



**CITY OF STANWOOD
FINANCE COMMITTEE
AGENDA STAFF REPORT**

ITEM NO: 4

DATE: February 26, 2015

SUBJECT: Interlocal Agreement with North County Regional Fire Authority (Agreement)

CONTACT PERSON: Greg Thramer, Finance Director

ATTACHMENTS: A – Staff Report from Fire Chief Cermak to the Public Safety Committee dated February 18, 2015

B – Excerpt from the Minutes of the February 12, 2015 Public Safety Committee

C – Email from Snohomish County Auditor’s Office Regarding Levy Lift Timeline

D – Section 4.4.2 of the Department of Revenue Property Tax Levies Operations Manual Entitled “Levy Limit Lid-Lift”

ISSUE

The issue before city council is whether to re-open negotiations with North County Regional Fire Authority, move forward with a fire and EMS annexation ballot measure sometime in the future, or possibly both.

Under the existing contract, the annual fire contract payment is fixed at \$1,279,393 for the first five years (from 4/1/2012 to 3/31/2017), which was calculated as follows:

The city’s assessed valuation (AV) for tax year 2012:	\$639,696,397
Divided by \$1,000 (to get rate per \$1,000)	<u> \$1,000</u>
Equals	\$ 639,696
Times: Combined N County Fire/EMS levy 2012	<u> X 2.00</u>
Equals City’s annual fire payment 1 st five years	<u> \$ 1,279,393</u>

After the first five years, the annual payment, under the current formula, could increase to \$1,521,000 million or more, depending on the City’s AV and North County’s

combined fire and EMS levy at that time. The maximum combined rate under state law is \$2.00 (\$1.50 for fire and \$0.50 for EMS).

A potential annual increase of nearly \$250,000 (19.5%) per year in 2017 would be a huge budget challenge to the City. The contract allows the City to terminate the Agreement with two (2) years written notice, and the soonest the City could do so is April 1, 2015. If the decision was made to terminate the Agreement on or after April 1, 2015, the City would then have just two (2) years to come up with some manner of replacement fire and EMS service provision, which is discussed at length later in this memo.

RECOMMENDATION

1. Review the terms of agreement and payment for services between City of Stanwood and North County Regional Fire Authority.
2. Consider a contract with Steve Nolen to ensure City leadership is well informed of its options for future fire service delivery.
3. Consider alternatives to fund future fire service/EMS costs.
4. Set a date and time to form a special committee with public safety input to evaluate options.

DISCUSSION

Following is a brief history of the Interlocal Agreement between the City of Stanwood and North County Regional Fire Authority.

On June 1, 2011 the City of Stanwood put out a Request for Proposal (RFP) to establish an Interlocal Agreement to provide Fire and EMS services to the city.

In September 2011 the City of Stanwood and North County Regional Fire Authority started negotiations on the ILA.

On March 8, 2012 the City of Stanwood signed the ILA with North County Regional Fire Authority to start providing service to the city on April 1, 2012.

Below you will find some of the highlights of the Interlocal Agreement:

Terms of Agreement

This Agreement shall run from April 1, 2012 through December 31, 2031 unless earlier terminated in accordance with the terms and conditions contained herein.

Termination Within First Five Years

The parties acknowledge that entering into the Agreement, significant financial and personnel resources have been expended. Therefore, neither party may terminate this Agreement within five years.

Termination

No sooner than April 1, 2015, either party may give notice of termination of the Agreement for any reason by providing the other party with a two year written notice of its intent to terminate.

Payment for Services – First Five Years (until April 1, 2017)

During the first five (5) years of this Agreement, the maximum rate at which the City may be charged for fire and EMS services shall be the Fire Authority's General Fire and EMS Levy rate times the City's 2012 Assessed Valuation and in no event shall said rate be greater than \$2.00 per \$1,000 of assessed valuation.

The city's assessed valuation for tax year 2012 was \$639,696,397, which means the annual fire service payment to North County RFA under the Agreement for the first five years was set at \$1,279,393 (\$2.00 total levy rate times \$639,696,397/\$1,000 = \$1,279,393).

Since the Agreement commenced on April 1, 2012, the annual contract payment shall be kept at the same \$1,279,393 until the five year period expires on April 1, 2017.

Fire Suppression Services

The Fire Authority shall provide all services necessary for fire suppression, hazardous material response, and rescue.

Emergency Medical Services

The Fire Authority shall provide all services necessary for basic and advanced life support emergency medical services.

Fire Prevention Services

The Fire Authority agrees to provide certain fire prevention services to the City as outlined below;

Fire Prevention, Fire Inspections and Public Education

Fire Service Support Services

The Fire Authority agrees to furnish certain support services as outlined below:

CPR training, CERT training, Fire Investigation, Pay City's cost of Fire and EMS dispatch with SNOPAC. Pay City's costs for Fire and EMS portion of the City's SERS contract with Snohomish County.

Emergency Management

The Fire Authority agrees to provide oversight and coordination on the City's Emergency Operations Plans.

Staffing

The Fire Authority shall become the employer of those employees of the City who are employed by the City immediately prior to the Commencement Date of the Agreement.

Equipment Use, Maintenance and Repair

The Fire Authority may use any of the rolling stock or equipment it declares it intends to purchase. The Fire Authority agrees to perform all ordinary maintenance of equipment. The City shall be responsible for any "major repairs" to equipment except those caused by negligence or willful neglect. "Major Repair" shall be defined as any single repair which exceeds \$3,500.00 in parts, labor, and sales tax.

Equipment Purchase

On or before December 31, 2016 or earlier agreed by the parties, the Fire Authority shall purchase the City fire department rolling stock and equipment.

Facilities/Fire Station

The Fire Authority shall pay rent of one dollar per year to the City, shall be solely responsible for the routine maintenance associated with Fire Station 99 and payment of all utilities serving the property.

Major Repairs and Maintenance

The parties shall share equally the cost of major repairs and maintenance of Station 99 including, but not limited to roofs, HVAC systems and structural repairs. Provided however, the Fire Authority's contribution shall be capped at \$10,000.00 for any individual item requiring repair or maintenance.

Future Operations

Within 90 days of full execution of this Agreement the City and the Fire Authority shall form a joint working committee consisting of not more than three elected officials of each entity. The purpose of this committee shall be to research and investigate to potential consolidation, annexation, formation or joinder in a Regional Fire Authority or formation of a joint board through Interlocal Agreement.

Payment for Services

The City shall pay the Fire Authority for the services provided under this agreement the same amount the Fire Authority would receive from properties located within the City if the Fire Authority were directly collecting the taxes on the assessed value of those properties at the levy rate then prevailing in the Fire Authority, both General levy and EMS levy.

First Amendment

To facilitate orderly transition of trauma verification from Camano Fire to North County Regional Fire Authority.

Second Amendment

To set the joint committee meeting from monthly to quarterly.

Third Amendment

To set the fire inspection from bi annual to annual and to clarify the equipment the Fire Authority is to purchase is the equipment on the rolling stock.

Payment for Services – After the Initial 5-Year Period (after April 1, 2017)

The City shall pay the Fire Authority for the services provided under this agreement the same amount the Fire Authority would receive from properties located within the City if the Fire Authority were directly collecting the taxes on the assessed value of those properties at the levy rate then prevailing in the Fire Authority, both its General Levy and EMS levy. The annual payment shall be adjusted each year accordingly during the term of the Agreement.

Presented below is actual, historical property tax data for the City of Stanwood, along with projected data assuming that the city’s assessed valuation increases by 5% per year for the next few years. Also shown is the hypothetical annual rate that would be paid under the current formula assuming that North County levies the maximum \$2.00 / \$1,000 each year.

Table 1 – City of Stanwood AV, Actual and Projected Annual Fire Service Rates

Year	Assessed Value	Maximum Rate/\$1,000	Actual Rate	Formula Rate
2008	\$ 837,739,709	\$ 2.00	N/A	N/A
2009	\$ 857,788,432	\$ 2.00	N/A	N/A
2010	\$ 775,776,040	\$ 2.00	N/A	N/A
2011	\$ 714,934,054	\$ 2.00	N/A	N/A
2012	\$ 639,696,397	\$ 2.00	\$ 1,279,393	\$ 1,279,393
2013	\$ 591,926,022	\$ 2.00	\$ 1,279,393	\$ 1,183,852
2014	\$ 638,609,620	\$ 2.00	\$ 1,279,393	\$ 1,277,219
2015	\$ 689,923,406	\$ 2.00	\$ 1,279,393	\$ 1,379,847
2016	\$ 724,419,576	\$ 2.00	\$ 1,279,393	\$ 1,448,839
2017	\$ 760,640,555	\$ 2.00	\$ 1,521,281	\$ 1,521,281
2018	\$ 798,672,583	\$ 2.00	\$ 1,597,345	\$ 1,597,345
2019	\$ 838,606,212	\$ 2.00	\$ 1,677,212	\$ 1,677,212
2020	\$ 880,536,523	\$ 2.00	\$ 1,761,073	\$ 1,761,073

Under the assumptions presented above, the annual contract payment could increase by about \$482,000 per year by the year 2020. This is well within the realm of possibility as property values would only have to rebound just above their 2009 peak of \$857 million for this scenario to come true. Of course, it is also possible that the actual levy

rate charged by North County could be less than the \$2.00 maximum rate, which would reduce the annual contract amount, but this is difficult to predict. Presented below is actual, historical property tax data for North County Regional Fire Authority.

Table 2 – North County RFA Actual Levy – 2011 through 2014

Year	Assessed Value	Actual Rate/\$1,000	Actual Levy
2011	\$ 1,828,198,485	\$ 2.00000000	\$ 3,679,634
2012	\$ 1,618,547,727	\$ 2.00000000	\$ 3,254,037
2013	\$ 1,525,279,544	\$ 2.00000000	\$ 3,065,250
2014	\$ 1,641,884,980	\$ 2.00000000	\$ 3,298,193
2015	\$ 1,842,162,166	\$ 2.00000000	\$ 3,699,313

Table 3 – City of Stanwood Actual Levy Data through 2015 and Projected through 2020

Year	Assessed Value	Actual Rate/\$1,000	Actual Levy	Potential "Lift" Amount
2011	\$ 714,934,054	\$ 2.67000000	\$ 1,908,874	
2012	\$ 639,696,397	\$ 3.03905856	\$ 1,944,075	
2013	\$ 591,926,022	\$ 3.31366910	\$ 1,961,447	
2014	\$ 638,609,620	\$ 3.21088508	\$ 2,050,502	
2015	\$ 687,073,355	\$ 3.05424026	\$ 2,098,487	
2016	\$ 724,419,576	\$ 2.96026232	\$ 2,144,472	
2017	\$ 760,640,555	\$ 2.88035746	\$ 2,190,917	\$ 167,069.03
2018	\$ 798,672,583	\$ 2.80193149	\$ 2,237,826	\$ 238,059.15
2019	\$ 838,606,212	\$ 2.72500261	\$ 2,285,204	\$ 314,475.14
2020	\$ 880,536,523	\$ 2.64958477	\$ 2,333,056	\$ 396,607.06

Note: Prior to library annexation (before 2016), the city's maximum property tax levy allowed by state law was \$3.375 / \$1,000 AV. Post annexation (2016 and beyond), the maximum property tax levy rate will be \$3.10.

If the city were to put a multi-year levy lid lift on the primary ballot in August 2016, it could maintain the maximum \$3.10 tax rate and raise an additional \$167,069 to apply to the increased fire service contract as shown in Table 3 above.

Carrying the levy lid lift out to 2020, under current assessed value estimates, by 2020 the city could potentially raise an additional \$396,607 to pay for increased fire service costs.

Section 4.4.2 Levy Limit Lid-Lift of the Property Tax Levies Operational Manual (Attachment A) fully describes how levy lid lifts work. The city has obtained a timeline of events from the Snohomish County Auditor's Office (Attachment B) that would have to be achieved if the city were to put a 6-year levy lid lift on the 2016 primary election ballot, as follows:

Table 3 – Potential Timelines for a Levy Lid Lift

Critical Dates	Event
Before 5/13/2016	Pass a Resolution to place 6-year levy lid lift on the 8/2/2016 primary ballot
5/13/2016	File Resolution with the Snohomish Co Auditor, along with an explanatory statement for the voters' pamphlet (written by the city attorney)
8/2/2016	6-Year Levy Lid Lift is placed on the primary ballot
1/1/2017	Levy Lid Lift, if passed by a simple majority, becomes effective January 1, 2017

Pros and Cons of Hiring a Consultant to Explore City's Options

Pros

- An expert in the area of public safety contracting would help the City identify and analyze all of its options pertaining to the current fire services contract and help guide it to the best decision that is mutually beneficial for the City and North County Fire Authority
- An expert would help identify the service level needs and funding challenges of the City
- An expert would help the City identify the current service delivery model of North County, its revenue needs, and potential efficiencies.
- An expert could act as the City's negotiator, or even be hired jointly by the City and North County in the future to facilitate contract negotiations
- Steve Nolen of Nolen Consulting has experience in analyzing the cost structure of large public agencies and negotiations. He worked with King County Sheriff to develop the cost model that is currently used by Snohomish County Sheriff in its contract with the City.

Cons

- Cost: The scope of work for Phase 1 (Attachment C) would be \$3,925. If kept on for Phase 2, and with the agreement of North County, it may be possible to split the costs with them.
- When compared with the annual cost of the fire services contract (\$1,279,393), \$3,925 represents just three tenths of one percent (0.3%) of the overall annual cost. Per the analysis, the contract is set to increase by \$250,000 or more in a couple of years. If the consultant can guide the City into a decision that saves just a fraction of that increase, the \$3,925 will be money well spent.

Scope of Services – Nolen Consulting

Nolen Consulting
Brier, Washington

Submitted to:
Deborah Knight
City Administrator
Stanwood, Washington

Please accept the following as a proposed scope of services we discussed on Wednesday with Mayor Kelley and Finance Director Thramer.

Proposed Scope of Services
Stanwood Fire Contract Strategic Options Evaluation and Negotiations

Phase 1

The City of Stanwood currently is receiving Fire/EMS services from the North County Regional Fire Authority on a contract with terms that have held the rate constant since its inception in 2012. Rates will increase dramatically in 2017 and beyond without City having the ability to shape service and without a rational link between contract cost and cost of service delivery. The City wishes to engage with the North County Regional Fire Authority to determine a mutually beneficial approach to provision of fire/EMS services that appropriately compensates NCRFA for full costs of service and administration, while giving the City a meaningful voice in shaping the service provided to its taxpayers going forward.

I would assist you by acting as your negotiator, as well as discussion leader for Council briefings and internal discussions, reporting to you or your designee.

The table below is an estimate of the cost to get the City to the point of a strategic decision to go forward into negotiations to develop a service-based cost structure or to pursue other contract or service options.

Phase 2

Assuming a positive response from the Fire Authority I would expect approximately 80 to 120 consulting hours total for work over the spring and summer to be spent in working with City staff and the fire authority on options evaluation, model development and negotiations..

Scope of Services – Nolen Consulting (continued)

The following is an estimate for Phase 1:

Rate	\$ 125 Per Hour
Phase 1	
Hours	Ensure City leadership is well informed of its options for future fire service delivery
4	o Develop discussion materials and decision matrix for use with City leadership
3	o Discussion at City Council executive session
2	o Consider with City contract team (Mayor, Administrator, Finance Director), the best timing and approach for initiating and engaging in contract discussions with the district
1.5	· Draft and transmit letter to Chief
1.5	· Informal introduction to Chief
10	· Formal discussion of interests and contract opportunities
2	o Work with contract team to develop any available data
2	o Jointly identify with Fire Authority potential process going forward
3	· Council discussion/direction to proceed with negotiations or redirect efforts toward evaluation of long term fire/EMS options
29	Total Hours
\$3625	Consulting Fees
300	Mileage and Expenses
\$3925	Total

Please let me know if you have questions or would like this submitted formally for a City Council packet. I look forward to the opportunity to assist the City.

Regards,

Steve Nolen
Nolen Consulting

OPTIONS FOR FIRE SERVICE BEYOND APRIL 1, 2017

While the city is locked into the current Agreement with North County for the first five years (until April 1, 2017), there are many options to consider for fire protection and EMS services, as follows:

Table 4 – Options Available

Option	Pros	Cons
1. Do nothing and continue the current contract with North County (full term is for 19.75 years, from 4/1/2012 through 12/31/2031).	<ol style="list-style-type: none"> 1. Relatively easy 2. N. County provides good service 3. Parties have a positive relationship 	<ol style="list-style-type: none"> 1. Escalating costs: This contract was structured for a flat annual payment of \$1,279,393 for the first 5 years. Table 1 estimates a \$482k annual increase (38%) by 2020 under the current formula.
a. Put a multi-year levy lid lift on the primary election ballot in August 2016 specifically for public safety, which would become effective in 2017 and future years.	<ol style="list-style-type: none"> 1. Helps the city to afford scheduled increases in the fire service contract beyond 4/1/2017 	<ol style="list-style-type: none"> 1. Must place a multi-year levy lid lift on the Aug 2016 ballot (pass by 50%) 2. Additional cost of ballot measure about \$2,500 3. Additional cost to taxpayer; each ten cents "lift" increases the annual taxes of a \$300k house by about \$2.50 / month.
2. Give written notice to N. County on or after 4/1/15 of intent to terminate (minimum 2-year notice). This would generate sub-options below.		
a. Re-open negotiations with N. County for a new contract based on a more equitable cost formula, which could include a modified version of the current formula such as: removing the non-voted bond levy rate (e.g. making the 2014 rate about \$1.89 by removing the 11 cents non-voted levy); actual cost of staff and equipment (similar to police contract); CPI; Cost per call; some other method or combination of methods.	<ol style="list-style-type: none"> 1. Potential cost savings to the City 2. Cost stability (AV is volatile and difficult to predict) 	<ol style="list-style-type: none"> 1. Difficult to determine the true cost of services 2. Difficult to determine a mutually equitable formula for both parties in the short and long term
b. Go through a formal bid process, similar to 2011.	<ol style="list-style-type: none"> 1. Potential cost savings to the City 2. Cost stability (AV is volatile and difficult to predict) 	<ol style="list-style-type: none"> 1. Limited number of qualified bidders 2. Cumbersome bid process
c. Explore new partnerships with other agencies to provide fire protection and EMS services	<ol style="list-style-type: none"> 1. Potential cost savings to the City 	<ol style="list-style-type: none"> 1. Limited number of qualified bidders 2. Cumbersome process – cannot do in 2 years
d. Annex fire and/or EMS into another district	<ol style="list-style-type: none"> 1. Relieves the City from responsibility for providing these services 	<ol style="list-style-type: none"> 1. Perceived loss of City control over fire/EMS functions 2. Similar to library annexation, this would require a potentially expensive ballot measure (up to \$39k) 3. City would lose up to \$2.00/\$1,000 in property tax capacity (\$1.50 property taxes and \$0.50 EMS levy. City would be capped at \$1.60 millage rate; ability to raise revenues via levy lid lift would be cut in half.

<p>e. Bring fire protection/EMS "in-house" by hiring staff to perform these functions</p>	<p>1. The City would have more control over fire/EMS functions</p>	<p>1. Would likely be more expensive 2. Cumbersome set up (hire and train staff, procure equipment, implement policies and procedures, etc.)</p>
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COUNCIL OPTIONS

1. Do nothing. Contract extended beyond 2017 to 2031. The city would have the option of running a multi-year levy lid lift to help pay for the additional cost of the annual fire services contract.
2. Give two year's notice to terminate contract on or after April 1, 2015 deadline.
3. Do not give two year's notice to terminate contract, but rather work collaboratively (perhaps via a memorandum of understanding) to amend the contract beyond April 1, 2017 so that it is financially beneficial to both parties.
4. Hire a consultant to work with both parties to study the issue and propose possible solutions. Cost could be split equally between the city and North County. The city has interviewed Steve Nolen of Nolen Consulting, who has provided a proposed scope of services (Attachment C).
5. Direct the public safety committee or the finance committee to review options in Table 3 and return to city council with a recommendation for council action.
6. Create a special committee made up of the chair of the public safety committee, the chair of the finance committee and the mayor to review options in Table 3 and return to city council with a recommendation for council action.

Attachment A

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