



# MEMORANDUM

Agenda Item 10  
Meeting Date: 3-28-06

**TO:** HONORABLE MAYOR AND CITY COUNCIL

**FROM:** JAMES B. HENDRICKSON, CITY MANAGER

**SUBJECT:** RENEWAL OF TEN YEAR AGREEMENT WITH LOS ANGELES COUNTY FIRE DEPARTMENT

**DATE:** MARCH 6, 2006

### The Issue

Shall the City Council adopt Amendment Number Two to the Annexation Agreement between the City of Palos Verdes Estates and the Consolidated Fire Protection District of Los Angeles County to change certain fee calculations and extend the Agreement for an additional 10 year period – until June 30, 2016?

### Background

In May 1986, the City abandoned its own Fire Department and entered into a contract with the Consolidated Fire Protection District of Los Angeles County to provide fire protection, paramedic services, and the enforcement of the City Fire Code on behalf of the City (Attachment 3). The City committed to remain a part of the District for at least 10 years from the operative date of the Agreement. The City contracted for three fire captains, three firefighter specialists and nine firefighters working out of a single station (Number 2) and utilizing one fire engine and one paramedic unit.

The initial Agreement was due to expire June 30, 1996. The City Council concluded that we were well-served by Los Angeles County Fire and that we wanted to “re-up”; but we had some issues with respect to the costs incurred in the first 10 year term. In several instances, the actual fire costs well exceeded the estimated costs, which we had used for budgeting purposes. The actual costs were not known until the spring of the fiscal year which had begun 9-10 months earlier. In one year alone, the actual fee exceeded the

prior year's fee by ~12%. This placed a tremendous burden on the City's budget.

In order to address this issue, we pressed the County to establish an "Annual Fee Limitation" which would be the maximum the County could charge in any particular year. At first, the County was resistant to this approach. They accurately recognized that if it was incorporated into our contract, there would be an expectation by their other (10) contract cities that they should be entitled to the same. Nonetheless, we held our ground and were successful in negotiating such a limitation, which is contained in Amendment Number One to the Annexation Agreement between the City of Palos Verdes Estates and the Consolidated Fire Protection District of Los Angeles County (Attachment 2).

The contract provides two formulas (Option A and Option B), which are at the discretion of the City. Option A is the only one that has been used in the 10 year period from 1996 – 2006. It provides a fee limitation of a maximum 6.5% each fiscal year during the first five years; and for the final five years, the fee limitation is based on the average of the immediately preceding five years' actual annual fee percentage increases +1%. The 6.5% maximum increase during the first five years was based on the average of the actual fee increases we experienced in the years immediately preceding the renewal of the Agreement. This formula has stood us in good stead during the term of the Agreement.

### Amendment Number Two

The current agreement with Los Angeles County Fire expires on June 30, 2006. In mid-December 2005, the City Manager and Assistant City Manager met with the Los Angeles County Fire Chief and Deputy Fire Chief to negotiate some outstanding issues, which we wished to address in the renewal of the contract. These dealt with changes to certain fee calculations. We were successful in completely resolving these matters to the City's satisfaction.

The changes (and the rationale for each) are as follows...

1. **Annual Fee Limitation.** The inclusion of an Annual Fee Limitation in the contract is essential in assuring the City has predictable costs. It assists us in determining the fire tax rate that should be set for the

upcoming 5-6 years. Amendment Number One included two Annual Fee Limitation options – “A” and “B”. As indicated above, Option B was never exercised by the City during the 10 year period; so, we have agreed to utilize Option A as the sole formula in Amendment Number Two.

As mentioned earlier, Option A set the Annual Fee Limitation at a maximum 6.5% during the first five years of the Agreement. We provided the County data that demonstrated the actual fee has increased an average 4.146% per fiscal year over the past five years (Exhibit A), and proposed that a maximum 4.2% annual increase be set for the first five years of the 10 year renewal (7-1-06 through 6-30-11). They agreed to this proposal. For the final five years of the renewal (7-1-11 through 6-30-16), the Annual Fee Limitation will be the average of the immediately preceding five fiscal years’ actual annual fee percentage increase +1% (a “rolling” five year average), the same as it is under the current Agreement. (See Section III, Paragraph F in Attachment 1).

2. **Annual Fee Limitation to Apply to Actual Costs (vs. Estimated Costs).** This is a significant deficiency in the current contract provision. Annually, the City sets the fire tax based on the estimated fee for services provided by the County in the spring prior to the beginning of the fiscal year. However, it is the actual fee – the “settle-up” – that we ultimately owe, which is not provided to us until a year later. To the extent the actual fee exceeds the estimated fee, we are the losers in that we did not set a tax rate high enough to cover our actual expenses. The difference must be paid out of fund balance.

The problem is illustrated in Exhibit B. This shows that in four of the past eight years, the actual fee has exceeded the estimated fee. During a couple of years the fee was fairly insignificant -- \$4,200 and \$7,200. However, in FY 97-98, the actual exceeded the estimated by \$36,200, and in FY 03-04 by \$80,000.

Given this situation, the County has agreed to insert a provision that if the actual annual fee is greater than the estimated annual fee, the additional amount due the District will be paid by the City during the ensuing fiscal year (1/12 of the additional fee paid in each of the subsequent 12 monthly payments). (Paragraph 2 in Attachment 1).

However, the additional fee is also subject to the overall fee limitations elaborated in Section III (F)...

The amount of any unpaid Annual Fee Limitation excess to be paid by City in any single year when added to the actual Annual Fee increase for that year shall not exceed the Annual Fee plus the Annual Fee Limitation.

### **Alternatives Available to Council**

1. Adopt Amendment Number Two to the Annexation Agreement between the City and the Consolidated Fire Protection District of Los Angeles County which extends the Agreement until June 30, 2016. The City and County have negotiated an Agreement that modifies certain fee calculations that address what we see as particular shortcomings in the current contract. It ensures that the City can set an annual Fire and Paramedic Services Special Tax rate (assuming that we secure voter approval for its renewal beginning July 1, 2007) that will recover the full amount of County Fire's costs for fire and paramedic services for the ensuing year. It also assures us that the maximum annual increase is reasonable.
2. Adopt Amendment Number Two to the Annexation Agreement between the City and the Consolidated Fire Protection District of Los Angeles County, with modifications. Any changes to the Agreement would be as elaborated by the City Council, and subject to the concurrence of the Los Angeles County Fire Department.
3. Do not adopt Amendment Number Two to the Annexation Agreement between the City and the Consolidated Fire Protection District of Los Angeles County. The City Council would then advise how it would like to secure the provision of fire and paramedics services for the time period after June 30, 2006.

### **Conclusion and Recommendation**

The City of Palos Verdes Estates has been well-served by the Los Angeles County Fire Department since it first entered into a contract for the provision of fire, paramedic and fire code enforcement services on May 1, 1986. The

County has negotiated in good faith with the City, and satisfactorily addressed all our concerns in the proposed Amendment to the existing Agreement, for the ensuing 10 year period.

It is recommended the City Council adopt Amendment Number Two to the Annexation Agreement between the City of Palos Verdes Estates and the Consolidated Fire Protection District of Los Angeles County. This extends our current Agreement for an additional 10 year period – from July 1, 2006 until June 30, 2016.

**Budget Impact**

Since July 1, 1991, the costs of fire and paramedic services rendered by the Los Angeles County Fire Department have been paid 100% by a special fee or tax approved by the property owners/voters in the City. The Fire and Paramedic Services Special Tax now averages \$545 per home and raises \$3.1 million. It is due to expire on June 30, 2007.

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Exhibit A

**Actual Fee  
Fire Service Contract**

	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06*	Fee Inc Avg last 5 Yrs 00-01 to 04-05	Fee Inc Avg Last 5 yrs Assume 05-06 Actual
Actual Fee	3.31	6.88	6.91	4.78	3.66	3.47	6.94	1.88	4.64	4.146	4.118
Cap	6.5	6.5	6.5	6.5	6.47	6.11	6.14	6.15	5.15		

Comparison of Actual Fee vs. Estimated Fee Fire Service Contract  
FY 97-98 through FY 04-05

