

Zamarripa Consulting

Response to the Waste Report

Evaluation of Waste Report on Merger of the Elk Grove CSD and Galt Fire Protection District

The following is a review of sections of the Waste Report relating to finances that are in conflict with the Municipal Services Review (MSR) prepared by Zamarripa Consulting.

Waste Report, Page 6: Fiscal Issues Raised by the Proposed Reorganization/Merger: Ambulance Fees

The MSR stated that increased ambulance fee collections would help offset additional costs anticipated with the proposed merger. The MSR estimated an additional \$60,000 from increased ambulance fee collections, equivalent to a 13 percent increase in revenue from this source. This estimate is conservative given the past two fiscal years Galt actual ambulance fee collections have exceeded budgeted projections by significantly more than \$60,000, even without the improved collection practices.

The Waste Report, however, warned, "Caution should be taken in this assumption, as there is a current trend affecting the transport providers that shows a substantial reduction in revenues because of the decrease in Medicare reimbursements."

The Waste Report's conclusion was erroneous. The \$60,000 identified in the MSR as additional ambulance fee collections was estimated for *non-capitated* sources which do not include Medicare reimbursements. (MSR p. 49) Medicare is a *capitated* revenue source. An additional \$144,000 in ambulance fees were estimated to be realized from increased call-volume, primarily related to population growth anticipated within the boundaries of the reorganized district and still consistent with the actual collections already received by Galt Fire.

CONCLUSION: Waste Report's statements and conclusions regarding Medicare reimbursements were erroneous or not supported by data.

Waste Report, Page 9: Challenges for a Newly Created Cosumnes Fire Protection Agency (sic) fiscal Challenges Facing the CSD

New Community Services District Name

The Waste Report, p. 9, refers to the newly reorganized district in a variety of ways including the Cosumnes Fire Protection Agency and/or the Cosumnes Agency. The merger does not propose to create a new agency called the “Cosumnes Fire Protection Agency.” The name of the new District will be the Cosumnes Community Services District as set forth in Resolution #2006-33 adopted by the EGCS D Board of Directors and Resolution #06-11 adopted by the Galt Fire Protection District.

Parks Facility Funding

The Waste Report states that “the EGCS D has recently embarked on an ambitious program to acquire land for future parks. The recent draw down of the EGCS D’s reserves threatens the EGCS D’s ability to adequately protect against a catastrophic fire and/or emergency services event within its current boundaries.”

The facts do not support this statement. The MSR documented that the CSD had a \$12 million financial reserve at the time the report was prepared. This reserve now, totals \$19 million.¹

The CSD recently has purchased two properties for park and/or recreation use, a 97-acre open space parcel near Wilton and the 48-acre Emerald Lakes Golf Course. Both of these purchases are being financed long-term, and have no impact on reserve funds of the District. In the case of the golf course, a major reason for its purchase was to allow for expansion of the adjacent fire training facility, so a portion of its financing is being paid for through developers’ fire impact fees. On a third piece of property, the Reardan property in the Laguna Ridge area of Elk Grove, the District has entered into an option for purchase but has not yet exercised that option.² The financial impact of the District’s efforts to protect open space from development is grossly overstated.

The financial management abilities and financial strength of the CSD are readily apparent and recognized by financial industry professionals. The CSD has a policy to maintain an emergency reserve of 8 percent of its annual property tax revenues.³ The CSD also budgets a contingency equal to 2 percent of the CSD’s salaries and benefits and service and supply expenditures within each annual budget. The CSD is effective in financial management of District resources as recognized by the numerous Certificates of Achievement of Excellence in Financial Reporting and Awards for Excellence in Operational Budgeting.⁴ Excellence in financial management is also recognized in the Aaa bond rating established by Moody’s, a financial-rating agency.⁵ In addition, the

¹ See 2006-07 EGCS D Budget Document, adopted by Board of Directors August 15, 2006.

² The 40-acre parcel is located within the developing subdivision known as Madeira. The CSD secured a 10-year option on the property for \$150,000 a year. Under the terms of the option, the purchase price would be at fair market value, as determined by independent appraisal.

³ See EGCS D Strategic Plan, Figure 11

⁴ Municipal Services Review, EGCS D and Galt FPD, p. 37

⁵ Municipal Services Review, EGCS D and Galt FPD, p. 37

CSD recently formed the Elk Grove Community Services District Public Facilities Acquisition Corporation, a nonprofit public benefit corporation to facilitate the acquisition and financing of the 97-acre Dillard Ranch and golf course properties.

The CSD has a demonstrated track record of comprehensive planning to meet service demands as evidenced by the EGCSO Board-adopted Strategic Plan which documents services provided, service goals, and facility needs for fire, parks and recreation and administration. Both CSD Fire and CSD Parks have comprehensive capital improvement programs (CIPs) that identify the facilities needed to serve projected population levels for many years into the future.⁶ Both CIPs have been approved by the EGCSO Board of Directors. These CIPs also include schedules for facility construction consistent with the projected need and funding sources to construct those facilities. The CSD has demonstrated the ability to prudently plan and manage District resources to meet the needs of residents.

CONCLUSION: The Waste Report's conclusions were not based in fact. The CSD is financially healthy and uses sound financial management practices. The fiscal strength of the CSD, due to the synergy of its Parks and Recreation Department and its Fire Department, makes the merger viable. Even at a time when service demands are increasing, the CSD's budget reserves have increased. From a fiscal standpoint, the CSD is an extremely healthy and well managed organization with financial reserves of \$19 million which is greater than one quarter of the annual budget, a testament to the District's prudent operational and financial management. The District's reserves, as a whole, are not being drawn down by park purchases and the Fire Department's reserves have not been negatively impacted by Park Department activities.

Waste Report, Page 10: Challenges for a Newly Created Cosumnes Fire Protection Agency (sic), and Fiscal Challenges facing the CSD (cont.)

The Waste report listed the following costs associated with the proposed merger:

1. Training Galt FPD personnel
2. Equalizing Galt FPD salaries with EGCSO Fire salaries
3. Equalizing Galt FPD benefits with EGCSO Fire benefits
4. Increasing Galt FPD staffing levels to match EGCSO fire staff levels
5. Adding Galt FPD fire stations and facilities to reach EGCSO levels

Additional training of Galt Fire personnel was anticipated to increase through use of the CSD Fire state-of-the-art training facility and by improved staffing that allowed Galt Fire staff to attend training off-site that could not currently be accommodated due to the

⁶ See minutes, CSD Board of Directors: Parks and Recreation Department CIP adopted May 15, 2006, CSD Fire Department CIP adopted August 27, 2006

limited resources of Galt Fire. While additional training costs may be experienced, these will be minimized by employing in-house facilities and resources.

Additional costs associated with equalizing Galt FPD salaries and benefits, and increasing Galt FPD staffing levels to match EGCSO fire staff levels were included in the MSR analysis as well as in the revenue offsets that would fund these additional costs. Specifically, additional salary and benefit costs of \$1,064,941 were anticipated and demonstrated to be offset by reductions in vacant positions (\$316,632), service and supply reductions (\$90,000) and increased revenue offsets (\$274,000). The remaining cost of \$384,309 is not new information, is considered manageable and will be funded with available Galt FPD unexpended fund balance.

CONCLUSION: The MSR adequately addressed the financial issues. The Waste Report ignored the facts presented in the MSR.

Waste Report, Page 10: Additional Fiscal Challenges-Galt Fire Budgetary Issues

This section discusses the Gann Spending Limit for Galt Fire and in foot noted information cites the Gann spending limit for Herald Fire in comparison. The relevancy and reason for the comparison is unclear as the comparison is of dissimilar agencies. For one thing, the Herald Fire Department is staffed primarily by volunteer firefighters – a distinction the Waste Report fails to make – while the Galt FPD is staffed by paid firefighters. The Galt and Herald districts operate as distinct and separate fire protection districts with separate governing boards, revenue streams, service demands and Gann Limit calculations specific to each agency, not transferable to the other and not studied or referenced in the CSD Fire/Galt Fire MSR.

The Waste report concluded, “Clearly, while fire suppression services in the Elk Grove area will be aided by the proposed Elk Grove CSD/Galt FPD merger, the acquisition of Galt FPD will *pose the probability of a modest fiscal increase for Galt FPD residents needing ambulance transport, and will-in all probability-involve a modest fiscal exposure to the Elk Grove CSD, which is, itself – as noted above – already currently engaged in a substantial draw down of District resources to fund a major parkland acquisition program.*” (Emphasis added)

This analysis is not supported by any independent data presented in the Waste Report. The ambulance fee comparison, which was extracted from the MSR and included in the Waste Report, indicates the current Galt Fire ambulance fee schedule is higher than the current CSD Fire ambulance fee schedule, (see attachment, Exhibit V Ambulance Fee Comparison from the MSR, p.30)

In all categories where the two districts charge for like services, the Galt charge exceeds the CSD Fire charge for the same service. **No ambulance fee increases were**

anticipated, proposed, or assumed in the MSR when analyzing the ambulance fee revenues that will support services for the future, and offset the additional costs identified. The additional ambulance fee collections anticipated are to be realized from improved collection efforts that could be anticipated from a private contractor dedicated solely to billing and collection of ambulance fees, along with increased call volume due to population increases.

The new additional cost of approximately \$384,309 was estimated to occur at the end of the first fiscal year and included in the MSR. This increased cost was deemed manageable in a combined district budget of approximately \$74 million. This increased cost is insignificant, approximately .0005 of the total District budget of \$74 million and would be easily manageable by the newly formed district and, as mentioned above, will be covered by available Galt FPD fund balance.

CONCLUSION: The Waste Report's comparison of Galt FPD to the Herald Fire Department is irrelevant. The Waste Report's suggestion that a merger could result in increased costs for Galt residents is not supported by data and contrary to the analysis of the MSR.

OVERALL CONCLUSION

The MSR is a comprehensive report addressing all issues related to the merger of the CSD and the Galt FPD, including financing, based on facts and data, with thorough analysis. The CSD is financially strong, with a \$19 million reserve, and any costs associated with the merger will be met. The Waste Report ignores these facts, basing its analysis on unsubstantiated arguments.

**EXHIBIT V
AMBULANCE FEE COMPARISON**

Fee Description	CSD Fire	Galt Fire
Last Updated	July 1, 2004	December 23, 2003
Basic Life Support-Base Rate	\$534	\$660
Advanced Life Support-Base Rate	\$595	\$750
Mileage (Per transport mile)	\$14.75	\$16
Immediate Response	\$50	
Oxygen	\$56.50	\$70
Night Charge	\$60	\$70
Non-resident Fee	\$80	
Disposable Medical Supplies and Medications	Cost plus 75%	
IV and Tubing		\$35

(MSR, p.30)

Addendum: Response to Robert Waste Facsimile Transmittal Dated 9/25/2006 to Peter Brundage, Executive Officer Sacramento Local Agency Formation Commission

The following is in response to the financial issues raised by Dr. Robert Waste in a letter to Peter Brundage, Executive Officer, Sacramento Local Agency Formation Commission, dated September 25, 2006. This comment section responds specifically to financial issues raised in that letter that are in conflict with the Municipal Services Review (MSR).

Dr. Waste suggests that "there are significant financial issues not yet resolved which were raised earlier in the City of Galt's letter to LAFCo dated 24 August 2006." Many of these issues were discussed in the MSR and during the public participation process that occurred after the MSR was prepared and prior to submission of an application to LAFCo.

Project Deficit after the first 2 years

Dr. Waste indicated the City of Galt raised questions regarding the original reorganization study "that after the first 2 years, funding for fire could reach a deficit with the addition of the Galt component. The City of Galt requested a response on how the situation would be resolved. Dr. Waste indicated he did not see the matter resolved at present.

CSD executives met with Galt City officials to answer the questions they had raised over finances. The successful meeting led to the Galt City Council subsequently approving the merger during a public meeting.

The additional estimated costs remaining after offsets from salary and benefit reductions, savings in services and supplies or additional revenues was estimated to be approximately \$384,000. (MSR p. 49) The MSR also documented that Galt Fire usually ended the fiscal year with a significant and anticipated fund balance. (MSR p. 49). The FY 2005/06 fund balance was estimated to be at least \$1.1 million. The reorganized District could use that available fund balance to offset the additional costs for the next three years. At the end of the three years, when the \$1.1 million had been expended, increased property taxes would likely be available to fund any additional costs. Even a modest 10 percent increase in property tax collections would yield between \$300,000 and \$400,000 in each of the following four years. It should be highlighted that the modest property tax increase would result from increased property values not from any increases to property tax rates.

Facility Funding

Dr. Waste indicates the "City of Galt collects a Fire Capital Improvement fee from every building permit issued. These funds may only be spent within the Galt city limits, are and will remain under the City's control, and also that a CFD funding district to fund police and fire was recently formed and that arrangements are not yet in place to reconcile these different funding streams, responsibilities, and obligations. Further, it

appears that City of Galt would like to retain all of these funds for police services and contribute little or nothing from this funding for fire services.

Although clouded in the information provided by Dr. Waste, the MSR thoroughly and comprehensively documented the two separate facility funding sources, the requirements for use of these revenues as well as legal constraints associated with each method of facility financing.

The City of Galt imposes and collects fire development impact fees on building permits issued within the City limits. When the MSR was prepared, \$800,000 in revenue had been collected for that purpose. Development impact fees can be imposed as long as there is a reasonable relationship between the project paying the fee and the impact of that project upon the facility proposed to be funded by the fee. The \$800,000 collected by the City can only be used in support of fire and life safety facilities consistent with the nexus study that supports the impact fee. Impact Fees were discussed at length in the MSR (p. 20, Figure IV, p. 50, p. 51). The MSR also indicated that coordination with the City of Galt would be required to determine how impact fees might be imposed and collected in any newly reorganized District. The City did not indicate in its August 24, letter that it was unwilling to use City Fire impact fees in support of the new District only that the fees must be used within the City which was completely consistent with the MSR discussion on Galt City fire impact fees.

The City of Galt also formed a Mello-Roos Community Facilities District which generates special taxes for police and fire activities. Approximately \$39,000 annual special tax revenue could be anticipated for fire and life safety activities annually. The MSR documented this funding source and indicated that coordination with the City would be required for continued use of these funds. This is not new information, nor did the City indicate it was unwilling to have such discussions. Rather the City of Galt merely indicated "A written policy should be adopted to address the fees as they related to the reorganization of the GFPD." Such a policy would be good for the City of Galt and for the newly reorganized District to provide for increased stability in funding fire and life safety activities. It must also be noted that the CSD has not counted any of the \$39,000 into its revenue projections for the new District.

Operation of Station #46

Dr. Waste indicates the City of Galt built Station #46 and Galt Fire operates the station but the remainder of Dr. Waste's discussion on this point is less clear. To clarify the letter from the City of Galt to LAFCo states:

3. Fire Station #46: "The facility was built by the City of Galt and is situated on property owned by the City of Galt's Park and Recreation division. Recently, GFPD discussed the possibility of expanding this facility. If a new district is formed, there should be discussions and direction related to its use and expansion."

. The reorganized district will assume the responsibilities outlined in the existing agreement between the City of Galt and the Galt Fire Protection District on the use and operation of Station 46. The City of Galt doesn't give any indication that it is unwilling to entertain discussions with the EGCSO or a newly reorganized district as it relates to the operation of this facility. Rather, such discussions are common between two governmental organizations interested in the public good and providing excellent services to residents. Station #46 is owned by the City of Galt, and whether it's the Police Department or the Parks Department, the Galt City Council will make the final decision related to City property and how it can/will be operated in the future. The question of station ownership was fully recognized and discussed in the MSR (p. 29). Final discussions about the future operation of the facility had not yet occurred when the MSR was prepared nor should those discussions have occurred unless and until the two Districts determined whether a reorganization application would proceed to LAFCo. The MSR indicated that discussions with the City would be required to determine the future operation of the station. Two amicable governmental agencies would have little difficulty coming to conclusion on a facility that serves the public safety needs of residents. The City merely indicated "there should be discussions and direction related to its use and expansion" – a reasonable request and one that would certainly be expected to be honored by the newly reorganized District

Finally, it is necessary to reiterate one of the most compelling issues in the proposed reorganization, that being the financial health of the Galt Fire Protection District. The Galt District operates with severe and significant financial constraints which were described in detail throughout the MSR. Galt Fire has done an exceptional job of providing fire protection and life safety services to residents. Currently Galt Fire has difficulties recruiting and retaining staff, operating facilities with preferred staffing levels, providing staff training or making it possible for staff to obtain training off site, and funding up to date equipment and facilities. Unfortunately, even if Galt Fire could generate additional revenues to enhance or expand services, the District's spending limit precludes the collection and use of additional revenues. Galt Fire is to be commended for the services provided within the limited financial resources available but that situation cannot continue indefinitely. While the governance issues are theoretical, the financial constraints facing the District are real, measurable and unquestioned throughout all the public meetings or even by other consultants' studies. The long-term financial stability of Galt Fire will remain at risk, along with continued emergency services to residents, should the reorganization be delayed.