Chapter 5 – Government Funding

This chapter provides an assessment of revenue sources which are available to support fire service operations. ESCi has identified limitations that may restrict the use of such resources.

Background

Adequate Funding: An Issue

The discussion of adequate funding for a fire agency is often very confusing to the layperson. The average person who lives in a home has an assumption that a fire agency will respond when the 9-1-1 system is activated, but they seldom understand how that level of service comes into existence; nor do they understand what it takes to adequately fund a fire station on a long-term basis.

In highly densely populated areas such as cities and towns, the decision to fund and deploy fire resources is very transparent to the user because it is assumed as part of overall services. Yet, in the less densely populated areas such as rural, frontier, or wildland areas, the same lack of understanding may be as prevalent until a person experiences a fire, and then they criticize the response as being too little, too late.

Moreover, there is a lack of appreciation of the ways and means that fire protection is provided by elected and appointed officials in all type of communities, which results in misunderstandings and misinterpretations of how fire agencies operate in many communities.

Cost Realities

Whenever considering a change from a totally volunteer to a totally paid fire force, the cost of an individual fire station is one of the many variables to be examined. Historically, the construction of a volunteer fire station was not much of a financial burden on a community. In the case of most of these agencies, their fire stations were constructed in the fairly distant past when costs were much lower than today. Today, to construct a new suburban fire station (based on a statewide average) can cost between $2.0 to $3.0 million.

Staffing costs are another issue. Originally, volunteers were a very inexpensive form of fire protection because they place few demands on the tax base. When organizations start converting positions to full-time, an increased demand is placed on the tax base. It must be highlighted that volunteer fire departments are not free; they do cost money. In California, the enactment of such laws as Proposition 13, AB 8, and AB 218 has made it very difficult for a rural fire district to see an increase in its revenue stream to support full-time staff.

It is a generally accepted parameter that to place a three-person engine company in service on a 24/7/365 schedule utilizing contemporary wage rates costs about $1.5 - $1.8 million per year.

There is a commonly accepted guideline, that if a fire department provides emergency medical service (EMS) delivery and if the workload goes over a 1,000 calls per year it is very difficult to sustain a completely volunteer fire company. The net result is that many departments convert to a combination fire agency. These two trend lines are on a collision course. If workload and

demand go up, there is pressure to staff accordingly. Simultaneously, if there are not consistent increases in the revenue stream, problems in achieving community expectations can be anticipated.

Funding Mechanisms for Fire Services

The Taxpayers Rebellion

In 1978, nearly two-thirds of California's voters passed Proposition 13, reducing property tax rates on homes, businesses, and farms by about 57 percent. According to the amended State Constitution, property tax rates could not exceed 1 percent of the property's market value and valuations could not grow by more than 2 percent per annum unless the property was sold. At the time of sale the property value could be re-assessed. In addition, Proposition 13 required all state tax rate increases be approved by a two-thirds vote of the legislature and local tax rates must be approved by a vote of the people.

Since Proposition 13, many local governments have relied increasingly on other revenue tools to finance local services (to be defined later) such as assessments, property-related fees and a variety of small, general purpose taxes (such as hotel, business license, and utility user taxes).

Effect of Proposition 172 on Fire Protection Funding

Proposition 172 is sometimes referred to as the Local Public Safety Protection and Improvement Act of 1993. This Legislative Constitutional amendment was passed in 1993. This Senate Constitutional Amendment (SCA) passed statewide by a margin of 57.7 percent to 42 percent. This measure provided a dedicated revenue source for public safety purposes. Revenue was to be distributed to cities and counties for purposes such as police, sheriffs, fire, district attorneys, and corrections. Special districts were not named.

When this measure was approved by a majority of the state's voters, the tax was being collected in all counties. However, a county would be eligible to receive tax revenues beginning January 1, 1994, only if the County Board of Supervisors voted to participate or voters within the county approved the measure by majority vote. While ESCi was not able to locate the actual voting record, this appears to have occurred in Stanislaus County.

Effective January 1, 1994, this tax measure generated approximately $714 million during fiscal year 1993-94 on a statewide basis, and $1.5 billion annually thereafter in additional sales tax revenue for counties and cities. ESCi has not been able to determine how much this revenue stream contributes to the current County budget. Only some agencies receive funds from this source. Special district fire agencies do not receive any funding from Proposition 172.

Educational Revenue Augmentation Funds (ERAF)

In 1992, the State of California found itself in a serious deficit position. To meet its obligation to fund education at specified levels under Proposition 98, the state enacted legislation that shifted partial financial responsibility for funding education to local government (cities, counties, and special districts). The state instructed county auditors to shift allocation of local property tax revenues from local government to *educational revenue augmentation funds* (ERAF), directing specified amounts of city, county, and other local agency property taxes be deposited into these funds to support schools.

In fiscal year 2005-06, ERAF allocations diverted $7.2 billion in property tax revenues away from cities, counties, and special districts. Since their inception, the ERAF shifts have deprived local governments of over $58 billion. Counties have borne 73 percent of this shift, while cities have borne 16 percent.

Stanislaus County ERAF net losses in FY 2005-06 were $13,672,405, while special district net losses were $3,321,638. Cumulative losses for Stanislaus County since 1992 are $415,358,807.

These shifts occur in the context of continuing citizen demands for increased services and increases in the cost for such services.

Proposition 218

In 1996, Proposition 218 was passed. Proposition 218 is a constitutional initiative that applies to each of California's nearly 7,000 cities, counties, special districts, schools, community college districts, redevelopment agencies, and regional organizations. In general, the intent of Proposition 218 is to ensure that all taxes and most charges on property owners are subject to voter approval.[19] The following table gives a general summary of local revenues affected by Proposition 218.

Figure 13: Summary of Local Revenues Affected by Proposition 218

Affected	Not Directly Affected
Taxes	
New and recently imposed *general taxes*	Property taxes
	Bradley-Burns sales tax
	Special taxes
	Vehicle license taxes
	Redevelopment revenues
	Mello-Roos taxes
Assessments	
All new or increased assessments	Most existing assessments
Fees	
Property-related fees (Fees imposed as an *incident of property ownership*, not including gas, electric, or developer fees.)	Fees that are not property-related

The major funding source for fire districts is property tax revenue. Each local government agency shares a portion of this revenue based on an established percentage or allocation factor. Stanislaus fire districts receive 70 to 96 percent of their revenue from their share of property taxes and their assessments.

Additional taxes or assessments require voter or landowner approval. The percentage of approval required depends on the type of funding mechanism sought.

[19] Understanding Proposition 218, Legislative Analyst Report, December 1996.

Limits to Revenue Stream

Currently, state law defines the type and level of revenue that is available to special districts to support fire protection and emergency medical services. Cities and counties exercise the broad powers of taxation that are granted to general-purpose governments by the California Constitution.[20] Special districts, however, are limited to revenue sources specifically authorized by the Legislature. Each of the Stanislaus County fire protection districts, is an autonomous unit of local government with sovereignty over internal fiscal issues but is restricted to specific revenue sources by state law.

Fire districts have limited authority to collect fees to cover the actual costs of providing service or the impact of additional service needs. Generally, fees represent only a small portion of total revenue. Fees that are permitted include development impact fees, plan check fees, and false alarm fees. Areas experiencing growth would receive noticeable funds from development impact fees and plan check fees.

Revenue Enhancement

Opportunities to augment revenues for fire protection and emergency medical services in the unincorporated region are limited. Opportunities to augment revenues fall into two broad classes:

(1) Categories of *new* revenue that require voter approval
(2) Categories of revenue under the discretion of local governments

Neither is likely to be easily obtained in the near future.

Categories of Revenue That Require Voter Approval

- Voter-approved fee: Voters within each district have the authority - with two-thirds consenting - to implement local benefit fees for fire protection and emergency medical services. If past elections are an indicator of future performance, the two-thirds threshold raises a major hurdle to increasing revenues.
- Transient Occupancy Tax: This option for enhancing revenues with voter concurrence is not within the purview of fire protection districts, but is within the County's. The County may increase the County Transient Occupancy Tax (TOT) rate with proceeds specifically dedicated to unincorporated area fire and emergency medical services.
    - TOT would seem to be a relevant source of funding for agencies that expend a significant portion of their resources on transient populations. A proportionate amount of fire protection district responses are emergency medical incidents involving non-residents.
    - For example, tourists seasonally impact fire districts with an increase of accidents on state or U.S. Highways, including Highway 99 and I-5. Agencies are frequently called upon to provide vehicle rescue services to travelers who are not residents of the district.

Dedicating TOT proceeds to fire and emergency services would again require approval by two-thirds of unincorporated area voters.

[20] California Constitution, Article XI, Section 7.

Voter Approval

It is reasonable to assume that obtaining voter approval for fee increases sufficient to meet funding needs will be a politically sensitive issue.

After the passage of Proposition 13 in 1978, about the only significant source of funding for fire protection districts is a voter approved benefit fee. On a statewide basis, the passage of such benefit fees has been about 50 percent successful. Some fire district officials expressed concern that all future elections for new or increased fees will be politically difficult; and the recruiting, retention, and training of volunteers will remain a serious problem.

Without adequate funding some agencies will continue to have less than adequate forces for initial attack responses and will, therefore, have a need to maintain strong safety practices during initial attack. They will continue to have to develop strong automatic and mutual aid agreements in order to develop an effective response force on any event that is beyond initial attack capabilities.

There is no one funding formula that applies to the entire range of entities in this study; therefore, there is no one solution that will resolve the funding deficiencies for on-going operations.

Available Revenue Sources

In order for fire agencies to increase revenues, it is necessary to utilize one of the mechanisms described below. The following table describes and defines all available revenue sources and identifies their potential for use in support of the fire service.[21]

The reader will note that some are for use by all forms of local government and some are reserved.

[21] *A Primer on California City Finance* by Michael Coleman, November 2002.

Figure 14: Description and Definition of Revenue Sources

Term	Definition
Assessments	These are charges levied to pay for public improvements or services within a predetermined district or area, according to the benefit the parcel receives from the improvement or services. The rules and procedures for assessments are provided by the California constitution, Article XIII, Section C & D (Prop. 218). Assessments are usually collected on the regular property tax bill. They are different, however, from the regular one percent property tax, and property tax debt overrides in that assessment rates are not based on the value of the property. Assessments are also different from another charge that sometimes is placed on the property tax bill, parcel taxes. Unlike parcel taxes, assessments typically were not voter approved prior to Proposition 218. In addition, assessment rates were linked to the cost of providing a service or improvement, whereas parcel taxes could be set at any amount. Typical assessments include those for flood control improvements, streets, lighting, and landscaping. Use: Cities, counties, and special districts

Term	Definition
Business License Tax	Most cities in California, levy a business license tax. Tax rates are determined by each city, which collects the taxes. In all cases, cities have adopted the tax as a general tax. On average, the business license tax provides about three percent of city general revenue, and often 10 percent or more. Use: Cities – A business license tax raises general fund revenues (i.e., it is not a dedicated revenue source for fire services).
Development Impact Fee[22]	One-time charges applied to new development to raise revenue for the construction or expansion of capital facilities located outside the boundaries of the new development that benefit the contributing development. Impact fees, for example, are assessed and dedicated principally for the provision of additional water and sewer systems, roads, schools, libraries, and parks and recreation facilities made necessary by the presence of new residents in the area. The funds collected cannot be used for operation, maintenance, repair, alternation, or replacement of capital facilities. Use: Cities, counties, and special districts

[22] *Development Impact Fees: A Primer* by Carrion and Libby.

Term	Definition
Special Taxes	After the property tax, special taxes are the principal revenue source for funding fire protection operations. Section 4, Article XIII A of the California Constitution authorizes cities, counties, and special districts to impose non-ad valorem special taxes with two-thirds approval of the electors. Through a series of court cases, the California Supreme Court has found that all taxes levied by special purpose districts are to be considered special taxes – even if proceeds are used for general purposes. Accordingly, the primary alternative that fire protection districts can use to generate revenue requires two-thirds approval of the voters. Proposition 62 reinforced the two-thirds requirement in 1986 – a statutory initiative intended to close Proposition 13 loopholes, and again in 1996, by Proposition 218, which created the *Right to Vote on Taxes Act*.
Mitigation Fees	Some agencies have adopted an ordinance establishing a mitigation fee program for their area. The agency collects funds during the building permit process on behalf of the fire protection agencies. These mitigation fee revenues must be used exclusively for capital facilities and equipment.
Enterprise Service Charges and Fees	Service-fee-supported city utilities and enterprises constitute a substantial portion of most city budgets. These include water, sewer, electric, solid waste, and airport services. In some cities, a public or private agency other than the city provides and funds these services. Use: Cities, counties, and special districts

Term	Definition
Bonds	Bonds are used to finance the acquisition and construction of public facilities and real property. They may *not* be used for equipment purchases or to pay for operations and maintenance. Until 1978, local agencies had the ability - with two-thirds voter approval - to issue general obligation bonds to finance public facilities and impose property tax rates to discharge the bond debt. Proposition 13 restricted the imposition of additional property tax rates and effectively terminated the use of general obligation bonds. In 1986, California voters approved Proposition 46, a constitutional amendment that restored the authority of local government to issue general obligation bonds. Each bond measure requires approval by two-thirds of a jurisdiction's voters.
Fees	Fire districts impose fees for a variety of services including issuing service availability letters and plan checks. The California Constitution defines fees as charges that do not exceed the reasonable cost for providing the regulation, product, or service for which fees are charged. Proposition 218 introduced procedural requirements on fees imposed as an incidence of property ownership. Fees are defined as "A charge imposed on an individual for a service provided to that person." A fee may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead. Cities have the general authority to impose fees (charges and rates) under the city's police powers granted by the California Constitution (Article XI, Section 7; Proposition 218). There are specific procedures in state law for related fees used to fund property-related services. Examples of city fees include water service, sewer service connection, building permits, recreation classes, and development impact fees. Use: Cities, counties, and special districts

Term	Definition
Inter-Governmental Revenue	Local governments also receive revenue from other government agencies, principally the state and federal governments. These revenues include general or categorical support monies called *subventions*, as well as grants for specific projects and reimbursements for the costs of some state mandates. Intergovernmental revenues provide 13 percent of city revenues statewide. In the early 1990s, the California experienced a recession and budget deficit. To offset its fiscal shortfall, the State shifted property tax revenues from cities to local schools. This ERAF shift continues today and is discussed later. Use: Cities, counties, and special districts
Mello-Roos	Fire districts are specifically authorized by the Fire Protection District Law of 1987 to finance capital facilities or pay for fire protection services with a special tax outlined in the Mello-Roos Community Facilities Act. The Mello-Roos was specifically designed to facilitate passage of the two-thirds special tax. A Community Facility District (CFD) can overlay an entire jurisdiction or it may be limited to a specific area; however, if there are *fewer* than 12 registered voters in the area, only landowners are able to vote. Landowner-developers, who vote in a CFD, can levy a special tax and pass the tax lien on to subsequent buyers. This is an area where a special tax is imposed on those real property owners within a Community Facilities District. This district has chosen to seek public financing through the sale of bonds for the purpose of financing certain public improvements and services. These services may include streets, water, sewage and drainage, electricity, infrastructure, schools parks, fire protection, and police protection to newly developing areas. The services may be financed only to the extent of new growth, and may include both services and facilities. The tax paid is used to make the payments of principal and interest on the bonds. Use: Cities and counties

Term	Definition
Property Tax	Property tax is an ad valorem (value-based) tax imposed on real property and tangible personal property. (State law provides a variety of exemptions to the property tax, including most government-owned property; nonprofit, educational, religious, hospital, charitable, and cemetery properties; the first $7,000 of an owner-occupied home; business inventories; household furnishings and personal effects; timber; motor vehicles, freight and passenger vessels; and crops and orchards for the first four years). California Constitution Article XIIIA (Prop. 13) limits the property tax to a maximum 1 percent of assessed value, not including voter-approved rates to fund debt. The assessed value of property is capped at the 1975-1976 based year rate plus inflation or 2 percent per year. Property tax declines in value may be reassessed at the lower market value. Property is reassessed to current full value upon a change in ownership (with certain exemptions). Property tax revenue is collected by counties and allocated according to State law among cities, counties, school districts, and special districts. The share of property tax revenue allocated depends on a variety of factors, including historical allocations of tax dollars, the number of taxing entities in a tax rate area, etc. Use: Cities, counties, and special districts – Property taxes raise general fund revenues (i.e. except for special districts, it is not a dedicated revenue source for fire services).
Sales Tax	The sales tax that an individual pays on a purchase is collected by the State Board of Equalization and includes a State sales tax, the locally levied "Bradley Burns" sales tax and several other components. The sales tax is imposed on the total retail price of any tangible personal property. (State law provides a variety of exemptions to the sales and use tax, including resale, interstate sales, intangibles, food for home consumption, candy, bottled water, natural gas, electricity, water delivered through pipes, prescription medicines, agricultural feeds, seeds, fertilizers, and sales to the federal government.)

Term	Definition
Transient Occupancy Tax (TOT)	Like the business license tax, TOT may be levied by a city under the police powers granted cities in the state constitution. More than 380 cities in California impose TOT on people staying for no more than 30 days in a hotel, inn, or other lodging facility. Rates range from 4 to 15 percent of the taxes, but some cities make a point of budgeting funds for tourism or business-development-related programs. The TOT typically provides 7 percent of a city's general revenues, on average, and often as much as 17 percent. Use: Cities and counties – Transient occupancy taxes raise general fund revenues (i.e., it is not a dedicated revenue source for fire service.)
Use Tax	A use tax is imposed on the purchaser for transactions in which the sales tax is not collected. Sales and use tax revenue received by cities is a general purpose revenue and is deposited into a city's general fund. Although cities vary widely, on average sales and use tax revenue provides 30 percent of city general-purpose revenue and often as much as 45 percent. Use: Cities and counties – use taxes raise general fund revenues (i.e., it is not a dedicated revenue source for fire service).

Term	Definition
Vehicle License Fee (VLF)	The VLF is a tax on the ownership of a registered vehicle in place of taxing vehicles as personal property. (Vehicles that are exempt from VLF include government-owned, diplomatic, civil air patrol, and farm vehicles; privately owned school buses; and vehicles owned by blind or amputee veterans. Various classes of specialized vehicles are exempt but are instead subject to the property tax. These include farm trailers, privately owned firefighting vehicles, and forklifts.) Since 1948, the VLF tax rate had been 2 percent. In 1998, the Legislature and Governor began cutting the tax, backfilling the loss to local governments with a like amount of state general fund money. The effective rate is now 0.65 percent. The VLF is collected by the State Department of Motor Vehicles and allocated to cities and counties according to law (after retaining several hundred million dollars for the administrative costs of state agencies). Most of all allocation to cities is based on population and provides 16 percent of general revenues to the average city budget and often as much as 24 percent. Of the $1.6 billion that will go to cities in FY 2002-03, about one-third is from actual VLF paid by vehicle owners and two-thirds is from the State general fund backfill. Use: Cities and counties – Vehicle license taxes raise general fund revenues (i.e., it is not a dedicated revenue source for fire).
Utility User Tax (UUT)	More than 150 cities, collectively representing majority of the State's population, impose a utility user tax. UUT rates vary from 1 to 11 percent and are levied on the user of various utilities depending on the local ordinance and including telephone, electric, gas, water, and cable television. For those that impose the UUT, it provides an average of 15 percent of general revenue and often as much as 22 percent. Use: Cities and counties

Distribution of Property Tax Revenue

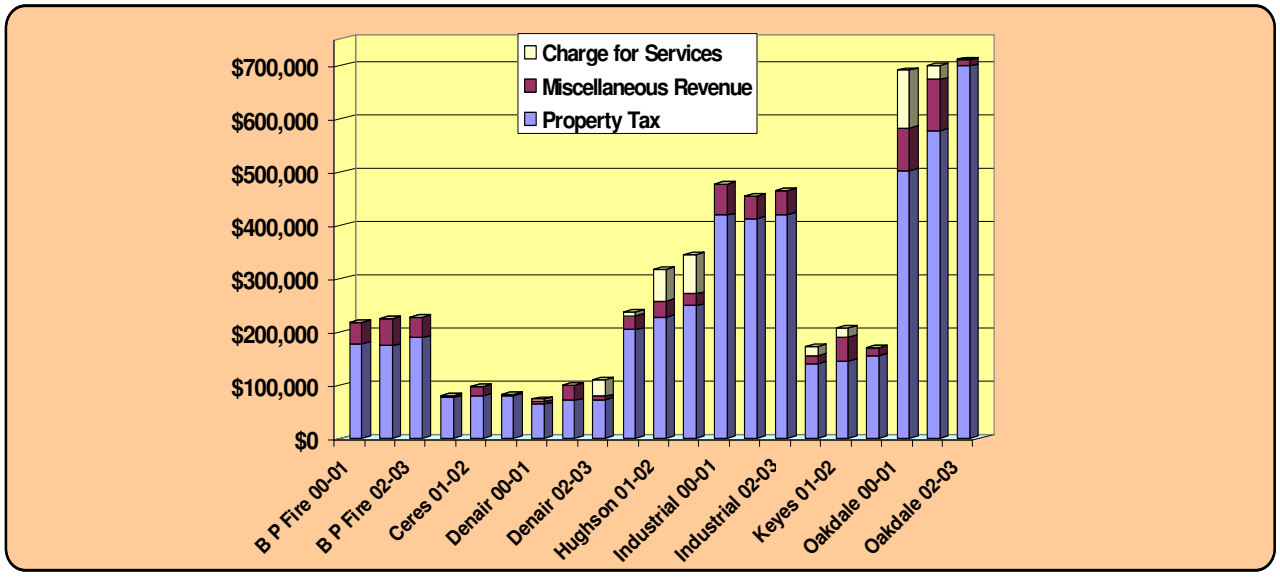
The establishment of the property tax rate and the property assessment practices are uniform statewide as a result of Proposition 13. There is, however, considerable variance in the *distribution* of property tax revenue among local governments. Generally, variation can be attributed to three factors:

(1) The level of development within a local jurisdiction
(2) The existence of redevelopment agencies
(3) State laws governing the allocation of property tax revenues

New development impacts property tax revenue; so does resale of older properties. Areas where there are high property values generally yield higher property taxes. Some communities are more recently developed and have high-value homes and businesses, while others have older properties and/or sparse development. Differences in the extent and value of land development affect the amount of property tax revenue a community generates. Market forces, natural geography, and local land use choices act together to create diversely valued communities.

The following chart provides a comparison of these revenues.

Figure 15: Comparison Chart of Revenues



Reduction in Property Tax

During the interview process, it was stated that there is a perception that fire districts are losing property tax revenue as a result of annexations. These charts would seem to indicate that the trend lines for revenues are upwards in most of these entities. A more accurate statement is that districts are losing ground to annexations, but that increased property values in the remaining area of their jurisdiction are masking the effects.

Figure 16: Property Tax Revenue – Burbank-Paradise Fire Protection District

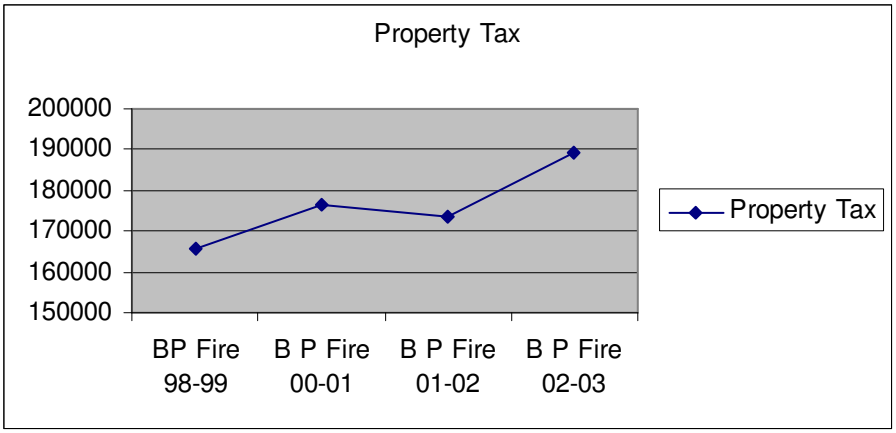


Figure 17: Property Tax Revenue – Ceres Fire Protection District

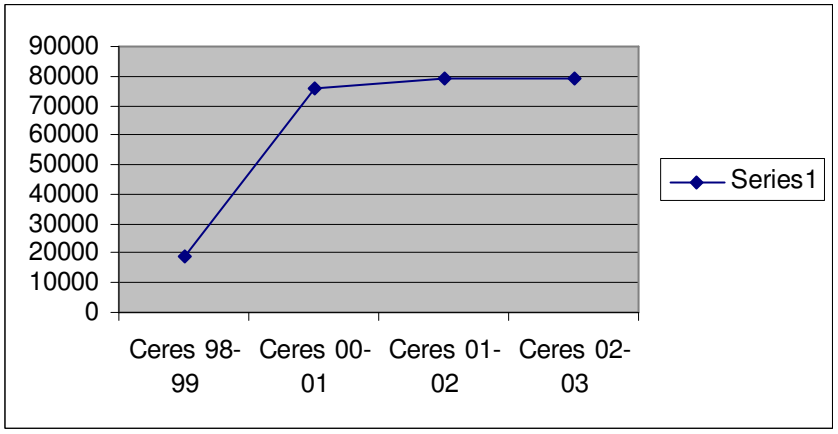


Figure 18: Property Tax Revenue – Denair Fire Protection District

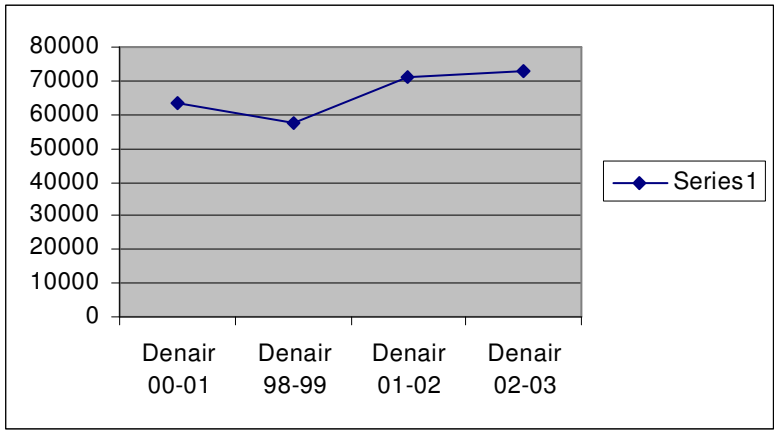


Figure 19: Property Tax Revenue – Hughson Fire Protection District

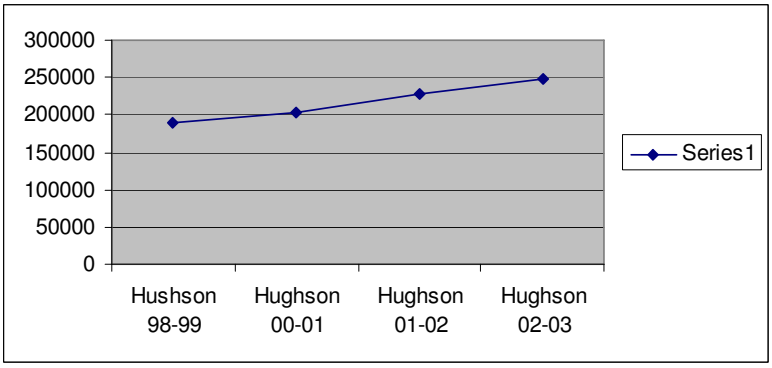


Figure 20: Property Tax Revenue – Industrial Fire Protection District

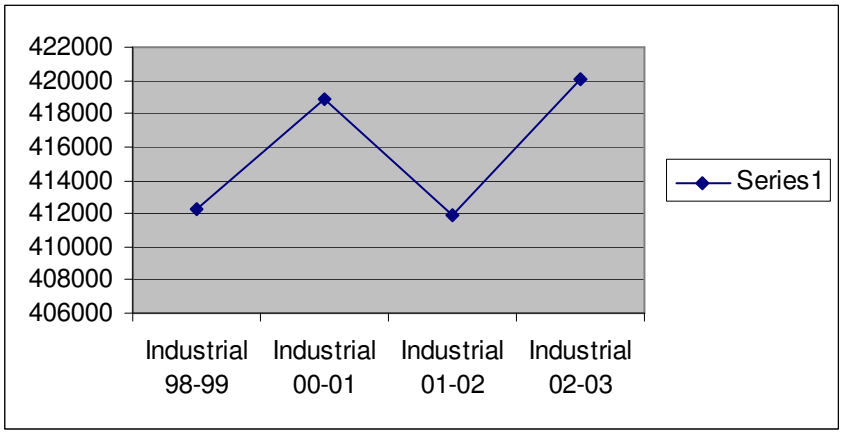


Figure 21: Property Tax Revenue – Keyes Fire Protection District

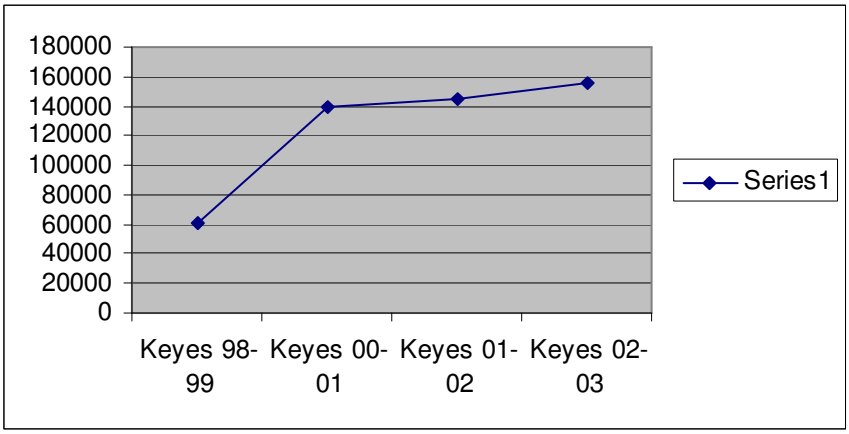


Figure 22: Property Tax Revenue – Oakdale Fire Protection District

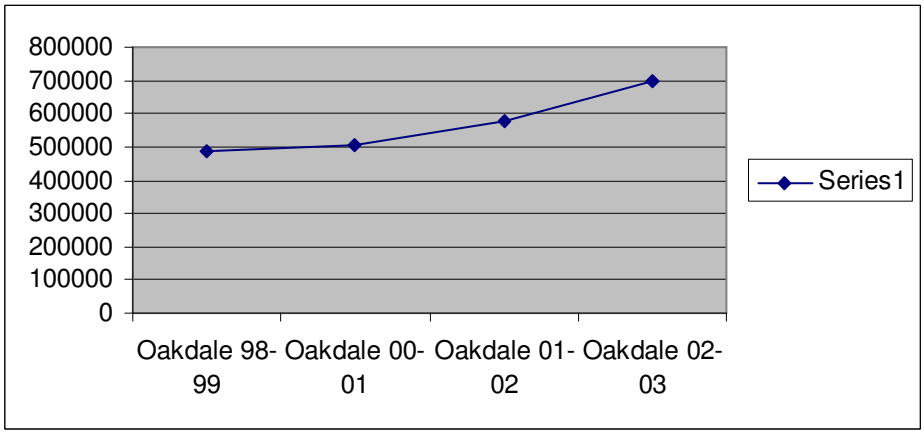


Figure 23: Financial Profile of Agencies

Department	04-05 Revenues*	CEQA Mitigation Fees*
Burbank Paradise FPD	$211,315.00	$0.00
CDF		Not calculated
Ceres City	$3,051,082.00	$0.00
Ceres FPD	$86,028.00	$0.0
Denair FPD	$89,335.16	$146,190.96
Hughson FPD	$317,506.00	$36,243.46
Industrial FPD	$473,065.00	$0.00
Keyes FPD	$171,210.00	$102,570.31
Modesto	$25,716,020.00	$0.00
Mountain View FPD	$132,440.00	$0.00
Newman	No Information	Not eligible
Oakdale	$2,557,233.00	Not eligible
Oakdale Rural FPD	$776,345.00	$176,889.69
Patterson	$602,309.00	Not eligible
Salida FPD	$860,461.00	$422,055.40
Stanislaus Consolidated FPD	$4,044,958.00	$806,579.40
Turlock City	$5,158,932.00	Not eligible
Turlock Rural FPD	$179,725.00	$0.00
West Stanislaus FPD	$482,321.00	$284,060.00
Westport FPD	$113,210.00	$0.00
Woodland FPD	$145,752.00	$18,287.30
County Fire Warden		
Total	**$45,169,247.16**	**$1,900,563.52**
Average of Districts	**$577,405.08**	**$135,754.54**

**Source of this information is a combination of the questionnaires, information from the County Fire Warden, and personal input to the process. Some cities have alternative fees. Some do not. Several districts have passed measures for increased revenue*

In examining each of the revenue streams for the fire districts, ESCi looked at the various ways that revenue streams accrue to these districts. In general, the following revenue streams could be considered relatively consistent.

- Secured
- Current unsecured
- Supplemental
- Prior unsecured
- Prior supplemental

There are three other forms of revenue streams that are not consistent and therefore cannot be relied upon for budgeting purposes. They would include:

- Federal, which consists of AFG and other grants
- State
- Miscellaneous other revenue

Assumptions Regarding Financial Growth

As reported earlier, the agencies that are reported on in the Auditor's Report are operating with most of their funds coming from the property tax base. The real growth in property assessment is only about 2.5 percent annually (this is not the Consumer Price Index - CPI). This growth is a result of new development contributing to the revenue stream that often masks the effects of the real growth rate for a district to use in planning its budgetary future. In essence, unless the new monies are discovered and/or unless actions are taken to establish a higher tax rate, when possible, the fire districts are facing certain financial difficulties in the future.

This contradiction has increased in recent years because of people migrating from a city or town into the more rural areas. The lack of understanding is based on a lack of concern about fire protection as a service need until an emergency occurs. This is not true with other services such as water, phone, and sewage. They are used daily and, therefore, are clearly adequate or inadequate. Fire protection is often an afterthought for new residences.

On the other hand, in rural areas, especially those that have operated with volunteer services in the past, there are residents that clearly know the limitations of the system. They know they have long-response times, and they know they do not pay much for fire protection. Yet, even these customers have a tendency to expect more and more from the delivery system over time. For example, for many years volunteers did not respond to medical aids. Now most do and it represents the largest portion of their emergency response workload.

The combination of these two factors - migrants and increased expectations - is raising an issue of increasing problems for under-funded fire agencies. They are expected not only to do more for less, but to also do everything with nothing.

Therefore, a discussion of how a fire agency is adequately funded should be part of the decision making process of providing fire protection by policy makers. A fire agency's budget is made up of two factors. The first is the funding base, and the second is the expenditure base.

Property Taxes and Jurisdictional Change – Detachment

One issue that will be discussed in Chapter 7 is annexation and the subsequent detachment. As noted in that chapter, this is a complex issue that often results in the development of friction and dissent when it occurs. The detachment process between cities and districts is subject to negotiation according to the California Government Code Section 57326, which states in part: "As an alternative to any procedure prescribed by law for the division of taxes or assessments collected in a district lying partially or wholly in territory annexed by an incorporated city, the city and the district may enter into an agreement providing that the district shall continue to perform services for the annexed territory until the close of the fiscal year for which the district has levied taxes or assessments."

One example of such an agreement has been developed by the city of Stockton and the county of San Joaquin. This document, entitled "AGREEMENT BETWEEN THE CITY OF STOCKTON AND THE COUNTY OF SAN JOAQUIN REGARDING DETACHMENT OF RURAL FIRE DISTRICTS UPON ANNEXATION OF PROPERTY TO THE CITY OF STOCKTON contains the following provision:

> "1. Upon Annexation of property to CITY and the detachment of the property from the rural fire district. CITY and COUNTY shall continue to pay the rural fire district the amount of property tax it received, attributable to the annexing property, prior to the annexation based upon the percentage split of property tax revenue agreed to between CITY and COUNTY pursuant to their Master Tax Allocation Agreement."

Per Capita

Per capita fire cost is not necessarily an indication of how much each individual pays in taxes, but rather the fact that a revenue stream is normalized over the population base by comparing expenditures against the number of people that live in a community. For example, if we take into consideration that fire districts are funded by their own tax levy, alternative funding sources used by cities recognize that some properties will pay more than other properties. Different forms of alternative funding yield different dollar amounts, the actual amount one person may pay is different from what another will pay. In the final analysis, however, using per capita as an indication of level of effort is clearly an indication of the impact of population upon the demands of a fire agency. Per capita is derived by dividing the budget by the population.

The funding base of almost all agencies consists of a series of opportunities to raise money from donations, tax rates, reimbursements, fees and permits, grants, or other sources. The funding base of most fire agencies is a combination of one or more of these. The best way that a funding base can be characterized is to measure it by per capita (per person) cost because the population pays the funding base. Per capita costs are an indication of how much the public – or user of fire services – is paying to support the district or city on an annual basis. For example, if the per capita costs are $10.00 per person, then for every 100 persons paying into the system, the fire agency receives $1,000.00 to support that agency. The per capita revenue stream is often referred to as the *level of effort* of the community.

Figure 24: Per Capita Fire Costs

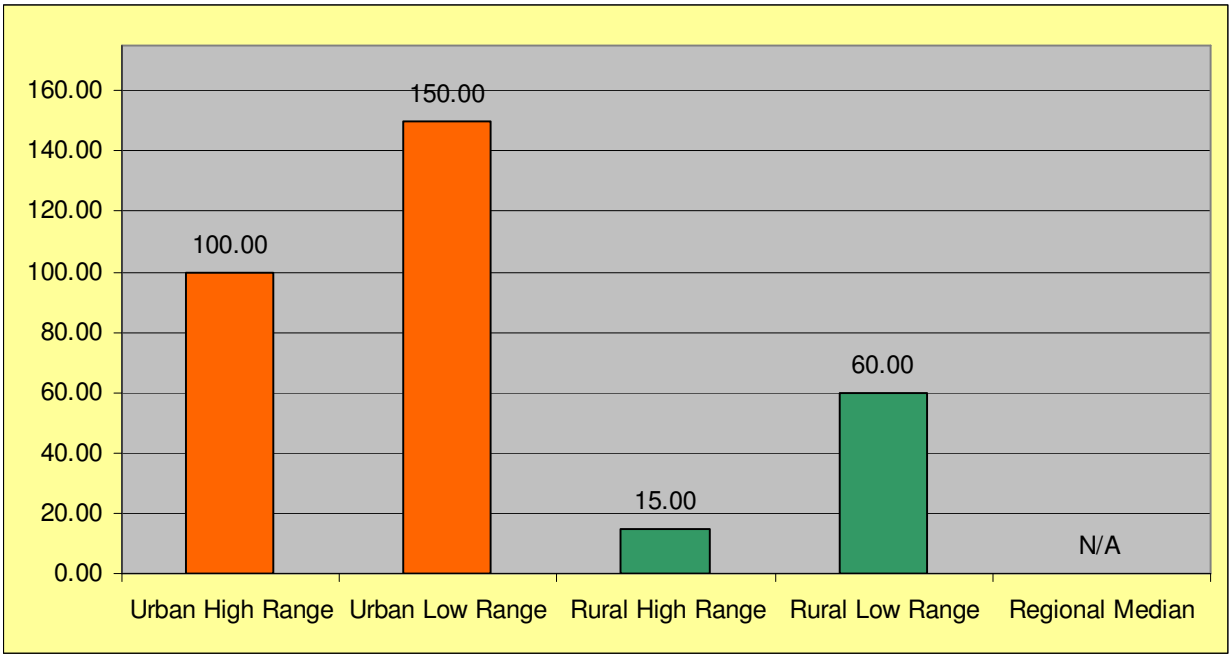
Department	Population	Per Capita*
Burbank - Paradise	7,000	32.64
CDF		Not Calculated
Ceres	38,813	80.82
Ceres FPD		63.30
Denair	5,200	15.59
Hughson	10,000	28.22
Industrial		39.38
Keyes	4,700	37.42
Modesto	206,000	111.56
Mountain View	2,500	56.33
Newman	10,000	Not Calculated**
Oakdale	17,500	101.02
Oakdale Rural	11,000	138.63
Patterson	17,000	35.42
Salida	18,100	47.53
Stanislaus Consolidated	38,380	105.39
Turlock City	67,000	76.99
Turlock Rural	4,000	35.83
West Stanislaus	9,800	64.24
Westport	3,000	49.82
Woodland	5,500	32.47

**The source of this table was a calculation made by ESCi based on the budget figures and the estimated populations from the County.*
***Several attempts made to collect data - unsuccessful*

National Benchmark Data

The following chart is obtained from the United States Fire Administration's annual data collection from the fire service. This chart provides an illustration of the average per capita fire costs for the Western United States. It should be noted that this information is always two years behind the current year. This figure is based upon 2004 data.

Figure 25: Tax Cost per Capita



The expenditure base for a fire agency consists of how it is spending that revenue on an annual basis. In general, all fire agencies have four basic cost concerns. They are personnel, facilities, apparatus and equipment, and overhead. As explained earlier, the average cost of operating a completely staffed fire station is an expensive proposition. The cost of sustaining a full-time fire agency is an investment that is highly dependent upon the community being able to sustain the costs over a period of time, not just an annual cost. The expenditure that is reflected in the budget results is a *level of service* being provided.

> ***The net result of comparing the funding base with the expenditure base is that, generally, you can only provide the level of service that you can afford.***

Sometimes that level of service is perceived as being adequate, and sometimes it is perceived as being inadequate. In general, the average citizen doesn't know the difference and may not care until it impacts them. However, this is a reality in how fire agencies are created and function on a day-to-day basis.

Per capita is considered by most taxpayers as the price they pay per person; and, therefore, most people want it to be as low as possible this also is the desire of most taxpayers. They want low costs. Yet when an emergency occurs, they want the *best* service they can get. This can create a contradiction.

Fire agencies need to be as focused as possible on the *economics* of fire protection. Every fire district has an economic profile that applies to its jurisdiction. These profiles consist of the taxpayers, the tax base, and the revenue opportunities that are present within that unique jurisdiction. In the simplest of terms, level of service (resources) = level of effort (financial effort). Low cost generally means low levels of service and high costs generally mean higher levels of service.

Redevelopment Areas

Redevelopment agencies also divert property tax revenue. When a local government creates a redevelopment project area, the growth in property tax revenue within the project area is diverted to the redevelopment agency rather than being shared by other local jurisdictions. Redevelopment agencies use the revenue from property tax growth to finance improvements intended to revitalize the project area. After the redevelopment work is complete – typically in 30 to 40 years – the growth in property tax revenues is reallocated among other local governments in the area.

Formulas contained in State Law determine allocation of property tax revenue. Immediately following the passage of Proposition 13, the Legislature adopted temporary measures to allocate the reduced property tax revenue among counties, cities, and special districts and to provide some fiscal relief to local agencies with drastically reduced revenues. In what became known as the *bailout bill,* Senate Bill 154 allocated post-Proposition 13 property tax revenues on a *pro-rata* basis.

For example, if a special district received 25 percent of the property tax revenue within a tax rate area prior to 1978, then following Proposition 13, the district would continue to receive 25 percent of the reduced revenue within the tax rate area. Senate Bill 154 also provided additional funds to counties, cities, and special districts for other programs.

Agencies that were affected by the County redevelopment projects have seen minimal expenditures on fire related issues. According to one source, it was initially estimated at the time the project was conceived, that $6.3 million would be allocated towards fire service projects.[23] In the case of one district, it will receive a 2 percent pass-through for about 20 years. The remaining 98 percent is retained by the RDA (redevelopment authority).

In subsequent legislation, Assembly Bill (AB) 8 provided a permanent solution for distributing property tax revenues. AB 8 adopted the allocation formula contained in Senate Bill 154 (SB 154); however, rather than providing the block grants of SB 154, AB 8 increased the *share* of property tax revenue allocated to local governments by shifting property tax revenue away from schools. School losses were back-funded from the State's general fund.

In the mid 1980s, the Legislature required counties to shift some of their property tax revenue to cities that had never received property tax revenue or had relatively low levels of property tax revenue. In FY 1992-93 and again in FY 1993-94, the Legislature *permanently* shifted property tax revenues from counties, cities, and special districts back to schools in roughly the same proportion as the benefit received under AB 8. The shift provides the State's general fund with partial relief from supporting schools.

In November 2004, state voters approved Proposition 1A, which establishes a constitutional amendment protecting local property tax revenue. Property tax revenue cannot be reallocated by the State unless approved by two-thirds vote of the Legislature and the Governor declares a *significant financial hardship*. Notwithstanding legislative approval and gubernatorial declarations, no reallocation may occur until FY 2008-09, and the revenue shifts will be considered loans.

[23] Input from Fire Chief Dale Skiles.

The Concept of Development Fees

Prior to the passage of Proposition 13, the manner in which most fire departments acquired capital funds to expand was to create a long-range capital outlay budget and have it funded as part of the regular budgetary process. However, those who understood the impact of Proposition 13 soon realized that it would be very unlikely that the minimal amount of property tax increase would allow enough funds to accumulate to purchase *new* additions of fire stations and fire apparatus to the inventory. This spawns the development of a concept called the *development fee*. Developer's fees have been in existence for many years for purposes of funding infrastructure expansions that were linked to property development. A classic example of this would be school districts, water systems, and other logistical infrastructure.

However, after Proposition 13 became a reality, many fire agencies began to realize that they needed to place some degree of assessment on the floor area of new properties if they ever expected to have enough money in the bank to build additional fire stations and to acquire additional fire equipment. Notably, development fees are restricted from ever being used for *staffing*. The logic behind this is relatively straightforward. Each new house, business, or industry that is built on the ground begins to occupy a certain amount of space that is going to increase the workload on the local fire department. In one case, it could be increase in demand as a result of population increases or it could be an impact on the ability of the department to reach a location in a timely fashion (response time) or it could merely mean that the size of the building places a fire flow demand upon the department.

Regardless of whatever impact would be attributed to the property, development fees were set so that each incremental improvement would result in an incremental contribution to fund for this specific purpose. Development fees can be calculated on a per square foot basis to provide a level of service in the future that is similar to the level of service in the past. That fee, applied to a new housing tract, a new business, etc., would contribute a like amount into the fund.

Development fees must be considered totally different from special taxes and any of the funds that are used to provide resources for staffing. These development fees are restricted for the very simple reason that if the building doesn't occur, costs do not incur.

The law does allow fire districts to charge different rates for service to out of district residents. This has been used in some jurisdictions for response to emergency medical calls, especially along unfunded highway areas. Usually, the bill is sent to the vehicle insurance company.

Unincorporated parcels that are not within a fire protection district do not participate in funding fire protection or emergency medical services; structural fire protection and emergency medical services are provided to these areas under a quasi-mutual aid basis.

Several of the Stanislaus County fire districts include large areas of agricultural land. This negatively impacts district funding in two ways. First, the Williamson Act designation allows property owners to lower their property taxes to reflect agricultural use. This results in lower tax revenue to the fire districts. Stanislaus County's General Plan has been effective in controlling urban sprawl and protecting agricultural land. However, it has been detrimental to fire districts. Since fire districts rely heavily on property tax revenues to fund services, annexations to cities steadily erode this revenue source. Although the service area of the district may have been reduced, it does not always correlate to reduced costs. Districts cannot purchase half a fire engine or reduce hours of operation.

Among the fire districts are *haves* and *have-nots*, meaning some have adequate funding while others struggle to get by. Few of the districts have large surpluses. Pooling of funds is an admirable concept but not often supported by taxpayers. Joining together for the purpose of achieving economies of scale for joint purchasing, training, and co-ordination of communications could benefit all concerned.

The Impact of Federal Grants

While some of the fire departments have been very successful in acquiring federal grants, a concern needs to be expressed about the future of that process. In view of other economic considerations, such as the critique of the impact of Hurricane Katrina, it is conceivable that funds being provided to Homeland Security and the U.S. Fire Administration may either be reduced or redirected sometime in the future.

In addition, agencies that have received extensive funding for items such as fire equipment, personal protective clothing, and breathing apparatus must put into place some form of budgeting practice to be prepared to replace that equipment when it is old or unserviceable. This is not the responsibility of the fire chief but rather the board of directors of the respective organizations. There is a tendency in most organizations to receive grant money and to fail to realize that the grant money imposes a planning obligation. The agencies that understand this and incorporate some form of replacement schedule will be far more successful than those that fail to recognize this. They will find themselves in a crisis similar to the one they recently faced.

Economic Infrastructure of Stanislaus County

Every fire department, whether it is a volunteer agency or a full-time agency, has a cost component. While it is recognized that most of the public, and in some cases elected officials, believe that a volunteer fire department is a *free fire department* – obviously this is not the case. In the days when volunteer fire departments had no linkage with government, they relied on donations. The purchase of apparatus, the acquisition of facilities to house that apparatus, and all the necessary accoutrements to operate as a fire department was a very risky proposition when an organization was funded by private donations.

Depending on the hospitality and idealism of the community, the level of service (the amount of resources that were made available) was often much higher than the level of effort. However, all fire departments in a modern society virtually operate as a function of government rather than the private sector.

Although there may be few exceptions in isolated parts of the country, most fire agencies today have some nexus with a district, state, municipality, or some other local governing jurisdiction in which the revenue stream is filtered prior to it coming to the fire department. The concept that the volunteer is free is based on the simple assumption that if you are not paying for personnel, the cost is minimal. At one time that might have been true, however today it is certainly not. A modern fire apparatus can easily cost $250,000 to $500,000. The acquisition of a physical place to house a fire station or create a training center is a function of the local real estate market and is never to be taken for granted.

It is also true that once a fire department starts increasing its level of service (resources), it must increase its level of effort (financial structure) in order to be able to sustain them. The purpose of

interjecting this into transition management is to recognize that there are points in time when many communities desire to have a level of service but have no ability to provide a corresponding level of effort. A typical example would be in a land-poor community in which the department must rely on the volunteer fire service to staff and equip itself with a minimal amount of support from the community.

The manner in which that local entity collects funds to support its fire protection effort is most often measured not in absolute dollars but in a per capita relationship to the community. For example, if the level of effort that we were able to generate in a community was approximately $100 per person, it is easy to see that a city of 5,000 people will not be able to afford the same level of service that a city of 50,000 can afford. There is a direct correlation between per capita fire contribution and the level of service that can be provided.

In terms of transition management, the escalation of the total number of dollars that is required to support a specific level of service has certain specific thresholds. By that, ESCi is referring to the fact that if there is a desire to add a full-time person to a fire department, there is a cost factor. Further, if that cost factor exceeds the total per capita contribution, it would be impossible to achieve the desire. Conversely, if you have a large population that has a low per capita contribution, it is conceivable that the fire demand will be considerably higher than the amount of resources available to adequately provide the necessary services. A good example would be a community of 40,000–50,000 that was still trying to provide fire protection by utilizing volunteer firefighting forces.

This is the beginning of an age-old argument. When is a fire department too small to afford full-time personnel and when is it too large to be able to rely on a volunteer fire force? That question has been answered literally thousands of times across the country but remains an argumentative issue for thousands of other agencies that haven't answered the question.

Using the per capita element as a baseline, it is relatively easy to see that population and assessed valuation together are a tax generating mechanism that will allow any specific level of service to be funded at a specific point. Specifically, if a community has a property tax base and it has a very low tax rate and the per capita figure is insufficient to pay for both apparatus equipment and staffing, then the level of service remains low.

Therefore, it becomes very critical in the transition management of a fire department that emphasis be placed on monitoring the revenue side of the budget before the department gets overly enthused about increasing expenditures.

The other side of that coin is if an agency is experiencing significant fire problems and taxpayers are not making an appropriate enough contribution to fire protection, they are increasing the vulnerability of the values at risk in an almost irresponsible way. How the organization finds that balance point, in terms of transition management, is sometimes problematic. In the past, many organizations found this decision point intuitively.

After acquiring funding sources to create a level of service, organizations may go for many years without even considering how those funding sources will be able to sustain the level of service in the future. They either use their funds in a *hand-to-mouth* fashion or use them in a fashion that is inconsistent with long range planning and find themselves in a crisis or catastrophic mode when a major event occurs and people begin to ask, "What are my tax dollars paying for?"

Issue of Funding Deficiencies

Without a doubt, the single most predominant discussion with every individual fire agency was that of funding; primarily because fire protection is financially intensive. As noted, there is a significant difference between the funding deficiencies of a fire department that has full-time staff and those that are volunteer in nature. In the case of funding deficiencies with full-time fire departments, the only solution to the problem is to either add funding or reduce personnel. That is not true in the case of the totally volunteer fire departments. Funding efficiencies in the case of volunteers usually means the inability to keep apparatus on the street or the inability to keep fire stations properly maintained and serviceable.

Closing the Gap

One of the questions that begs an answer in this discussion is "What are the reasons for the deficiency versus the gap?" The primary purpose behind government budgeting is to establish two things. The first of these is to determine how much money is going to be spent on a particular type of service being provided. In the fire service this is often referred to as the *level of effort*. This requires funding for both capital assets and staffing.

Level of effort is most often expressed in terms of per capita fire expenses. For example, if two communities have the same per capita fire cost but totally different population figures, the total amount of money being made available to provide services will be different. For example, if a community was expending funds at a per capita cost of $100 per person and had a population of 10,000, they would have a $1 million level of effort. If a neighboring community was spending money at exactly the same rate ($100 per person) but had a population of 25,000, they would have a level of effort of $2,500,000. This simplistic formula is clearly an indication of one of the most important attributes of a fire department—the number of people that are available to pay the bill for fire protection.

The second dimension of budgeting is to take into consideration the capital-intensive aspects of a fire department. Fire trucks are incredibly expensive devices to purchase. If one considers that a Type I fire pumper today, meeting just minimum specifications in accordance with NFPA Standard 1901,[24] probably costs between $350,000 to $400,000. This is easily recognized as a significant financial impact. However, the purchase of the apparatus is only the beginning of the cost. Fire apparatus must be maintained.

According to the California Fire Mechanics Association, the maintenance cost of a fire apparatus has two components. The first of these is gas, oil, and routine maintenance, which would include such things as replacement of tires and minor repairs. The second aspect is the cost of performing standardized fire department evaluations of equipment such as annual pump testing, and in the case of aerial apparatus, testing of the aerial equipment.

California Fire Mechanics Association estimates that the maintenance cost of a vehicle *should* range between 5 to 7 percent of the acquisition cost of that piece of equipment.

After completing the on-site review, there are several observations that need to be made. The first of these is that the vast majority of the apparatus fleet servicing these volunteer fire departments is superannuated. National fire service standards regarding apparatus in heavy

[24] *National Fire Protection Association 1901: Automotive Fire Apparatus*, 2003.

duty service, (i.e. suburban fire departments and metropolitan fire departments) indicates that a piece of fire apparatus should not be on the front line for more than ten years. Subsequent to that, many fire departments conforming to NFPA standards restrict a reserve apparatus to be in service for ten years. This gives an average service life of a piece of apparatus of 20 years.

The logic behind this is that these vehicles are on the road almost every day and subsequently, are subject to rather brutal road conditions. Firefighting apparatus is not designed like an over-the-road truck that is accustomed to logging hundreds of thousands of miles. Fire apparatus must comply with a wide variety of operational needs, which includes carrying large amounts of water that is sometimes incompatible with having tool compartments designed around those water tanks. As a net result, fire trucks in service in suburban fire departments often suffer serious stresses and strains that result in their service life being limited to those two parameters.

This is not necessarily true for fire departments in a rural area. It is not appropriate to state that a piece of apparatus must be replaced in ten years because the same operating road conditions may or may not be in existence. However, it is easy to say that with the design technology of fire apparatus, any good piece of fire apparatus that is over 30 years old is superannuated. For the most part, it lacks adequate safe guards to function as an emergency response vehicle. Granted, there is clear evidence in the volunteer fire departments that they have attempted to extend the service life of these vehicles by engaging in regular and extraordinary maintenance efforts. However, these same vehicles are expected to respond on long duration events and participate in strike team operations, which may be hundreds of miles away from home, thus placing them back into the same operational arena as a suburban piece of fire apparatus.

The continued reliance on a mutual aid system to staff equipment to respond to catastrophic events is placing an extraordinary burden on volunteer fire department apparatus. Moreover, the original design of fire equipment was not specifically aimed at emergency medical services. As a result, the number of road miles that are being put on these vehicles responding to medical calls is, at minimum, doubling the amount of mileage and in some cases tripling the amount of mileage that would be considered for service life.

The second element of the vehicle fleet that must be considered is that many fire departments today are receiving grants to purchase apparatus. On one hand this is highly desirable; it offsets the cost of local government in putting the apparatus in service. However, there is a downside. Simply stated, an apparatus that is purchased today that has not been scheduled for replacement and for which funding measures were not put into place, only means that you deferred the decision to a time in the future in which the funding source will probably be at a highly inflated rate.

Based on these two best practices – time certain acquisition of equipment and amortization of a vehicle over a period of time - the fire departments were reviewed to determine current practice. It was determined that practically none of the fire departments have any kind of amortization process in place. An absolute minimum number of them are setting aside adequate maintenance line items for their vehicles. The fact is most of these departments do not have a fully articulated apparatus replacement policy.

This is to be expected for the very simple reason that most of these departments are currently relying on second-hand apparatus and/or equipment that they are fabricating using the talents of their personnel.

Fire departments that barely have enough money to put gas and tires on fire trucks are not particularly interested in amortization. However, the other side of the coin is that failing to be able to do that kind of long range planning only stalls the inevitable. Apparatus will be rendered obsolete and rendered irreparable at some point.

During the on-site reviews, several vehicles were noted as being completely out of service. While ESCi will discuss maintenance of apparatus in the chapter on infrastructure, the primary point for several of these vehicles is that parts simply can not be obtained. These vehicles are so old that one has to engage in an extensive search merely to find someone who has an inventory of the old parts.

In a later chapter recommendations will be forthcoming regarding the need for fire jurisdictions to engage in an amortization and vehicle replacement plan at whatever level they can.

Summary

The funding of fire protection is a continuing problem. The single station, single apparatus fire department is rapidly becoming an endangered species. The costs of providing fire protection are often disconnected from the public's expectation. The per capita expenditures are an indication of the community's ability to pay, yet the service demands are often based upon other factors such as frequency and consequence of EMS calls. Those communities that have a per capita cost of less than $100 are unlikely to have the ability to provide a high level of service. Those areas that protect less than 10,000 people and concurrently have a low per capita cost are also likely to be operating with limitations. Those areas that have a per capita above $100 and are providing services to an area that is in excess of 10,000 are likely to be operating with slim margins.

- The single station fire department that covers less than nine square miles and protects less than 10,000 people is becoming less likely to be able to remain economically viable.
- Disparity exists between districts; some districts are able to fund adequate levels of service and others are not.
- City annexations have eroded the funding base of some of the districts immediately adjacent to them.
- Highways and other unfunded service areas negatively affect most districts.
- Not all districts have been able to establish funding sources in addition to property tax revenues.
- The lack of current property assessments results in reduced funding to districts.
- Inadequate reserve funds prevent long-term planning for operational demands and capital improvements.

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