of the day.

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## SECTION 6—JPA IMPLEMENTATION

### 6.1 JPA MERGER ELEMENTS AND IMPLEMENTATION

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There are many items required to set up a JPA, which stated simply, is a new governmental agency under the policy control of the agencies sharing the services.

In addition to the personnel compensation, pension, and health care cost items addressed in this report, the “business” of running the JPA has to be established by the two partner Cities. As discussed previously in this report, the two Cities will share providing the usual and customary support services to the JPA as they do today to their own fire departments.

Some of these services come at a cost and the Cities should agree on a fair charge to the JPA which will then be cost shared like all other JPA services. This will likely include both direct service-level costs and indirect support services costs, each of which may be distributed by different methods. Some JPAs reach different agreements on sharing support service costs by formula, and others use the number of firefighters or fire stations, which is the method used to share the line fire station costs. There is no single best way; the parties will need to assure each other that the support service costs are fair and do not result in profit to the city providing the service.

Then the JPA must set up its fiscal books including:

1. Setting up fiscal records per the California Government Code.
  - a. This can be done as a “trust fund” inside one city’s General Fund, or as a separate JPA entity.
  - b. If done as a trust fund, the city’s annual audit covers the Fire Department JPA fiscal records, but the trust fund should be charged a fair share cost for audit services.
  - c. If done as a separate entity, the JPA also must budget expenses for an annual audit. The advantage to the separate records method is that if the JPA accrues liabilities, under government finance reporting rules that liability has to be reported as part of the partner Cities. For this reason, Citygate prefers the separate set of fiscal records design, even given the audit and Finance Director costs.
2. The partner Cities must establish a cash flow system and budget process for the JPA. Typically, this means on a monthly or quarterly basis transferring city payments, per the cost share formula, into the JPA so it in turn has the cash flow to pay its obligations. Establishing a monthly bank and cash reconciliation process

and treasurers report for the JPA is a best practice that will provide sound operational and fiscal integrity and establish financial transparency from a public policy perspective.

3. The Cities need to establish other policies and procedures for the JPA to ensure records are created and maintained as the State and transparency practices require.

Basically, all of a City's normal business practices under federal and State law must either be performed by one of the Cities for the Fire Department JPA or set up inside the JPA for JPA assigned personnel to perform.

The pension economics of CalPERS suggest that the new JPA be formed as the merged employer of record. While this may appear simple to the two Cities, to CalPERS, the State Franchise Tax Board, and the Internal Revenue Service, plus other benefit providers, it is not. Under various governmental regulations, it takes time to set up a new employer and transfer the employees and other obligations into one set of books.

There are dozens of steps that must occur over time for a merger to proceed from conceptual approval to legal implementation. All of these steps necessitate issues to be resolved and decisions to be made. If the conceptual formation of a shared fire services JPA is approved, and more incremental work is commissioned leading up to final implementation agreement, the following are the macro issues and steps:

1. Approve a Governance Agreement (*completed*)
2. Jointly appoint an implementation manager (*completed*)
3. Appoint an implementation committee (*completed*)
4. Give the required one-year notice to CalPERS to start the process for contracting for pensions
5. Conduct impact "meet and confer" with the represented employees, and draft a single MOU to serve as the foundation for final costs and benefit provider contracts
6. Further analyze the cost of changes to benefits as set by the "meet and confer" result
7. Prepare a final economics model
8. Draft a new merged JPA agreement
9. Ask the two City Councils to provide incremental approvals as the elements come together

10. Ask the two City Councils to approve the final JPA and MOU agreements
11. Appoint a JPA-employed Fire Chief
12. Ask the two City Councils to give final approval resolutions to CalPERS
13. Implement a merged payroll and operating budget at an agreed-to date.

The new JPA partners must also determine:

1. The name of the merged JPA
2. The final headquarters team staffing
3. The merged headquarters team office space.

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## SECTION 7—CONCLUSION AND NEXT STEPS

Even after a positive experience with a long-term, shared fire headquarters team, an intergovernmental merger requires a series of progressively serious steps until final, binding agreements and benefit providers' contracts are approved by elected officials. During this series of due diligence and final choices planning, the two groups of elected officials are not yet making a binding, irreversible decision.

Based on our analysis of all the factors in this and the companion ambulance feasibility study, and given our experience of estimated costs at this point, versus the reality of the end result, Citygate *strongly endorses that the Cities continue* the on-going JPA merger implementation work. There are at least four major components to this, each of which will require separate City Council approvals: a merged labor agreement, the merged CalPERS contract with unfunded liability agreement, a merged financial budget, and a new JPA agreement. As such, most merger partners accept the risk that if any one of these detailed final agreements cannot be successfully reached, the merger effort will fail. There is simply no shorter way than this to “approve” a merger given that labor agreements drive CalPERS costs, and that CalPERS desires a year to complete its own contract revisions.

As Citygate's cost analysis shows, using a conservative cost model estimate, the merging of all the personnel into a JPA only slightly increases costs at this step of feasibility analysis. Final employee cost decisions could take the slight increase close to zero. Separately, the ambulance transport feasibility study shows that if the Cities implement ambulance transportation, their efforts depending on the staffing model chosen, will realize revenues *in excess* of costs from \$900,000 to \$2,000,000 annually.

### 7.1 MERGING LABOR AGREEMENTS WORK

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Forming a JPA does not mean the partner agencies can discard their labor agreements and transfer employees into a JPA without due process under California labor laws. Employers must therefore follow their obligations to “meet and confer” regarding changes to wages, hours, and working conditions. While the partner agencies and their employee bargaining groups must reach agreement on many issues to develop a merged labor agreement (each element of which can be reconfigured as necessary to meet the needs of a larger agency), there are common strategies the parties can use:

- ◆ Representatives of the two Cities should meet to determine an appropriate compensation policy to guide the “meet and confer” process with the labor groups. The policy should address the appropriate competitive position in the labor market (i.e., total compensation at the 50<sup>th</sup> percentile) and include a detailed total compensation survey of the comparator agencies within the geographic area.

The results of the survey can serve as a baseline for “meet and confer” on wages, cash-add-ons, and benefit costs.

- ◆ Identify compensation issues, such as specialty pays, that are different but can be merged over a phase-in period of months or years, to a new JPA standard.
- ◆ Identify compensation, benefits, or work rules that do not fit the new, larger agency needs. Then set a forward-looking date where the new rule will apply to all employees or just new hires. In the meantime, “grandfather” or freeze the old benefit to existing employees.
- ◆ Attempt to equalize total compensation between the two agencies, sooner rather than later. This is the final goal of a comprehensive merged labor agreement.
- ◆ Reconfigure existing working rules understanding that each solution may need different transition timing. Vacation and station bids need to be merged fairly quickly. Criteria for promotional tests can change over time with plenty of notice. Cross-training needs to be performed on different apparatus and tools before cross-City overtime or station assignment bids can be considered.

During the final pre-merger work period in which personnel and JPA agreements are finalized, the cost for which the Cities are at risk is the staff time and specialist costs that are needed to obtain contractual agreements, such as legal or human resources. Estimates for these one-time costs were placed into Citygate’s cost projection model.

At this point of the JPA merger feasibility review, Citygate does not see the need to finance capital costs, as each City does not have to make major changes to their fire station and fire apparatus costs. If the Cities and CalPERS do not reach agreement on merging their prior liabilities into the JPA to pay forward over time, then each City can choose how to directly fund, or borrow to pay their separate unfunded liability obligation.

Based on the merger elements identified in Section 6 of this report, Citygate recommends the following short-term steps:

1. Each City Council should choose whether to proceed with further due diligence regarding a fully merged JPA.
2. If the Cities choose to proceed, the Councils should appoint a JPA implementation manager and steering committee to:
  - a. Conduct “meet and confer” with the bargaining groups and reach agreement on a merged Memorandum of Understanding (MOU), which will only be implemented if the fully merged JPA is legally stood-up.

- b. Give formal notice to CalPERS for a fresh-start JPA employer CalPERS contract, and request negotiation regarding the handling, over time, of the unfunded liabilities separate to the agencies that incurred them.
- c. During the one-year CalPERS notice period, expend the effort on a fully merged JPA agreement meeting legal, finance, and human resource needs.

## **7.2 FIRE SERVICES OPTIONS IF A MERGED JPA IS NOT ATTAINED**

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If a full JPA merger is not attained, the two Cities still have several options for the provision of fire services to control costs below that of operating two independent fire departments meeting all regulatory requirements for an appropriate headquarters unit. These options are:

1. Continue the current headquarters sharing.
2. Continue the headquarters sharing, but move all fire headquarters personnel into one of the City's employment structures to gain a common employment structure.
3. If headquarters sharing is continued, over several years work to level the employment costs and conditions of the firefighters to make a merger more feasible and/or wait for better conditions from the pension and health care providers.
4. If the two Cities choose to separate the fire headquarters team, consider not splitting all functions. For example, two Fire Chiefs could be hired, but the agencies can share via a contract, one or more support positions such as training or EMS clinical oversight. Limited function sharing by contracts is now very common among California fire agencies. For example, today the Cities share fire dispatching services with several other area fire departments.
5. Even if the two Cities were to agree to spend more money and totally separate, before doing so they could also entertain contract for service quotes from another agency, such as the Orange County Fire Authority. Alternatively, one of these two Cities could contract fully into the other City's fire department and have that City be the sole employer providing the governance structure. In this model, there is not a JPA Board and the employer City sets all terms of a performance-based contract for the other City to just pay without shared decision-making.

In the final analysis, sharing fire services is better for most smaller, suburban agencies. The difficulties in merging are substantial given employment and benefit laws, but so are the benefits. The Cities are to be congratulated for at least starting a shared headquarters team and exploring the feasibility of a full JPA merger.