



**CITY OF PACIFIC GROVE**  
300 Forest Avenue, Pacific Grove, California 93950

**AGENDA REPORT**

**TO:** Honorable Mayor and Members of the City Council

**FROM:** Thomas Frutchet, City Manager

**MEETING DATE:** May 5, 2010

**SUBJECT:** Selection of Preferred Option for Future Fire Services

**CEQA:** Does not Constitute a “Project” under California Environmental Quality Act (CEQA) Guidelines

**RECOMMENDATION**

Direct staff to:

1. Continue working with Carmel-by-the-Sea, Monterey, Seaside and other jurisdictions on the peninsula to fully develop a Joint Powers Authority for fire services; and
2. Present a finalized agreement for approval at either the June 2 or June 16 City Council meeting to implement the first phase of the JPA, effective July 1, 2010.

**DISCUSSION**

*Background:* In recent years, the City has implemented innovative service partnerships with neighboring agencies as a way to both improve services and reduce costs in response to declining revenues. A sample of current agreements include an agreement with the City of Carmel for traffic law enforcement, an agreement with the City of Monterey for Building services, a partnership with the Museum Foundation of Pacific Grove to operate the Natural History Museum, and an agreement with Monterey Computer Corporation for Information Technology Services. Other cities on the peninsula have also developed similar extensive series of partnerships and agreements.

Nowhere has this progressed further than with relation to fire services. In addition to automatic and mutual aid agreements, and a joint powers authority (JPA) developed to coordinate fire training, key milestones involving inter-agency cooperation and agreements include:

- 1992 City of Monterey begins providing fire services to the City of Sand City
- 1993 City of Monterey invites peninsula cities to join a fire service JPA
- 2003 City of Seaside begins providing fire services to the City of Del Rey Oaks
- 2005 City of Pacific Grove begins providing fire command services to the City of Carmel-by-the Sea
- 2006/7 CityGate study recommends consolidation; discussions proceed
- 2008 City of Pacific Grove initiates an agreement with the City of Monterey for fire services

- 2008 City of Monterey begins providing fire command services for City of Carmel-by-the-Sea

The Monterey/Pacific Grove agreement for fire services was approved 18 months ago as a step in the continued drive toward a regional fire agency that could provide shared governance and the potential for even greater cost savings if other jurisdictions elected to join and share the costs for a larger, more robust fire service.

So far, the partnership for fire services with the City of Monterey has yielded high-quality and cost-effective emergency services that have exceeded expectations. We have experienced even faster response times in the Central Avenue business district and adjacent residential areas than previously possible due to the proximity of Monterey Fire Station #2, located at the corner of Hawthorne Street and Hoffman Avenue, which is now the assigned first responder to that section of Pacific Grove. In addition, when our engine is out on call, an engine from Monterey is moved to the Pacific Grove station as back up, able to respond to any other call. These are just examples of the system improvements that can be realized through a regional approach.

The agreement has also proven successful financially, as direct costs for the first year of the contract were approximately \$190,000 lower than originally estimated. The City has also experienced a significant reduction in workers compensation premiums and claims, which is largely attributable to the dedication to training that comes with the depth of administrative staffing now available to the system that the City could previously not afford. Thus, the existing agreement with the City of Monterey provides many service and cost benefits over and above those that a stand-alone City department could provide at the same price.

However, the contract with Monterey was intended to be only one phase in a continued progression to improve the cost-effectiveness of fire services. The contract-for-service model suffers from two major disadvantages, one real and one perceived. First, the contract significantly reduces the City's governance authority with respect to fire services. While the City retains the ultimate decision to choose its fire services provider, policy decisions regarding the nature and scope of fire services, staffing levels, employee compensation, and benefits, are made by the City of Monterey; the Pacific Grove City Council no longer has direct governance authority for fire services.

And second, there has been, among some residents, a perceived loss of identity, a perception that we no longer have a dedicated, Pacific Grove Fire Department. This perception was heightened, perhaps unnecessarily, when our volunteer firefighter program was disbanded. Even though it has now been re-authorized, there is still not an adequate role for our remaining volunteers, and we have lost the young personnel who gain experience with us while seeking full employment either here or elsewhere.

Even if the goals for effective interoperability could be achieved with an independent, stand-alone fire department, the increased costs for doing so preclude this option. For all of these reasons, in December, 2009, as part of its five-year plan, the Council directed staff to pursue, with all due deliberation, further progress towards the goal of shared fire services, returning to Council on June 16, 2010 for Council endorsement of the preferred approach (Attachment 1).

On January 20, 2010, we presented a full evaluation of the first year of fire contract services. At that meeting, staff committed to work cooperatively with staff in Carmel-by-the-Sea to jointly develop a comprehensive analysis of the two primary alternatives—creation of a peninsula JPA and contracting with CAL FIRE—and to return to the Council in May for further direction.

In November 2009, the Monterey County Mayors Association requested that the County’s City Managers explore opportunities for achieving efficiencies by sharing fire services. Soon thereafter, the Monterey County City Managers, along with representatives from independent fire services districts in the region, the Monterey Peninsula Airport, and the California Department of Forestry and Fire Protection (CAL FIRE), began discussing conceptual approaches to achieving the Mayors’ goal. From these discussions emerged a group of “core” cities—Carmel-by-the-Sea, Del Rey Oaks, Monterey, Pacific Grove, Seaside, and Sand City—that were in similar states of readiness and geographic proximity to further develop a solution that could be implemented expeditiously, yet scaled easily to accommodate future jurisdictions. For several months, the core cities have worked diligently to develop a JPA model that would not only save money for all members and optimize service for all communities involved, but also preserve policy discretion, budget control, and service flexibility for member City Councils.

CAL FIRE is an emergency response and resource protection department of the State Government. The agency protects lives, property, and natural resources from fire; responds to emergencies of all types, and protects timberlands, wildlands, and urban forests. CAL FIRE has responsibility for protecting over 31 million acres of California’s privately-owned wildlands, and providing emergency services of all kinds through local government agreements within 36 of California’s 58 counties. In addition to its state-wide duties fighting an average of 5,600 wildland fires each year, CAL FIRE provides traditional fire and emergency medical response services to many local jurisdictions, including Pebble Beach, Carmel Highlands, Cypress, San Benito County, Aromas, and South Monterey County totaling 4,500 responses locally and more than 350,000 statewide.

The remainder of this report provides an overview of Both options—a JPA and a contract with CAL FIRE— from the perspectives of service, cost, and long-term governance, and compares their relative advantages and disadvantages.

***Monterey Peninsula Fire JPA.*** A JPA is a public entity created by agreement of two or more public agencies pursuant to Division 7, Chapter 5, Article 1, Sections 6500 et seq. of the California Government Code. Essentially, a JPA has powers and responsibilities similar to other public agencies, limited by the terms of the governing agreements. Each member agency appoints representatives to the JPA Board of Directors, which makes policy-level decisions governing the Authority. The City currently belongs to several JPAs, including the Transportation Agency for Monterey County (TAMC), a regional taxi authority, Monterey Salinas Transit (MST), and the Police tactical resources collaboration (SRU), among others.

The JPA option would optimize local control for fire services, and re-establish the City’s governance authority, albeit in a shared fashion with other member agencies. The approach now being considered would provide member agencies equal membership on the JPA Board. All agencies would continue to own their own respective fire station facilities and equipment. Cost

and operational advantages would accrue through economies of scale, especially in consolidated headquarters staffing. Instead of operating as several independent fire departments, the envisioned JPA would operate as one unified department, with one Fire Chief and a management staff scaled to only the minimum number of management staff required to manage the stations in the system.

The advantages of local control are especially compelling now, as cities and the State struggle with spiking employee retirement costs in coming years. The Monterey County Mayors have also tasked the city managers with tackling the retirement cost problem in a collaborative way, to affect needed changes without creating recruitment competitiveness disparities. So far, the city managers have all committed to pursuing second-tier benefit plans for future employees, which would save significant money in the future. The city managers for the prospective JPA member cities have reiterated the vital importance of this change and acknowledge the opportunity for controlling these costs at the local level.

Another key consideration regarding the JPA is its potential for fostering future cost-efficiency improvements through shared services. When successful, the JPA agreement could serve as a model for other regional services, such as police and public works. Discussions are already underway among several cities regarding a possible similar transition for police services.

The proposed JPA would be effective July 1, 2010 and would begin demonstrating operational and cost efficiencies immediately. However, due to significant administrative and labor relations matters that take considerable time to address (e.g., development of a CalPERS contract for a new agency can take one year or more before approval) the JPA would need to be implemented in three phases, over two years:

Phase #1: Fire Chief services (target effective date 7/1/10)

- JPA board formed. Initial members are agencies with fire resources to offer system: Carmel-by-the-Sea, Monterey, Pacific Grove, and Seaside.
- Del Rey Oaks and Sand City to continue existing contractual relationships during first phase.
- JPA employs Fire Chief (cost shared among all agencies).
- Member agencies appoint JPA Chief as agency's Fire Chief, with all authority to direct staff.
- Fire personnel operationalize consolidated services: uniform training and operating procedures and personnel and call response assignments reflect single system.
- City of Pacific Grove continues to contract with City of Monterey for all other Fire services (staff subject to JPA Fire Chief's direction).

Phase #2: Fire headquarters services: (target effective date (7/1/11)

- Other fire command and administrative positions employed by the JPA (cost shared among all agencies).

Phase #3: Fire station services: (target effective date 7/1/12)

- Fire "line" staff employed by the JPA.

Costs for the JPA would be allocated based on a formula to include population, minimum daily station staffing, and emergency incidents (which receive double weight). Based on the formula, the City of Pacific Grove would pay 15.77% of the shared system costs for the JPA.

**CAL FIRE.** Staff has met numerous times with Chief Rick Hutchinson, the CAL FIRE Unit Chief responsible for Monterey and San Benito Counties, to understand the CAL FIRE service model and to develop a proposal for services that would meet the City’s needs. Based on these discussions, CAL FIRE has submitted a proposal for the City’s consideration (Attachment 3). CAL FIRE currently serves Carmel Highlands, Cypress, and the Pebble Beach communities in our area. CAL FIRE’s cooperative agreements are custom tailored to address the needs of the local community and the ability of CAL FIRE to deliver the requested services. CAL FIRE has the system infrastructure in place to efficiently engage the City of Pacific Grove and provide a level of fire protection comparable to the City’s current service level. Under the terms of the proposal, the Pacific Grove fire station would be designated as a “must cover” station. CAL FIRE would not send fire apparatus out of city limits except by mutual or automatic aid agreements that are in place and approved by the City.

The following chart provides a summary of the detailed analysis comparing the two primary options.

**Comparison of Fire Service Options**  
(bold indicates relative preference for this option)

<b>Criteria</b>	<b>CAL FIRE</b>	<b>Monterey Peninsula JPA</b>
Emergency call response standard (first unit on scene)	90% of calls within 5 minutes of dispatch call received (plus 1-2 minute delay for dispatch relay)	<b>90% of calls within 5 minutes of dispatch call received (no dispatch relay)</b>
Availability of chief officer for incident command	Must be located within 10 minutes of Pacific Grove at all times	<b>On duty in Pacific Grove, Monterey, Seaside, or Carmel at all times</b>
Station staffing plan	One engine company with three personnel; will backfill PG station when PG engine committed	One engine company with three personnel; will backfill PG station when PG engine committed
Fire prevention program commitment	Up to four hours per day by on-duty crews	Performed as needed by specialized staff dedicated to prevention work
Service flexibility / ability to customize	Very flexible; will provide any staffing model desired; however, no say in cost for level of service provided	Flexible and customizable to community needs, but could take longer to scale staffing levels; more control over costs and service model
Governance / local control	Virtually no control	<b>Shared control with other member agencies</b>
Applicability of model to other City services for future cost-effective solutions	No	<b>Yes</b>

Local commitment of staff	Unknown; staff recruited from all over the state; can transfer in and out	<b>More than 1 in 5 current firefighters are PG residents; the vast majority are peninsula born and raised, and are heavily involved in local activities</b>
Volunteer and reserve firefighter programs	CAL FIRE contracts with other agencies having volunteer programs	<b>Planned for JPA model, pending funding decisions</b>
Financial risk	Severe; subject to state budget morass, budget process and cost allocation methodology	<b>Moderate; subject to already existing risk for uncertain economy</b>
Ability to control salaries and benefits	None	<b>Significant; JPA Board would approve all employee agreements</b>
Liability for retiree medical benefits	Unquantified, but severe; existing cost proposal does not include CAL FIRE's share of State's unfunded retiree medical obligations (\$58 billion)	<b>Minimal; JPA will not pay retiree medical insurance</b>
Ability to modify retirement program for cost control	None	<b>Significant; member City Councils and JPA Board appointees set policy</b>
Implementation risk; ease of administration	<b>Minimal: Proven contract and implementation model</b>	Moderate: subject to agencies' political will and labor coordination
Labor support	The CAL FIRE firefighters union is opposed to CAL FIRE contracting with Pacific Grove (Attachment 2)	<b>Monterey and Carmel fire staff are in support of the transition to a JPA</b>
Familiarity with local structures and needs	Except for those current Monterey firefighters who might transfer to CAL FIRE, an extensive period would be necessary for CAL FIRE staff to familiarize themselves with local structures and needs.	<b>Previous Pacific Grove firefighters, as well as many Carmel and Monterey firefighters, are already well-acquainted with PG structures and needs.</b>
Agreement termination provisions	<b>May terminate with 12 months notice; no payment for transferred leave balances required</b>	24-month notice required; withdrawal not allowed for first five years; payment for unpaid transferred leave balances due upon termination

*Costs comparisons of options:* Both options require the majority of costs for fire services to be paid to another agency, whether it is the JPA or CAL FIRE. In addition, the City would continue to pay other costs for station and equipment operations, maintenance, and supplies, as well as costs for dispatch services (with the JPA option), workers compensation claims incurred when the City had fire employees, debt service on City-owned fire apparatus, and the former fire department's allocated share of pension obligation bond debt service.

This section summarizes projected costs of the JPA and CAL FIRE options over the next five years, with scenarios reflecting alternative ways the two options could be implemented. This

analysis concludes that the JPA approach to fire services would cost an average of \$3.21M per year for the first five years, which is approximately \$0.5M less per year than the existing contract. The CAL FIRE option would cost between \$3.07M and \$3.37M, although staff feels the uncertainty with the CAL FIRE model, especially in later years of the forecast period, is much greater than with the JPA approach. This uncertainty is due primarily to the financial risk associated with the State's fiscal situation, combined with an almost total lack of local control over personnel and overhead costs in a contract with the State. In addition to an unfunded CalPERS pension liability of approximately \$52 billion, the state faces an even larger unfunded liability (\$58 billion) for retiree health care benefits, which the JPA will not have. Staff is very concerned that the State will begin billing the local agencies with CAL FIRE agreements for these costs in coming years.

The scenarios follow, first with a description of key financial considerations, then with a table containing cost projections. (Note: more detailed cost comparisons are included in Appendix 4.)

**Scenario #1: Contract with CAL FIRE, all employees being paid at CAL FIRE salary rates:** If the City chooses to contract with CAL FIRE, the City of Monterey would have surplus firefighters, as the City would no longer be staffing the Pacific Grove station. Monterey would have little choice but to lay off many of the firefighters who previously worked for the City of Pacific Grove; we could require that CAL FIRE hire those who choose to work for CAL FIRE. The scenario shows the transition costs associated with terminating the existing contract with the City of Monterey. Per the agreement, the City of Pacific Grove is required to provide 12 months notice of its intent to terminate the agreement. For this reason the CAL FIRE scenarios reflect existing contract costs with the City of Monterey for FY 2010/11. Additionally, the termination agreement requires the City to pay the City of Monterey for the value of accrued employee leave for former Pacific Grove employees at the time of contract termination. As of June 30, 2009, this amount was \$1.03 M.

**Scenario #2: Contract with CAL FIRE, assuming former Pacific Grove employees are transferred to CAL FIRE to staff Pacific Grove Station at City of Monterey or previous City of Pacific Grove salary rates.** Former City of Pacific Grove employees were transferred to the City of Monterey 18 months ago, as one step in a progression to a full JPA. While with Monterey, they have continued to serve the citizens of Pacific Grove in good faith. If Pacific Grove were to decide now to change course, and contract with CAL FIRE, we would need to provide for our employees. As a result, the City would contract with CAL FIRE and offer employment to former Pacific Grove firefighters at their prior Pacific Grove or current Monterey salary rates. These salary rates would be frozen ("y-rated") for a reasonable period, or until CAL FIRE rates caught up.

**Scenario #3: Create a Monterey Peninsula JPA.** If the City commits to the JPA, implementation will occur gradually over the next two years. In FY 2011/12, the City would pay its share for Fire Chief services (15.77%) to the JPA, and would pay for all other services through a contract with Monterey. The cost basis for the contract would be modified from the current cost, wherein the City pays its share of the unified basis to reflect only the incremental impact of the Pacific Grove station and the employees who were transferred to Monterey from Pacific Grove in December 2008. The costs for FY 2011/12 and beyond reflect the shared

headquarters services. Actual plans assume that costs for FY 2012/13 would be similar in total, but that the contract with the City of Monterey would not continue, and all staffing costs would be paid through the JPA. A preliminary JPA agreement for fire services is included as Attachment 5.

Two points are of special importance here. First, the City of Monterey is changing the cost allocation model during the JPA implementation period, to charge Pacific Grove only incremental costs, not proportional costs. This is a strong and extremely generous statement, once again demonstrating Monterey’s commitment to the JPA approach.

Second, the importance of a unified commitment to the JPA by all four “charter” cities cannot be overstated. The other cities are also looking at their options, including the JPA. It is important for the City Council to understand that if another agency opts out of the JPA for another model, system resources are decreased and the City’s costs would change significantly. For example, if the Carmel-by-the-Sea were to opt out, the City of Pacific Grove’s costs could be more than \$0.15M higher per year in FY 2010/11 and approximately \$0.05M higher in the second phase of the JPA. Based on preliminary analysis, if the City of Seaside were to opt out, the City’s costs would increase by \$0.22M per year in phase two..

The following table summarizes the costs for all scenarios.

**Fire Service Alternatives: Cost Comparison**  
(\$ Thousands)

	FY 10/11	FY 11/12	FY 12/13	FY 13/14	FY 14/15	5-year avg.
<b><u>Baseline (for reference): Contract with Monterey</u></b>						
Contract for fire services	\$2,600	\$2,690	\$2,850	\$3,030	\$3,110	
Other City fire costs	810	830	850	870	890	
<b>TOTAL</b>	<b>3,410</b>	<b>3,520</b>	<b>3,700</b>	<b>3,900</b>	<b>4,000</b>	<b>\$ 3,710</b>
<b><u>1. CAL FIRE: Employees at Cal-Fire salaries</u></b>						
Contract for fire services	2,600	1,800	1,910	2,030	2,080	
Other City fire costs	810	740	760	780	790	
Payment to Monterey for accrued leave	0	1,030	0	0	0	
<b>TOTAL</b>	<b>3,410</b>	<b>3,570</b>	<b>2,670</b>	<b>2,810</b>	<b>2,870</b>	<b>3,070</b>
<b><u>2. CAL FIRE: Employees at Monterey Salaries</u></b>						
Contract for fire services	2,600	2,150	2,280	2,420	2,480	
Other City fire costs	810	740	760	780	790	
Payment to Monterey for accrued leave	0	1,030	0	0	0	
<b>TOTAL</b>	<b>3,410</b>	<b>3,920</b>	<b>3,040</b>	<b>3,200</b>	<b>3,270</b>	<b>3,370</b>
<b><u>3. Joint Powers Authority (JPA): 4 cities</u></b>						
JPA membership costs	40	490	520	550	560	
Contract for station costs	1,960	1,760	1,870	1,990	2,040	
Other City fire costs	810	830	850	870	890	
<b>TOTAL</b>	<b>\$2,810</b>	<b>\$3,080</b>	<b>\$3,240</b>	<b>\$3,410</b>	<b>\$3,490</b>	<b>\$ 3,210</b>

**Conclusion.** As outlined above, both CAL FIRE and a Monterey Peninsula JPA could provide high-quality fire services for the City of Pacific Grove. On balance, however, the JPA option (Scenario #4, above) is clearly preferable, for 5 primary reasons:

- Shared governance and local control;
- The \$0.6M lower cost for next fiscal year and the comparable average annual cost over the first five years;
- The potential for evolving services and reducing costs (including a two-tiered retirement system) over time;
- The potential for expanding the JPA into additional service areas; and
- If the JPA doesn't work, we then would have several options, including transitioning into a contract with CAL FIRE. However, if we were to go with CAL FIRE and were not satisfied, there is no easy way to transition to another approach.

Staff believes that this JPA represents an opportunity that may not arise again for many years to create a new model for collaborative service delivery that could be adapted for other City services and serve as a powerful tool for achieving long-term financial sustainability for Pacific Grove.

**FISCAL IMPACT**

In FY 2010/11, committing to the JPA option will cost \$0.60M less than the existing contract-for-service model with Monterey, which will remain in place for 2010/11 if the City chooses to contract with CAL FIRE (CAL FIRE service could not be in place for at least 12 months, due to the contract termination provisions in our current model and gear-up time required by CAL FIRE). Over the next five years, the CAL FIRE option would cost either \$0.11M less or \$0.16M more (depending on the status of former Pacific Grove employees) than the proposed JPA, if the JPA were to be restricted to only fire services. However, the ability to expand the JPA into additional service areas, and the reliance of the CAL FIRE options on the State, with its overwhelming budget crisis and unfunded liabilities, with the resultant risk for unforeseen cost increases, outweighs any apparent cost advantage that might be anticipated now.

**ATTACHMENTS**

1. Shared Fire Services project plan, from the Council's Five-Year Plan
2. Letter of opposition to CAL FIRE contract with Pacific Grove from CDF Firefighters, dated April 30, 2010
3. CAL FIRE Proposal, dated May 4, 2010
4. Additional detailed cost analysis of 2010/11 costs for alternative models
5. Preliminary draft JPA agreement

RESPECTFULLY SUBMITTED:




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Thomas Frutchey  
City Manager

















































































































