

Management Partners



To: Mr. Eric Levitt, City Manager, City of Fullerton

From: Carol Jacobs, Chief Operating Officer
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Subject: Fullerton Fire Department Observations and Recommendations on Proposal from the Orange County Fire Authority (OCFA) for Fire Services

Date: August 11, 2022

Executive Summary

Management Partners was retained to complete a review of the Orange County Fire Authority's (OCFA) proposal to provide fire services to the City of Fullerton. As part of the work plan, we completed the following activities:

- Conducted interviews with key staff in the City of Fullerton and OCFA;
- Reviewed the OCFA proposal provided to the City of Fullerton;
- Gathered information from the Fullerton Fire Department, City staff, and OCFA; and
- Analyzed the information and developed observations and recommendations.

The City of Fullerton has faced difficult fiscal and budget conditions for many years, essentially since the Great Recession. A measure to raise about \$25 million per year via a sales tax increase was defeated by voters in 2020. One strategy some cities have found useful for reducing overall expenditures has been to regionalize fire service delivery via a provider such as OCFA. In Orange County, both Santa Ana and Garden Grove have taken this approach recently. Of course, each city is different, and Fullerton has been operating on a lean basis across all service areas for many years.

Regionalizing service delivery can often result in savings from economies of scale in such areas as management, technology, and specialized services. In the fire service, local service delivery from neighborhood fire stations typically does not change much in terms of staffing or apparatus types, although improvements in training, career opportunities, and some support services can be found. Most savings will be from shared support services and overall management.

The City of Fullerton and the Fullerton Firefighters' Association requested and paid for a proposal from OCFA for contracted services in 2021.

OCFA is one of the largest all-hazard fire departments in California and indeed the United States. It is an excellent Fire Department that has demonstrated the ability to recruit and retain outstanding employees. Our evaluation found no reason to doubt that Fullerton would be well served by OCFA, which already serves approximately 60% of Orange County's population in 25 of 34 cities.

In terms of service to Fullerton, the OCFA contract approach would look very similar to current City service delivery. Six fire stations would still be in operation with a paramedic-staffed engine or truck. OCFA service would improve emergency medical service (EMS) because each station would be configured to provide full advanced life support (ALS). One station in the City is not currently configured in this manner. OCFA would also bring more resources to some types of structure fire incidents.

For Fullerton, expenditure considerations are complex. The proposal from OCFA *only* includes fire service costs that it will charge the City of Fullerton. It does not include ongoing costs associated with the City of Fullerton's Fire Department, which the City will have to *continue* paying even when, and if, the contract with OCFA is put in place. These costs include the unfunded actuarial accrued liability (UAAL) on pensions owed to current fire employees, ambulance transport and billing costs, workers' compensation costs for existing cases, retiree healthcare, property insurance, and the one-time costs of transitioning to OCFA (amortized over eight years). Several of these non-OCFA contract costs are significant. For example, the UAAL costs about \$5.4 million per year. (UAAL is the accrued liability of a defined benefit plan for the pensions it owes relative to the actuarial value of its assets.) Management Partners' estimates that the UAAL costs will have to be paid for at least the next 20 years, while the workers compensation costs will be paid off over a shorter time frame. The ambulance costs will continue indefinitely.

The OCFA proposal includes tables that show proposed contract costs, which do not include continuing ongoing costs as reflected in the City budget. While the report does appropriately include a footnote saying that UAAL costs are not included in the OCFA costs, only looking at the number comparisons can be confusing.

The OCFA proposal also did not include certain revenues from fire service activities the City will continue to receive. Principally, these include ambulance service fees and paramedic service subscription revenues.

This analysis accounts for these missing pieces so City leaders can get a clear picture of what the City's net position will be over the next ten years if they agree to the OCFA proposal. There are several assumptions and uncertainties that must be accounted for in any forecast of this type and they are clearly explained in the following detailed discussion.



Through this analysis, Management Partners determined that the City comparison to the OCFA proposal should include a sustainable Fullerton Fire Department.

This is because the Fire Department has not been operating in a sustainable manner from a resource standpoint over the last several years. This can be seen most starkly in the number of non-retirement separations the Fire Department has endured for several years. Firefighters are leaving Fullerton to take jobs as firefighters with other agencies because the compensation in Fullerton has not kept up with the market for several years. The differential has grown to about 15% to 20%. The level of non-retirement separations Fullerton has experienced is unheard of in the professional fire service and hinders department operations. The City recently granted a fairly large compensation adjustment of over 5% but this still did not bring pay up to market levels.

Because it is not possible to operate with such high levels of turnover on a sustained basis, we have developed a hypothetical budget for an independent Fullerton Fire Department with more sustainable funding levels to use as a comparison with the OCFA proposal. This is detailed below.

Considering both OCFA contract costs and other legacy costs the City will have to continue to pay, the OCFA proposal is more expensive than maintaining the City Fire Department under any set of reasonable assumptions. This may be surprising since the OCFA report claims that the contract will be less expensive. However, it must be remembered that the report does not include some major ongoing fire expenditures. Management Partners conducted a sensitivity analysis of this conclusion to test our findings and found that the results are reasonably robust even if the Fullerton fire department needs additional staff or must increase spending even more than called for in our sustainable projections (which already call for increased expenditures).

City leaders may still want to positively consider the OCFA proposal. It would allow Fullerton to concentrate on other municipal priorities without the need to support a fire department and support service departments would gain additional capacity by no longer having to serve the Fire Department. In any event, in coming years Fullerton will probably have to expend more funding on fire services, either with the current independent department or through a contract with OCFA.

This report will focus on a variety of considerations the City asked Management Partners to review. This report will provide an analysis of and comparison of service delivery between OCFA and the City Fire Department, transition considerations, fiscal considerations, current Fullerton Fire Department Budget, a FY 2022-23 cost comparison between Fullerton and OCFA, a 10-year cost comparison, other considerations and a conclusion.



Basic Service Delivery Comparison

Staffing and Stations

The Fullerton Fire Department operates with a total of 87 full-time positions serving the community. The budget includes 79 sworn employees and 8 non-sworn employees. The FY 2022-23 budget is staffed for a standalone fire command due to the end of a contract with the City of Brea for a shared command staff. As mentioned previously, there are six fire stations that are strategically located throughout the City. Other than Station 6 that houses a ladder truck with basic life support capabilities, each station houses a paramedic engine with advanced life support capabilities.

The annual capital budget for Fullerton's fire facilities has ranged from \$100,000 to \$200,000. There is no current long-term capital plan for fire station improvements. Besides Station 6 that was built in 2004, the stations range in age from 54 years to 65 years. The City will need to substantially rehabilitate or rebuild the old fire stations over the next 10 to 15 years as they are reaching the end of their useful life. Station 2 in particular will need to be addressed possibly sooner than 10 years based on its existing condition. This will be a major investment irrespective of the determination of a fire service provider. As a result, these capital improvements costs have not been included in either scenario.

The OCFA proposal provides Fullerton with 75 sworn positions and in addition the proposal includes administrative staff and non-sworn fire operations personnel to support the operation. The OCFA proposal continues to operate the existing stations and proposes to upgrade all Fullerton units to full advanced life support units by adding two paramedics to the number of personnel working daily. It should be noted that this is not an increase in the number of personnel per shift.

Station Improvement Arrangements

There is a high priority need to improve the facilities' restrooms for male and female access. OCFA is currently developing a plan to improve all their fire stations. It would include all Joint Powers Authority (JPA) fire stations as the cities under contract establish capital funds for the improvements. OCFA has cost estimates that range from a few thousand dollars to \$200,000 depending on the scope of the project. Given that this is an improvement that must occur and that OCFA would not mandate improvements, a long-term plan will need to be jointly developed by OCFA and the City of Fullerton, and capital funds would need to be set aside in Fullerton's annual capital budget. This will be subject to negotiations and OCFA has stated that they strive to work with partner jurisdictions on capital improvements to adjust to budget constraints.

Again, it should be noted that these improvements will be needed irrespective of a fire service provider.



Apparatus

The City of Fullerton currently has 23 vehicles and apparatus to support the department. These vehicles would be transferred to OCFA at no charge under the contract. OCFA and Fullerton may negotiate the final number of vehicles to be transferred to OCFA. Going forward, the OCFA would provide equipment replacement under the provisions of the contract.

The OCFA proposal includes \$331,786 for vehicle depreciation and includes charges for four engines and two trucks. Any other vehicle charges are included as part of overhead and there is not a direct charge for those vehicles. The annual vehicle depreciation charge is based on the current replacement cost of vehicles divided by their estimated useful life. This charge is not subject to the 4.5% cap, identified in the OCFA proposal as the maximum amount the contract can increase annually. The updated increase from OCFA's proposal between the original bid for FY 2021-22 operations to the FY 2022-23 bid is 17%.

Dispatch Arrangements

The City of Fullerton is currently part of the Metro Cities Fire Authority (a JPA) that dispatches fire and medical calls for the cities of Anaheim, Brea, Fountain Valley, Fullerton, Huntington Beach, Orange and Newport Beach. The annual cost of membership to this JPA is \$860,000, which is included in the Fire Department budget. OCFA has its own dispatch center, and the cost of dispatch is included in the price of the contract.

Personnel (Including Leave Balances)

With the transfer of Fullerton Fire Department staff, leave balances would be paid as specifically agreed upon by the City of Fullerton and the Fullerton Firefighters' Association. Vacation time is paid on separation or retirement so we assume that vacation time would be paid on the execution of the contract. The current value of all accrued vacation time as of April 1, 2022, is \$485,574. OCFA does not provide a leave bank of hours so further negotiations may include a transfer of a bank of sick leave hours that would also be paid by Fullerton. This again is subject to negotiations and is a one-time cost estimated at \$187,633.

Startup Costs

The OCFA proposal includes one-time costs of \$1,591,678, which includes equipping the fire stations with the necessary equipment and all OCFA systems for consistency. The largest cost components include new communications and IT equipment for all stations and personnel, personal equipment such as uniforms and helmets, and station and EMS equipment such as EMS supplies and security (locks and cameras). OCFA will agree to amortize these costs over the contract period. Eight years has been used for the amortization period since the contract reopener would be in 2030. As a result, the OCFA contract budget for Fullerton would include \$198,960 annually for OCFA startup costs for eight years.

Permitting and Fire Prevention

Permitting and fire prevention services would be similar from OCFA or the City. The permit fees schedules do not align exactly, but Management Partners compared a select number of similar



fees to evaluate the impact of the new fees on the City and community. Fullerton estimates \$450,000 for permit fee revenue. OCFA estimates \$607,000 in permit fee revenue for the FY 2022-23 contract year. The primary difference in fees is due to the hourly rate charged. Fullerton's hourly rate is \$106 per hour and OCFA's current hourly charge is \$202 per hour.

False alarms fees are also structured differently. Fullerton assesses \$231 after a varying number of false alarms while OCFA increases the false alarm fee from \$100 to \$1,000 as false alarms increase.

It is apparent that OCFA fees are closer to actual costs than are Fullerton's, which is an industry best practice. Customers needing permits will pay somewhat higher permit fees under the OCFA contract based on fees that cover actual costs.

Transition Considerations

Transitioning a constant duty operation is a complex undertaking. Fortunately, OCFA has had much experience. Critical functions include transitioning personnel, ensuring smooth dispatch operations, and transferring equipment ownership, which are all handled in advance of the transition event. Transitioning personnel takes a minimum of 120 days and is the longest critical task lead time. Other non-essential transition tasks can be completed after the service change but most all transitioning can be complete within 120 days of the service shift.

Timing and Approval Actions

Should City leaders want to contract with OCFA, they would need to adopt the services agreement and the related Joint Powers Authority agreement. At that time the City and OCFA would agree on a service start date, which probably would be in about four to six months. Service transitions are often done at a calendar year or fiscal year break, but this is not required. In addition, the City would have to adopt an ordinance appointing the OCFA fire chief as the City's fire chief and adopt the OCFA amendments to the 2019 California Fire and Building Codes.

Fiscal Considerations

Overview of OCFA proposal

OCFA originally provided a fire services proposal in October, 2021, for the FY 2021-22 budget that totals \$21,509,990 and includes the service charge, facility maintenance, and vehicle depreciation as shown in Table 1 below.

The proposal included a detailed cost comparison on page 10 of the proposal, as shown in the following Table 1.



Table 1. OCFA Proposal Cost Budget Comparison with Annual Increases

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
OCFA Services Charge	\$21,509,990	\$22,477,939	\$23,489,447	\$24,546,472
OCFA Percent Increase (Maximum)		4.50%	4.50%	4.50%
Fullerton Fire Department Budget³	\$27,307,520	\$29,183,547	\$31,188,456	\$33,331,103
Percent Increase⁴	8.26%	6.87%	6.87%	6.78%
Annual Savings	\$5,797,530	\$6,705,607	\$7,699,010	\$8,781,632
Cumulative Savings^{1, 2}	\$5,797,530	\$12,503,137	\$20,202,147	\$28,986,779

Source: OCFA Proposal

¹Excludes one-time start-up costs and the City's annual Unfunded Actuarial Accrued Liability (UAAL) payment to the Public Employees' Retirement System (PERS). Costs quoted are valid for the current fiscal year ending in June 2022.

²This table does not factor in other savings that the City should realize associated with workers' compensation and other departmental efficiencies.

³FY 2020-21 Fire Budget (source: City of Fullerton FY 2020-21 Budget)

⁴Percent increase calculated using 7-year average increase in annual Fullerton Fire Department budget from FY 2015/16 to FY 2021/22.

Due to the timing of the proposal being for the FY 2021-22 budget year, OCFA updated its fire services proposal to \$21,838,035 for the FY 2022-23 General Fund budget and includes the service charge, facility maintenance, and vehicle depreciation. The increase from the original service charge proposed for FY-2022-23 is 1.53%. The service charge is capped at a 4.5% increase annually during the term of the agreement. The facilities maintenance charge of \$15,000 per fire station is for general repairs at each of the six fire stations. If there are larger capital improvements needed, OCFA will discuss a plan with Fullerton leaders that meets their budget. The vehicle depreciation charge is not capped at 4.5% (which is the amount the contract can increase annually) and is based on the current replacement cost of engines and ladders divided by the estimated useful life of the piece of equipment.

It should be noted that the table has a row showing annual savings from the contract with OCFA growing from \$5.8 million in FY 2021-22 to \$8.8 million in FY 2024-25. It also includes Note 1 which states "excludes one-time start-up costs and the City's annual Unfunded Actuarial Accrued Liability (UAAL) payment...". These UAAL costs that are included in the row labeled Fullerton FD Budget are significant, as they amount to \$5.4 million in FY 2022-23 and plateau at \$6.2 million in FY 2027-28. This one adjustment wipes out most of the OCFA savings.

Note 2 to this table states that this comparison does not include "other savings that the City should realize associated with workers' compensation and other departmental efficiencies." During interviews with Fullerton staff, there was a consistent message that the transfer of fire operations would not have a significant savings on administrative staff due to current staff shortages related to freezing positions due to the budget gap. Human Resources staff conducts recruiting and hiring of firefighters about once every 18 months so there would not be a permanent savings.

Contracting with OCFA would allow Finance and Human Resources staff to focus on other departments' needs but would not result in any position reductions. There could be time saved related to healthcare plans since the Fire Department has its own healthcare plan. However, it



may take years to realize true savings due to other workload items such as workers' compensation claims and retiree healthcare continuing in the future.

The OCFA service charge is based on a board-approved calculation that is consistent with other Joint Powers Authority (JPA) contracts. Table 2 from the OCFA proposal shows the annual increase in costs assessed to each participating city. While the average annual increase shown is 3.33%, in four of the last five years, the increase has been at the cap of 4.5%.

Table 2. OCFA Estimated Annual Increase in Costs

Fiscal Year	Stanton	Tustin	Seal Beach	Buena Park	San Clemente	Santa Ana	Garden Grove	Westminster
FY 2012-13	1.34%	1.34%	1.34%	1.34%	1.34%	1.34%		1.34%
FY 2013-14	1.44%	1.44%	1.44%	1.44%	1.44%	1.44%		1.44%
FY 2014-15	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%		4.50%
FY 2015-16	2.38%	2.38%	2.38%	2.38%	2.38%	1.14%		2.38%
FY 2016-17	1.29%	1.29%	1.29%	1.29%	1.29%	1.03%		1.29%
FY 2017-18	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%		4.50%
FY 2018-19	4.50%	4.50%	4.50%	4.50%	4.50%	4.49%		4.50%
FY 2019-20	4.50%	4.50%	4.50%	4.50%	4.50%	4.47%		4.50%
FY 2020-21	4.38%	4.38%	4.38%	4.38%	4.38%	4.50%	1.75%	4.38%
FY 2021-22	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Average Annual Increase	3.33%	3.33%	3.33%	3.33%	3.33%	3.22%	3.13%	3.33%

Source: OCFA Proposal

Current Fullerton Fire Department Budget

Fullerton Adopted FY 2022-23 General Fund Budget

As a key element of this project, Management Partners reviewed the current FY 2021-22 General Fund budget and the adopted FY 2022-23 General Fund Budget. The FY 2021-22 General Fund budget does not include one-time revenues or expenditures, and thus was used as the baseline for the adopted FY 2022-23 General Fund budget. Due to the elimination of the Brea command shared staff contract, additional command staff costs are included in the adopted budget. The budget also includes a 5.25% cost of living adjustment (COLA) as negotiated in the latest Memorandum of Agreement with the Fullerton Firefighters' Association and the City.

The adopted FY 2022-23 General Fund budget for the Fire Department is \$29,196,785. Estimated revenues are \$5,811,066, resulting in a net General Fund adopted budget of \$23,385,717. For purposes of our long-range forecast, we made the following adjustments based on updated information or to better match the OCFA proposal:



- Pension costs for FY 2022-23 are adjusted based on updated information received from GovInvest¹ for the 2020 valuation from CalPERS, with unfunded actuarial accrued liability (UAAL) costs allocated based on the Fire Department's payroll. This results in total pension costs of \$7,175,126, less the employee paid portion of \$1,090,982 for a net pension cost of \$6,084,144. Compared to Fullerton's budgeted level of \$7,792,265, this is an adjustment of \$1,708,121 to the FY 2022-23 budget.² For future year pension costs, the projection of GovInvest is used, which incorporates the 21.3% investment return by CalPERS in FY 2020-21, an assumed -5% return in FY 2021-22, and a 6.8% return annually thereafter. The discount rate is assumed to remain at 6.8%. These adjustments make our pension budget estimates more accurate based on the latest information available.
- Retiree medical costs have been adjusted to use the benefit costs projected by GovInvest, which are broken out by active employees under age 50, actives 50 and older, and retirees.
- The conversion of the sixth unit from basic life support (BLS) to advanced life support (ALS) was not included in the adopted FY 2022-23 General Fund budget. Funding for this results in an additional \$67,000 per year in salaries based on 13.5% premium pay for six firefighters annually. The arson investigation unit was not included in the adopted FY 2022-23 General Fund budget. Funding this function results in an additional \$25,000 per year in salaries based on 7% premium pay for three captain positions for the year. These adjustments allow for a better year-to-year comparison with the OCFA proposal.
- Fullerton's adopted FY 2022-23 General Fund budget includes \$467,785 for its vehicle replacement reserve for the Fire Department. Fullerton's fire vehicle replacement schedule details a need for \$513,304 for FY 2022-23 for all current fire vehicles, which includes six generators at the fire stations. Funding this would increase the adopted FY 2022-23 General Fund budget by \$45,519. This adjustment allows a better comparison with the OCFA proposal.
- Other adjustments include an increase in retiree health insurance from \$442,164 to \$474,983, a reduction in liability insurance from \$636,055 to \$514,230, and eliminating a payroll vacancy savings estimate of \$143,114.

¹ GovInvest has provided local agencies with forecasts and analysis of their pension, OPEB and labor costs since 2014. The City of Fullerton began using GovInvest services in 2020. For pension costs, GovInvest offers the advantage of a more robust forecast tailored to the specifics of each client, than is currently available from CalPERS, and allows the client to create various scenarios to show the impact of differing rates of payroll growth and investment returns.

² For the adopted FY 2022-23 General Fund budget, GovInvest projects \$5,244,748 in unfunded liability costs attributable to Fire sworn employees. CalPERS charges a normal cost rate of 19.04% on the Fire safety employee payroll, which results in \$1,676,302 of normal costs, plus EPMC of \$71,313, less the employee contribution of \$1,056,493, for a total of \$5,935,871 in safety pension costs. This compares to \$7,599,729 in the adopted FY 2022-23 General Fund budget, which is budgeted higher due to the City's methodology of utilizing CalPERS fixed 'Blended Rate' for UAL across all Safety members including police safety personnel. The difference in methodology may or may not have a net citywide General Fund impact but does impact the Fire Department's budget since we are looking only at the Fire Department budget and not the total budget. GovInvest projects \$134,232 of unfunded liability costs attributable to Fire non-sworn employees. CalPERS charges a normal cost rate of 9.36% on Fire non-sworn employee payroll, which results in \$46,116 of normal costs, plus EPMC of \$2,414, less the employee contribution of \$34,489, for a total of \$148,274 in miscellaneous pension costs. This compares to \$192,536 in the adopted FY2022-23 General Fund budget.



These adjustments result in an updated FY 2022-23 General Fund budget for the Fire Department in the amount of \$27,680,291, with revenues at \$5,811,068 for a net expense of \$21,869,223.

FY 2022-23 Cost Comparison Between Fullerton and OCFA

The OCFA proposal is \$21,838,035 for the adopted FY 2022-23 General Fund budget and includes service charges, facility maintenance, and vehicle depreciation. In addition to the OCFA costs, the City of Fullerton's Fire Department budget would have to continue to include ongoing budget expenditure line items that total \$11,031,508 in the adopted FY 2022-23 General Fund budget. It is comprised of the items detailed below.

- UAAL costs of \$5,378,980
- Retiree medical of \$474,983
- Contracted transport and billing of \$2,793,300
- Property insurance of \$514,230
- Workers' compensation existing claims of \$930,078
- Start-up costs of \$198,960 amortized over the first eight years of the contract
- One-time payout for vacation leave balances at \$485,574
- One-time cost of establishing an 80-hour sick leave bank for transferring employees at \$187,633

The UAAL costs would continue over 20 years but would eventually be paid in full as the transferring firefighters would not accrue additional liability except for any additional costs for assumption changes. Assumption changes are made to the UAAL by the Public Employees' Retirement System (PERS). Continuing City costs for retiree medical expenses and workers' compensation claims under OCFA would also decrease over time compared to maintaining its own department, so there would be a long-term reduction of legacy costs if OCFA provides fire services.

Contracted emergency medical transport and revenue billings would continue in perpetuity. Fullerton receives revenue for transport billing to help offset fire expenses that have historically been included in the budget. Revenue and expenditures transactions are booked separately in the Fullerton budget, which is why the comparison budget is shown as net expense after revenue. The revenues associated with Fire Department operations would also be included and are not expected to vary greatly based on either Fullerton or OCFA operations.

The total adjusted Fullerton Fire Department budget for FY 2022-23 is \$32,798,193, less fire revenue retained by Fullerton of \$5,361,068, for a net estimated expense of \$27,437,125. This equates to a \$5,567,902 increase over Fullerton's adjusted budget where the City retains its Fire Department. Table 3 below shows the FY 2022-23 budget for City Fire Department operations relative to OCFA contract operations.



Table 3. City Fire Operations Compared with OCFA Contract Operations

Expense Category	FY 2022-23
City Fire Department Budget Costs	\$27,680,291
Revenues	\$(5,811,068)
Net Expenses	\$21,869,223
OCFA Contract Costs	\$21,838,035
Ongoing City Fire Costs	\$10,960,158
Revenues	\$(5,361,068)
Net Expenses	\$27,437,125

FY 2022-23 Ten-Year Cost Comparison Projection between Fullerton and OCFA

Salary Variations

There is a large variation in pay when salary ranges of firefighter positions are compared between Fullerton and OCFA. Minimum salaries of OCFA positions are about 10% higher than Fullerton's minimum salaries. The top-step salaries of OCFA are 16% higher than Fullerton's top-step. Fullerton only has 6 steps while OCFA has 12 steps.

We also compared top-step salary ranges of firefighters, engineers and captains to Costa Mesa, Orange, Corona, and Carlsbad, which have similar-sized fire departments. Each department pays an average of 16% higher than Fullerton. Since 2014, 74 personnel have separated from the Fullerton Fire department. Of the separations, 24 were due to retirement or dismissal and 50 were due to resignation. Resignations overwhelmingly are due to job offers with surrounding agencies because of the higher rate of pay as shown below in Table 4 below. This is an unusual situation in a city fire department. Normally individuals stay with a department their entire career, because moving to another department has significant ramifications on seniority standing.



*Table 4. Annual Base Salary Comparisons among Fullerton, OCFA and Four Other Jurisdictions (2,912 Annual Hours)**

Position Title	Fullerton	OCFA	Carlsbad	Corona	Costa Mesa	Orange
Firefighter, Top Step	\$82,005	\$96,009	\$88,509	\$87,497	\$96,264	\$94,464
Firefighter, Bottom Step	\$64,253	\$71,402	\$72,816	\$68,184	\$71,844	\$77,712
Fire Apparatus Engineer, Top Step	\$93,307	\$107,686	\$106,202	\$99,116	\$111,168	\$107,028
Fire Apparatus Engineer, Bottom Step	\$73,108	\$80,575	\$87,372	\$77,239	\$82,956	\$88,056
Fire Captain, Top Step	\$108,735	\$126,060	\$124,383	\$122,212	\$128,412	\$124,944
Fire Captain, Bottom Step	\$85,197	\$93,504	\$102,331	\$100,108	\$95,832	\$124,944
Total Number of Steps per position	6	12	5	N/A	7	5

*Source – Publicly available information in June and July 2022

This situation is not consistent with sustainability. Therefore, the high-cost scenario assumes 7.5% City salary growth for three years starting in FY 2023/24, followed by 3.5% thereafter, which would help close the gap over time, but it does not assume the adoption of the same pay scale currently used by OCFA.

Forecast Scenarios

In comparing the OCFA contract opportunity with an independent City Fire Department, Management Partners assumes that it must be funded on a sustainable basis. Therefore, we use the more aggressive expenditure increase assumptions in our ten-year cost projections.

We want to emphasize that these assumptions are not recommendations but a range of cost increases for evaluation purposes only. Any wage adjustments will continue to be subject to the meet and confer process and ultimately approved by City Council.

For the purposes of a ten-year projection, we created three scenarios for City and OCFA revenues and expenses that can be set independently, creating a matrix of nine different scenarios. The key growth assumptions are shown in Table 5 below. Annual growth rates for OCFA are broken into the near-term (next three fiscal years) where cost growth peaks at their current contractual cap of 4.5% under the high scenario, then drops by 0.25% over the next four years under each scenario due to leveling off of pension UAL costs, and then dropping another 0.25% starting in FY 2030-31 when their next ten-year contract term starts.



Table 5. Cost Scenarios with Three Levels of Growth Rate

Cost Growth Scenario	City Salary Growth ¹ FY 2024-26	City Salary Growth ¹ FY 2027-32	City Health Growth	Other City Cost Growth	City Revenue Growth	OCFA Cost Growth FY 2024-26	OCFA Cost Growth FY 2027-30	OCFA Cost Growth FY 2031-32
Low	3.50%	2.75%	2.50%	2.00%	1.75%	3.50%	3.25%	3.00%
Medium	5.00%	3.00%	3.00%	2.50%	2.00%	4.00%	3.75%	3.50%
High	7.50%	3.25%	3.50%	3.00%	2.25%	4.50%	4.25%	4.00%

¹Includes COLAs, step increases, turnover savings (filling vacant positions at lower step); no change in staffing levels

The high-cost scenario shown above is a projection of what is required to be sustainable over time. As mentioned previously, in recent years the City Fire Department has not been operated on a sustainable basis and has not been able to retain a significant number of firefighter positions, nor keep up with maintenance and equipment replacement needs.

Table 6 shows the average annual net cost from moving to OCFA as Fullerton's fire service provider under each of the nine cost level scenarios.

Table 6. Average Annual Net OCFA Cost to City Over Ten Years for all Nine Cost Growth Scenarios (in millions)

	City Low-Cost Growth	City Medium-Cost Growth	City High-Cost Growth
OCFA Low-Cost Growth	\$5.76	\$5.00	\$3.84
OCFA Medium-Cost Growth	\$6.35	\$5.60	\$4.43
OCFA High-Cost Growth	\$6.96	\$6.20	\$5.04

All growth scenarios result in added costs to the City, ranging from an annual average of \$3.84 million to \$6.96 million over the next ten years. The average of the nine scenarios is \$5.47 million. The higher the assumed growth in City costs, the lower the net cost at any given level.

Summary Forecast

Management Partners found that under any of the scenarios developed the OCFA contract proposal was more expensive than continuing with an independent but better funded City Fire Department. Figure 1 below provides a comparison of costs with the Low-Cost OCFA projection run against the High-Cost Fullerton scenario, showing the net annual cost increase to the City for moving to OCFA for fire service by fiscal year. Under this scenario OCFA net costs run about 13% higher than City Fire Department costs.



Figure 1. OCFA vs City Fire Department Costs under the High-Cost Scenario for the City and Low-Cost Scenario for OCFA (in millions)

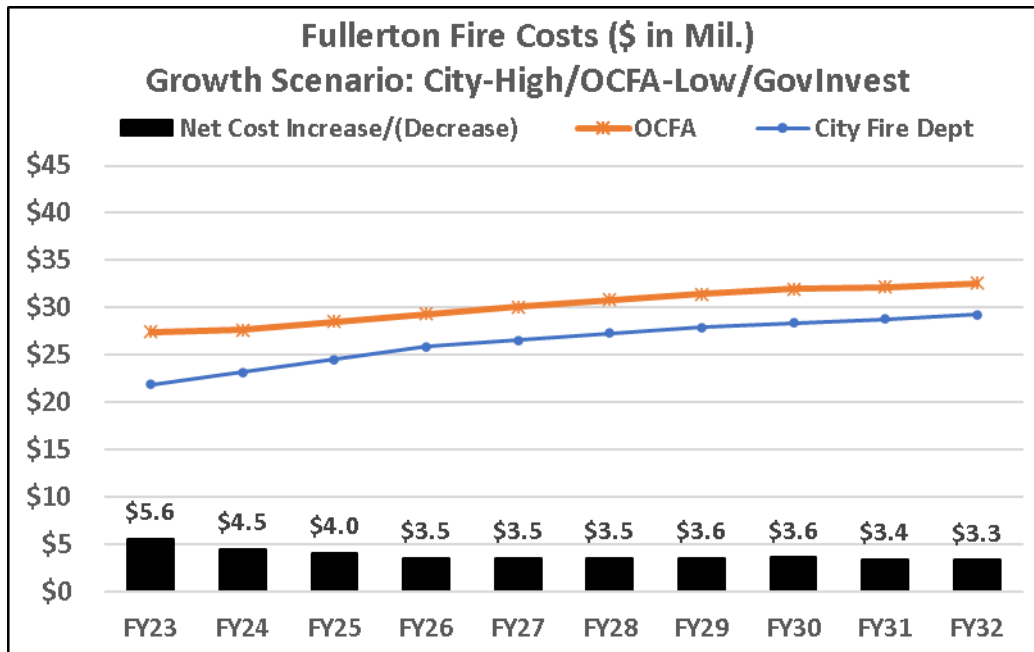


Figure 2 compares projected Fire Department costs to those of OCFA, assuming the High-Cost scenario for each agency as defined above. Under this scenario OCFA net costs run about 18% higher than City Fire Department costs.

Figure 2. OCFA vs. City Fire Department Costs under the High-Cost Scenario for both City and OCFA (in millions)

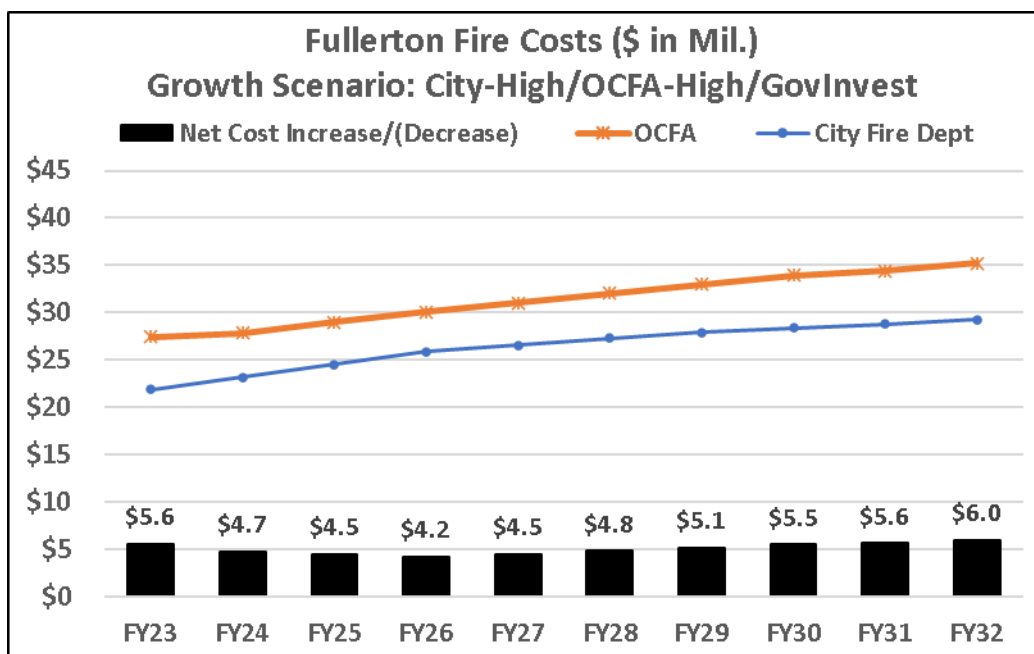


Table 7 summarizes the forecast assuming the high-cost scenario for both City and OCFA, and future pension costs as projected by GovInvest.

Table 7. Cost Comparison under High-Cost Scenario for both the City and OCFA (in millions)

Fire Dept Forecast (\$ in millions)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32
Expense:										
Personnel	\$20.07	\$21.25	\$22.50	\$23.76	\$24.35	\$24.95	\$25.43	\$25.85	\$26.12	\$26.44
Contract Cost	\$3.04	\$3.14	\$3.23	\$3.33	\$3.43	\$3.53	\$3.64	\$3.74	\$3.86	\$3.97
Other O&M	\$4.57	\$4.70	\$4.85	\$4.99	\$5.14	\$5.30	\$5.45	\$5.62	\$5.79	\$5.96
Total Expense	\$27.68	\$29.09	\$30.58	\$32.08	\$32.91	\$33.78	\$34.52	\$35.21	\$35.77	\$36.38
% growth	4.64%	5.08%	5.13%	4.90%	2.61%	2.62%	2.20%	1.99%	1.59%	1.71%
Revenue:										
Ambulance	\$4.13	\$4.22	\$4.31	\$4.41	\$4.51	\$4.61	\$4.72	\$4.82	\$4.93	\$5.04
Paramedic Subscription	\$0.71	\$0.72	\$0.74	\$0.75	\$0.77	\$0.79	\$0.81	\$0.82	\$0.84	\$0.86
Paramedic/Misc Fees	\$0.31	\$0.32	\$0.32	\$0.33	\$0.34	\$0.35	\$0.35	\$0.36	\$0.37	\$0.38
Other Revenue	\$0.67	\$0.68	\$0.70	\$0.72	\$0.73	\$0.75	\$0.76	\$0.78	\$0.80	\$0.82
Total Revenue	\$5.81	\$5.94	\$6.08	\$6.21	\$6.35	\$6.49	\$6.64	\$6.79	\$6.94	\$7.10
Net Expense	\$21.87	\$23.14	\$24.50	\$25.87	\$26.56	\$27.28	\$27.88	\$28.42	\$28.82	\$29.28
% growth	11.77%	5.83%	5.87%	5.56%	2.69%	2.71%	2.19%	1.93%	1.43%	1.58%

OCFA Forecast (\$ in millions)	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32
OCFA Contract	\$21.84	\$22.82	\$23.84	\$24.91	\$25.96	\$27.06	\$28.21	\$29.41	\$30.58	\$31.80
Pension UAL Expense	\$5.38	\$5.59	\$5.79	\$5.98	\$6.09	\$6.14	\$6.07	\$5.88	\$5.54	\$5.22
Retiree Medical	\$0.47	\$0.50	\$0.50	\$0.43	\$0.36	\$0.36	\$0.34	\$0.34	\$0.35	\$0.35
Private Transport/Billing	\$2.79	\$2.88	\$2.96	\$3.05	\$3.14	\$3.24	\$3.34	\$3.44	\$3.54	\$3.64
Property Insurance	\$0.51	\$0.53	\$0.55	\$0.56	\$0.58	\$0.60	\$0.61	\$0.63	\$0.65	\$0.67
Workers Compensation	\$0.93	\$0.84	\$0.74	\$0.65	\$0.56	\$0.47	\$0.37	\$0.28	\$0.19	\$0.09
Other Expense	\$0.87	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.00	\$0.00
Total Expense	\$32.80	\$33.35	\$34.58	\$35.78	\$36.90	\$38.07	\$39.14	\$40.18	\$40.85	\$41.79
% growth		1.56%	3.97%	3.71%	3.29%	3.34%	2.93%	2.73%	1.55%	2.31%
Revenue Retained by City	(\$5.36)	(\$5.48)	(\$5.61)	(\$5.73)	(\$5.86)	(\$5.99)	(\$6.13)	(\$6.26)	(\$6.41)	(\$6.55)
Net Expense	\$27.44	\$27.87	\$28.97	\$30.05	\$31.04	\$32.07	\$33.01	\$33.91	\$34.44	\$35.24
Net Cost/(Savings) from Shift to OCFA	\$5.57	\$4.72	\$4.47	\$4.18	\$4.47	\$4.79	\$5.14	\$5.50	\$5.62	\$5.96
	25%	20%	18%	16%	17%	18%	18%	19%	19%	20%

Personnel includes all employee related costs, contract cost is primarily for private transport and billing (\$2.79 million of \$3.04 million of contract costs for FY 2022-23 for example), and other O&M (operations and maintenance) is for all other operating non-personnel activities. Similar tables can be generated for the other growth scenarios.



Sensitivity Analysis of Projection

Management Partners has created several different costing scenarios for this model to try to guard against forecast errors and has not found any scenario in which Fullerton independent City fire costs for a sustainable department exceed OCFA costs. However, creating a hypothetical sustainable Fullerton fire department for comparison purposes does introduce modeling uncertainties. The largest potential area for errors in assumptions would be in personnel costs dealing with firefighters and support staff since this is the largest cost area. Our projections have included increases in expenditures above the trend seen in actual City expenditures to achieve sustainability, but there is a risk is that these increases may not be sufficient.

One method to evaluate this risk is to ask the question of how much higher would Fullerton costs have to increase in order to exceed projected OCFA costs? Given an average annual net expense of \$5.04 million under the High-Cost scenario for both City and OCFA, we find that to reduce that net expense to zero would require an additional 21% increase in annual City personnel costs over the 10-year projection period. At this magnitude, even if compensation is underestimated by as much as 5% - 10% and / or necessary total positions are underestimated by 5-6 positions the magnitude of the dollar error is not enough to make the OCFA contract less expensive than the hypothetical sustainable Fullerton independent fire department.

We draw from this analysis that the conclusion of the fiscal analysis is reasonably robust. While modeling assumptions especially of hypotheticals, always introduce uncertainty and the potential for errors, the margin of the estimated net cost advantage that an independent City of Fullerton fire department should have relative to contracting with the OCFA makes the likelihood of this approach to cost more is relatively low.

Additional Staffing and Equipment

Both the OCFA contract proposal and discussions with the City fire chief noted that soon City leaders will need to consider adding an engine company with associated personnel to restore a capacity the City had several years ago. OCFA addresses this issue by calling for a Response Performance Review in year two of the contract. They note that a sixth engine company and associated personnel should be considered by the City to restore the Fire Department to full capacity.

An evaluation by the City of call volumes and response times in the downtown area over the next two years can serve as the basis for this decision. The fire chief concurs with this need and approach. However, the significant added costs of such an increase in service (approximately \$3.5 million annually to staff a new four-person engine company) are not included in cost projections by either the Fire Department or OCFA.

Other Considerations

While OCFA does appear to be a more expensive option for the City compared with an independent City Fire Department, there may be other reasons that a contract would serve the City well. After all, most of the cities in Orange County rely on OCFA for services and they



appear to be well satisfied. It is not always simply a matter of costs. Other factors City leaders may want to consider include:

- Allow a focus on other municipal services while knowing fire services are being well managed.
- Provide capacity for City support services, which are already strained and operating at capacity.
- Provide service to Fullerton based on OCFA's "Standards of Cover." This is typically a document that is fully compliant with industry best practices in the field of deployment analysis. The evaluation and analysis of data are based on nationally recognized guidelines and criteria, including recognized National Fire Protection Association (NFPA) standards (NFPA 1710 and NFPA 1720), Insurance Services Office (ISO) schedules, along with any federal and state mandates relative to emergency services, and generally accepted practices within emergency services.
- The Fullerton Fire Department's current provision of service is similar to what is being proposed by OCFA, although it may not be sustainable with the current high rate of turnover. Fullerton made no indication of having its own standards of cover, but does reference its "policy" regarding staffing.
- Overtime costs are built into the proposed contract charges. While facing a high turnover of personnel, disproportionately high overtime costs could be a major concern going forward for Fullerton as an independent fire department. The OCFA proposal puts a strong emphasis on staffing each apparatus with four personnel, which includes two paramedics. Maintaining staffing levels (opposed to just reducing staffing) is typically the strongest driver of fire department overtime.
- As a regional provider, the OCFA lists several services that may not currently be available to Fullerton, such as urban search and rescue, nurse educators, and public information officers, along with specialized wildfire resources including helicopters, dozers and hand-crews. The proposal also references a cross-staffed OCFA Type 3 (brush engine) that will be stationed in Fullerton and offers support from the complete OCFA Community Risk Reduction (Fire Prevention) Section. As an independent department Fullerton may have access to these services via a mutual aid request.

Another factor City leaders should consider is that an OCFA contract will lead to an inherent loss of local control. The City will not be in direct control of a host of decisions regarding service delivery and instead will need to work through OCFA. While OCFA has developed a wide range of programs to involve partner cities in governance decision making, there is not the same level of control.

Finally, while the City may exit a contract arrangement with OCFA, it would be time consuming and expensive. The cost of equipment and the cost to reclaiming facilities will be expensive. In addition, labor agreements must be negotiated, and this can become time consuming and difficult. Once integrated into an organization like OCFA, exiting is a major challenge.



Conclusion

We conclude that a contract with OCFA will not save the City of Fullerton money. It will cost at least 13% more when ongoing legacy costs such as the UAAL are considered. However, the OCFA is an excellent provider and there may be other reasons for Fullerton to consider a contract, especially if there is a need to concentrate on other municipal services or if Fullerton could raise additional revenues to offset the additional cost. Furthermore, if the Fullerton Fire budget is not increased in the future, Fullerton may have no choice but to contract out its fire services due to retention issues the department currently faces.

