

WMLFD – District Consolidation Study / Report

TO: Navajo County Board of Supervisors; Mr. Steve Williams, Chairman
FROM: John Flynn, WMLFD Administrator
DATE: August 6, 2018
SUBJECT: White Mountain Lake Fire District (WMLFD) Consolidation Study

This memorandum serves as the report of the study of merger, consolidation or joint operating alternatives undertaken by WMLFD in compliance with applicable law (ARS §48-805.02).

Basis for Study

Fire districts are required by law to conduct a financial evaluation annually during the budget adoption process to determine the near-term financial sustainability of the district. When a fire district determines that the projected operating costs of the district will exceed available revenues in either of the next two fiscal years, the district is required to undertake the study, herein referred to as a consolidation study.

The WMLFD two-year financial evaluation of budget expenditures conducted as required indicated that ongoing operating costs will exceed available recurring revenues for each of the fiscal years following the current fiscal year (FY19), which will require reserve funds to supplement available tax revenues to sustain district operations at the FY18 level. Reserve funds will also be required to supplement anticipated tax revenues in FY20. Reserve funds are projected to be exhausted in FY21 *(notwithstanding any other necessary draw down of funds which could exhaust the funds before FY21).*

(It should be noted the Arizona Legislature recognizes the financial limitations of rural fire districts and established the financial evaluation requirement to identify financially unsustainable districts and encourage their consolidation. As a matter of public policy, the legislature not only encourages the consolidation of fire districts but also provides financial incentives which increase the financial stability of consolidated fire districts).

General Conditions

The WMLFD is an independent single-purpose special taxing district established by property owners pursuant to ARS §48-261. The district is customarily governed by a five-member non-partisan locally elected board. The district is currently governed by an Administrator appointed by the Board of Supervisors in March 2018.

The district's jurisdictional boundaries encompass approximately 55 square miles. The district primarily covers the community of White Mountain Lake and surrounding unincorporated areas. The district is predominantly made up of low density rural residential properties with an estimated population of 2,000 persons.

The WMLFD delivers fire suppression and basic life support (BLS) emergency medical services to the community of White Mountain Lake from a single fire station located at 1780 Silver Lake Blvd. in White Mountain Lake. WMLFD responded to 363 calls for service in FY18. Approximately 80% of the district's responses are for emergency medical related incidents. 9-1-1 advanced life support (ALS) ambulance service is provided by Show Low EMS.

The district has a full-time employee (FTE) professional firefighting staff of six personnel (total allocation of 7 FTE funded in FY19). The fire chief position is currently not filled to conserve funds. The district is temporarily relying on neighboring fire agencies for command officers as necessary. Fire apparatus is staffed by a captain and two firefighters daily for twelve hours (7 a.m.-7 p.m.). Call-back is required for night hours response. All firefighters are required to work an established night hours call-back schedule as part of job requirements. The district participates in the regional mutual aid response system and 9-1-1 dispatching services are provided by the Show Low Police Department through a regional shared services contract.

Financial Conditions

The WMLFD has a Net Assessed Value (NAV) of \$14,661,776 for FY19. The district funds its maintenance and operating budget at a tax rate of 3.25 (the state maximum) which will generate \$476,508 in FY19 from direct property tax revenue. Additional recurring revenue received by the WMLFD include \$31,500 from the county-wide Fire District Assistance Tax (FDAT) and lease revenues from a communications tower on the fire station site, which generates \$6,000 annually in revenue. These three revenue sources, along with prior-year tax receipts account for 77% (\$554,008) of the district's total annual recurring revenues as shown in the table below.

FY19 Tax & Recurring Revenue		
Property Tax (Real & PP)	\$	476,508
Prior Year Taxes (Real & PP)	\$	40,000
Fire District Assistance Tax	\$	31,500
Cell One Tower Lease	\$	6,000
	\$	554,008

Restricted and non-recurring revenues include grants, Arizona State Land (ASL) wildfire cooperator payments, sales of surplus equipment and donations. These sources are estimated to generate an additional \$21,000 in funding in FY19. The remainder of revenues (13%) necessary to operate the district are prior-year wildfire cooperator receivables and reserve funds in the amount of \$91,908.

The WMLFD is budgeted to expend \$719,208 in FY19. The FY19 budget maintains the district’s FY18 service delivery levels with limited exceptions (*1 FTE position eliminated for FY19 – assistant fire chief*). Personnel, staffing and associated expenses require 80% of total annual recurring revenues.

The district began FY19 with a 38% reduction in general fund balance from FY18 and \$52,291 cash-on-hand. For FY19, the WMLFD will be required to expend 34% of on-hand financial reserves to supplement tax revenues to fund ongoing operations. A summary of the district’s FY19 budget estimates are shown below.

FY 19 Revenue (all sources)		
FY19 begin Cash Balance	\$	52,291
Tax & Recurring Revenue	\$	554,008
Restricted & Non-Recurring	\$	21,000
Reserve Funds & Receivable	\$	91,909
	\$	719,208
FY 19 Expenditure		
Personnel & Staffing	\$	443,476
All Other Maint. & Op	\$	275,732
	\$	719,208

The WMLFD closed FY18 (June 30, 2018) with expenditures exceeding revenues by **(\$32,802)** or 4.8% (FY18 revenue: \$684,806 / FY18 expenditures: \$717,608). NOTE: Had the district been required to meet the salary and benefit obligations budgeted for the fire chief and assistant fire chief through the 4th quarter of FY18 (*both positions vacant in FY18 4th quarter*), the district would have expended funds exceeding total revenues by an additional \$30,000 or 9.0%.

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The following table shows WMLFD budget to actual revenue and expenditure over the past four fiscal years.

Fiscal Year	Budgeted	Rev. - ACTUAL	Exp. - ACTUAL	Year End NET	Rev-Exp %
FY15	\$ 584,884	\$ 515,902	\$ 550,365	\$ (34,463)	-6%
FY16	\$ 566,544	\$ 612,888	\$ 590,236	\$ 22,652	4%
FY17	\$ 541,544	\$ 716,797	\$ 605,074	\$ 111,723	18%
FY18	\$ 581,866	\$ 684,806	\$ 717,608	\$ (32,802)	-5%
Fiscal Year	Budgeted	Revenue - EST.	Expenditure - EST.	Year End	Rev-Exp %
FY19	\$ 719,208	\$ 627,299	\$ 719,208	\$ (91,909)	-13%

(NOTE: FY19 year-end estimate to be mitigated with reserve funds & receivables)

Most of the disparity between what is budgeted each fiscal year and actual revenues / expenditures is attributable to the wildfire cooperator program. Wildfire cooperator revenues and costs are challenging to accurately forecast on a year-over-year basis and are routinely under-budgeted by fire districts. Wildfire cooperator revenues are subject to various external and non-controllable variables, which include; extent / severity of the fire season, total number of cooperators in the deployment rotation, type of equipment requested / deployed etc. For these reasons wildfire deployment revenues can be inconsistent on a year-over-year basis.

The WMLFD has steadily increased the amount of wildfire cooperator work it undertakes over the past four fiscal years. The table below shows wildfire revenues for each fiscal year, along with the associated payroll and operating costs, and fiscal year net revenue generated by wildfire cooperator work.

Wildfire Cooperator Operations				Wildfire
Fiscal Year	Revenue	Payroll Cost	Operating Cost	Year-End NET
FY15	\$ 27,734	\$ 13,097	\$ 9,044	\$ 5,593
FY16	\$ 107,258	\$ 51,967	\$ 18,840	\$ 36,451
FY17	\$ 162,417	\$ 80,935	\$ 17,111	\$ 64,371
FY18	\$ 190,133	\$ 81,084	\$ 16,519	\$ 92,530

The WMLFD relies heavily on wildfire cooperator revenues to supplement property taxes. The district has used wildfire cooperator net revenues to acquire fire apparatus, equipment, make capital investments and fund financial reserves. These improvements would not have been possible without wildfire cooperator revenues. The district’s property tax base is insufficient to fund both ongoing operations and necessary capital equipment replacement / investment. It should be noted that the costs

associated with wildfire deployment on trucks (*depreciation and maintenance*), equipment and personnel (*requires mandatory additional work for deployment and station staffing*) are not reflected in the above table.

Staffing costs for fire and EMS is the district’s largest aggregate expense. The table below shows the budgeted and actual staffing costs for regularly scheduled daily operations (*fire station staffing*) and the total staffing cost for the fiscal year which is inclusive of wildfire cooperator payroll / staffing (*paid on deployment by the state*).

	Budgeted	ACTUAL	
Fiscal Year	Staffing Costs	(non-wildfire)	Total Staffing
FY15	\$ 355,000	\$ 319,692	\$ 332,789
FY16	\$ 335,000	\$ 315,939	\$ 367,906
FY17	\$ 341,000	\$ 350,989	\$ 431,924
FY18	\$ 351,000	\$ 387,295	\$ 468,379
	Budgeted	ACTUAL	Total - Estimated
FY19	\$ 443,476	\$ -	\$ 443,476

The cost of regularly scheduled fire station staffing shows a 14% increase from the FY18 actual (\$387,295) to FY19 budgeted (\$443,476). The FY18 staffing costs were not budgeted accurately. Had FY18 staffing costs been appropriately budgeted, FY19 regularly scheduled staffing costs would be within 3% + or - of FY18 totals. The disparity between FY18 actual staffing costs and FY19 projected staffing costs are attributable to the following factors:

- Two FTE firefighter positions were added in the 1st quarter of FY18. The costs for the two FTE positions were not fully budgeted. These costs are fully accounted and realized in FY19.
- The fire chief and assistant fire chief positions were vacant for the 4th quarter of FY18, reducing payroll funding required.
- One FTE firefighter position was vacant for several quarters in FY18, reducing payroll funding required.
- Funding for FTE benefits consistent with adopted board policy are funded.

Maintaining an ongoing regularly scheduled staffing cost of \$443,476 annually is unsustainable absent significant wildfire cooperator revenues used to fund other essential items. Circumstances specific to personnel changes at the WMLFD in late FY18 limited the ability of the district to deploy for wildfire cooperator work during the current fire season, effectively eliminating this supplemental source

of revenue for FY19 (*NOTE: revenues generated by wildfire deployments in spring of 2019 will generally not be received until FY20*). It is anticipated that total wildfire cooperator revenue will be limited for FY19.

A reliance on wildfire cooperator revenues to fund ongoing district operations is generally unsustainable from a practical standpoint. As an example, to replicate the FY18 wildfire cooperator NET revenue of \$92,530 requires:

- Three FTE employees assigned to the Type 3 engine (*the WMLFD primary response unit*) for 55 total days of deployment; and 3 FTE employees for fire station shift coverage.
- The total amount of wildfire staffing hours required is 4,794.

Replicating the FY18 deployment level is a high benchmark and is not sustainable year-over-year with the limited FTE staff employed by the WMLFD (*approximately half the FY18 wildfire cooperator workload could be reasonably sustained in future fiscal years with the district's current staffing*).

Additionally, the accelerated depreciation and wear on the districts primary engine (*WMLFD only Type 3*) which is now 12 years of age, is of concern (*replacement value approximately \$400K*). The loss of this fire apparatus in the district while deployed (*55 days in FY19*) leaves the WMLFD with marginal fire response resource. Consideration should be given to the use of an alternative fire apparatus to the WMLFD primary engine in future year wildfire cooperator deployments.

Going forward the WMLFD does not have the tax capacity to support the ongoing maintenance and operating requirements of the district at the current service levels. Property value appreciation and growth through development are both insufficient to meet inflationary operating costs. The WMLFD, absent significant wildfire cooperator revenue, will be unable to meet ongoing operating, capital and equipment replacement needs.

Opportunities for Consolidation

Pursuant to the requirements of ARS §48-805.02.D.3 the WMLFD identified two fire districts for the consolidation study. Both districts are either adjacent to, or in nearby proximity to the district. A summary of the financial and operational elements of each of the districts identified is provided.

Timber Mesa Fire and Medical District

The Timber Mesa Fire and Medical District (TMFMD) is a regional provider of fire, EMS and 9-1-1 ground ambulance service to the communities of Show Low, Lakeside and Linden. The TMFMD was created through the merger of the former Show Low, Lakeside and Linden Fire Districts in 2014.

The TMFMD operates with a staff of 78 FTE and delivers fire, ALS level first response EMS and 9-1-1 ALS ground ambulance services from 4 fire stations staffed 24 hours per day. Daily fire and EMS response staffing is 20 firefighters. The TMFMD responded to 5,668 incidents last year.

The TMFMD serves an estimated population of 29,500 persons with jurisdictional boundaries encompassing 205 square miles. The TMFMD jurisdictional boundary abuts the southern boundary of the WMLFD. The TMFMD is a primary responder to the WMLFD for mutual aid as necessary.

TMFMD General Financial Assessment

The TMFMD has a NAV of \$267,679,008 and operates on a tax rate of 2.9997 which generates \$8,029,700 in property tax revenues for FY19. TMFMD has an adopted FY19 maintenance and operating budget of \$9,977,896. The TMFMD is slated to expend \$211,866 in capital improvements in the current fiscal year. The TMFMD has total capital reserves in the amount of \$1.76 million dollars. Property values grew 3.43% last year in the district. The TMFMD is financially stable with clean audits for previous fiscal years.

The TMFMD is the largest fire and EMS provider in Navajo County. As the emergency service provider for Navajo County's population center, the TMFMD experiences above average property value appreciation and growth.

Vernon Fire District

The Vernon Fire District (VFD) is a rural community fire and EMS provider located in Apache County. The VFD provides service to the community of Vernon and surrounding unincorporated areas and has a jurisdictional service area of approximately 52 square miles. The VFD serves an estimated population of 4,500 persons. The VFD jurisdictional boundary is located approximately 3 miles plus or minus from the south eastern boundary of the WMLFD. The VFD jurisdictional boundary is the Navajo-Apache County boundary line. The VFD and WMLFD are mutual aid system participants and provide each other fire and EMS assistance as needed.

The VFD operates with a staff of 8 FTE equivalents and delivers fire and BLS level first response EMS from two fire stations, one of which is staffed 24 hours per day. Daily fire and EMS response staffing is 2 firefighters. The VFD responded to 333 incidents last year, approximately 80% of which were EMS.

VFD General Financial Assessment

The VFD has a NAV of \$13,943,971 and operates on a tax rate of 3.25 (the state maximum) which generates \$453,179 in property tax revenues for FY19. The VFD has an FY19 adopted maintenance and operating budget of \$808,000 (*excluding posted capital and contingency*). The VFD has \$539,000 in capital and contingency reserve funds, with none slated to be expended in FY19. The VFD is financially stable with clean audits for previous fiscal years.

The VFD is a rural fire district and as such faces financial challenges similar to those faced by WMLFD. These include below average property value appreciation and slow growth. In the case of the VFD, an ongoing correction to property values in Apache County decreased the district's property values collectively by 6.8% last year (*current FY operating*).

Analysis and Conclusion

The WMLFD is unable to generate the property tax funding necessary to sustain fire and EMS operations at the current level of service, which is less than the service level neighboring fire districts currently provide at a tax rate equal to the WMLFD tax rate (VFD) or at a rate appreciably less (TMFMD).

This is not an uncommon occurrence in Arizona. Small mostly single-station rural fire districts are rarely financially efficient operations. Most struggle with the same issues facing the WMLFD. While necessary under specific circumstances, many single-station rural fire districts and the communities they serve would benefit from consolidation with a neighboring fire district. Single-station fire districts which are located adjacent to regional fire and EMS provider districts as is the case with WMLFD and TMFMD, are best suited for consolidation.

As required by ARS §48-805.02.D.3 the following tables provide a property owner cost comparison if the WMLFD was consolidated into either TMFMD or VFD. The cash value of \$100,000 is used for both residential and commercial cost comparisons.

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Tax Estimates - Consolidated Property Owner Impact (residential)				
District	Tax Rate	Prop. Cash Value	Cost for Service	
WMLFD	3.25	\$ 100,000	\$ 325.00	(FY19 current)
TMFMD	2.9997	\$ 100,000	\$ 299.97	-7.70%
VFD	3.25	\$ 100,000	\$ 325.00	(same as current)

Tax Estimates - Consolidated Property Owner Impact (commercial)				
District	Tax Rate	Prop. Cash Value	Cost for Service	
WMLFD	3.25	\$ 100,000	\$ 585.00	(FY19 current)
TMFMD	2.9997	\$ 100,000	\$ 539.95	-7.70%
VFD	3.25	\$ 100,000	\$ 585.00	(same as current)

A general comparison of the service levels of each district: WMLFD, TMFMD and VFD are provided in the table below.

General Service Levels			
	Current	Current	
	Staffing Hours	Daily Staffing	EMS Level
WMLFD	12 hours daily	3 Firefighters	BLS
TMFMD	24 hours daily	20 Firefighters	ALS
VFD	24 hours daily	2 Firefighters	BLS