



Houston Mesa FD



Hellsgate Fire District Joint Operations Study April, 2018

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Introduction

Hellsgate Joint Operations Study

The purpose of this study is to determine if the Hellsgate Fire District (HFD) could maintain or improve service levels to the residents by merging, consolidating or jointly operating with neighboring fire departments. This study is meant to satisfy ARS§48-805.02.D.3. (See page 3) Additionally this study estimates the cost of collaborative service models versus HFD operating alone. Finally the study will offer recommendations and potential next steps in collaborative options.

Historical Background

Fire Districts in the State of Arizona are working through a “Perfect Fiscal Storm.” The economic downturn caused many agencies to lose as much as 45% of their revenue. In addition to the loss of revenue, Proposition 117 moved Fire Districts from the secondary to the primary cash value putting an artificial cap of 5 percent valuation increase annually, severely limiting Districts’ ability to recover. Add to the loss and limited revenues the rising costs of Public Service Personnel Retirement System (PSPRS), and we have the perfect fiscal storm for these agencies.

It was anticipated that Districts under Prop 117 would hit the cap of 5 percent if the secondary, or full market value, increased as they had historically, i.e. Secondary up 18 percent. While not an unreasonable expectation, the reality is quite different. Because the valuations are based on individual parcels, each one would have to increase by a minimum of 5 percent. If just one is under 5 percent, the increased net assessed value will never hit the cap. As an example, Hellsgate Fire District has 2,300 parcels. In order to hit the cap, each parcel, both commercial and residential, would have to increase by 5 percent. This is highly unlikely, leaving Districts with increases below 5 percent while trying to recover from a 45 percent loss of revenue.

The Hellsgate Fire District is no exception and struggled along with other districts trying to survive the economic downturn by aggressively seeking grants and other potential revenue generators such as billing for medical responses, collaborating

with PHI AirEvac on a joint helicopter HALO staffing program, applying to operate an ambulance service, and ramping up wildland firefighting cooperation with the State.

The medical billing program was plagued with billing and collection problems, resulting in very little revenue and a negative reception by the residents, so the fire board discontinued the program.

The helicopter staffing HALO program was moderately successful, providing some revenue but financial benefits of the revenue were negated by the fact that the staffing grant had to be decreased by nearly the amount received from the HALO program. After being unable to find additional paramedics willing to join the program, the program was also discontinued.

HFD made application with the Arizona Department of Health Services to operate an ambulance in the region with the hope of improving patient transport times and providing a revenue-neutral transport division which could share operational costs already being incurred by the fire district. This could have resulted in a savings to the fire district operational costs. The parent company of the local ambulance provider intervened and contested the application. Subsequent hearing fees, legal fees, consulting fees totaled nearly \$400,000 and the application ultimately proved to be unsuccessful.

Wildland firefighting revenues generated by cooperator fees charged to the State have proved to be the only consistent revenue generator year to year. However, wildland revenues have varied widely over years, making it difficult to estimate with any degree of accuracy the amount which will be gained after expenses.

Two federally-funded staffing grants have been very helpful in allowing HFD to maintain current staffing levels and rehire one position. In both grants, while personnel costs were being paid for by grant funds, HFD was able to build its capital reserve account to weather the slow economic recovery. However, HFD found it necessary to use some of the capital reserve to pay the nearly \$300,000 in cost overruns on the new Station 22 in Tonto Village and to pay the legal and

consulting fees associated with the ambulance application process. These two expenses nearly depleted Hellsgate's reserve funds.

The latter of the staffing grants was nearing completion at the time this study was ordered by the HFD board. HFD was faced with paying for all personnel costs out of tax revenues starting January 3, 2018. This was one major factor in determining the need for this study. Fortunately, HFD has been successful in persuading DHS FEMA to extend this staffing grant allowing HFD to use funds which were remaining in the grant. This good news improves the fire district's financial position moving forward. However, it does not eliminate the overall need to explore possible financial and operational advantages of jointly operating with neighboring fire departments. The extension of Hellsgate's staffing grant will likely allow HFD to increase reserve funds over the next 21 months, during which time property values are expected to increase.

Statutory Background

Arizona Revised Statutes Title 48.805.2. Fire district annual budget; levy; requirements, has two paragraphs in subsection D. which are pertinent to this study. The first is ARS§48.805.02. D.2. and reads, ***"For each of the items listed in the budget summary approved pursuant to subsection A of this section, the district shall estimate the revenue or expense for the next two fiscal years. Estimates shall be based on the average increase or decrease of the item for the previous two fiscal years unless more certain information is available to the district. Estimates shall include any applicable levy or rate limitations."*** The next is ARS§48.805.02. D.3. and reads, ***"If a district's total estimate of expenses exceeds its total estimate of revenues for any fiscal year, the district shall undertake a study of merger, consolidation or joint operating alternatives. The study required by this paragraph shall be presented to the fire district board in a special public meeting called for the sole purpose of evaluating the study. The study shall include an identification of districts available for merger, consolidation or joint operations, an analysis of the level of service and cost of service that may be provided to the residents of a merged, consolidated or***

jointly operated district as compared to the level and cost of service to the residents of the districts without any merger, consolidation or joint operations.”

At the time this study was ordered, estimates for fiscal years 2018 and 2019 indicated a potential for HFD expenditures to exceed revenues under the current services being provided. This was especially clear given the fact the Hellsgate’s staffing grant was ending, and if one did not include additional cooperator revenues from wildland firefighting, which vary from year to year and could be zero. Arguably, the estimated difference between revenues and expenditures could be mitigated by assuming wildland cooperator revenues will continue come in or by freezing wages, and/or eliminating positions. However, HFD administrative personnel do not believe it is prudent to base future estimates on a source of revenue that is uncertain. They believe the intent of ARS§48-805.02.D.3 is to imply a continuance of the current service model and staffing. (Expenditures could always be decreased to meet revenues by decreasing staffing and the service model and thus operational expenses.) Therefore, the HFD Board directed staff to conduct a study as required by State statute.

Identification of Potential Partners

Chief John Wisner sent a brief explanation and invitation letter to the chiefs of adjacent fire departments, asking them to participate in the first planning meeting. Chief David Staub of the Payson Fire Department (also representing Houston Mesa Fire District), Chief Bob Lockhart of the Christopher Kohls Fire District, and Chief Ron Sattelmaier of the newly formed Water Wheel Fire District accepted the invitations and attended. At the first meeting statutory requirements were reviewed explaining why HFD would be conducting a study and why each agency was invited. Attendees discussed the various challenges all of the local area fire departments are facing as well as potential opportunities more formalized collaboration might present in facing those challenges. Finally, the group was in agreement that for any collaborative option to be seriously considered and ultimately recommended, it would need to meet a two agreed upon principles. These principles are 1) that service levels must be maintained or improved under the collaborative option, and 2) that current employees of the

affected agencies not be harmed. The chiefs then took the information back to the respective elected bodies to get authorization to formally participate in the study. The Town of Payson, Christopher Kohls Fire District and Houston Mesa Fire District agreed to participate in the study. Water Wheel Fire District, having just formed through consolidation, declined.

The local firefighter labor force, concerned with what collaborative efforts might mean to employees, began asking questions. Questions were first addressed through feedback from the chiefs and through a frequently asked questions document HFD drafted. In order to assure the labor force input in the study and in order to provide transparency, the local chapter of the International Association of Fire Fighters, Local 4135, was invited to appoint a member to take part in the study. This proved to be very helpful in maintaining transparency to our firefighters and in obtaining feedback from them.

Participating Partners' Backgrounds and Staffing

Hellsgate Fire District

The Hellsgate Fire District was formed in the beginning of 2008 with the merger of the Diamond Star Fire District and the Tonto Village Fire District. Both fire districts were formed around the year 1980 and originally operated with community volunteers. Today the Hellsgate Fire District is a combination staffed department with paid career firefighters and paid reserve firefighters. HFD operates three stations and provides 24/7 paramedic response from Star Valley. Paid staff consists of the Business Manager, the Fire Chief, three Captains and four Engineers. Reserve staff is comprised of approximately 15 firefighters with various levels of training and certification.

Station 21 is located in Star Valley and is staffed around the clock with a minimum of two paid firefighter EMTs at all times with at least one being paramedic level. Under normal staffing, one of the firefighters is a Captain and the other is an Engineer. Station 21 is also staffed with two reserve firefighter positions on a stand-by on-call status. Station 21 apparatus consists of Engine 211, Engine 213, Engine 217 Ladder 211 and Water Tender 211.

Station 22 in Tonto Village is primarily staffed by reserve firefighter EMTs responding from home. Approximately one third of the time, Station 22 is staffed with one career firefighter day and night. One additional firefighter will likely be added to meet the requirements of a staffing grant. Station 22 apparatus consists of Engine 221, Engine 226 and Water Tender 221.

Station 23 in Mead Ranch is staffed by reserve firefighters on-call only. Station 23 apparatus includes Engine 231 and Engine/Tender 232.

Finally, it should be noted that the reserve firefighter positions mentioned above often go unfilled causing HFD to request aid from neighboring departments.

Payson Fire Department

The Payson Fire Department's origins go back to the Payson Volunteer Fire Department 72 years ago which started in 1946. It later became the Payson Fire District. In 1976 the Town of Payson incorporated and the fire district became the Payson Fire Department. Today the Payson Fire Department is a combination department with paid career firefighters and paid reserve firefighters. Paid staff consists of the Fire Chief, the Administrative Assistant, three Battalion Chiefs, nine Captains, nine Engineers and nine Firefighters. Reserve staff is comprised of approximately 10 fully qualified firefighter EMTs.

Station 11 is located midway along Main street and is staffed around the clock with a minimum of three firefighter EMTs at all times with at least one being Paramedic level. Under normal staffing, one of the firefighters is a Captain and one is an Engineer. Station 11 apparatus consists of Engine 111, Engine 112, Engine 116, Water Tender 111 and Rehab 111.

Station 12 is located on East Rancho road near State Highway 87 and is staffed around the clock with a minimum of three firefighter EMTs at all times with at least one being Paramedic level. Under normal staffing, one of the firefighters is a Captain and one is an Engineer. Station 12 apparatus consists of Engine 121, Utility 121, and Engine 126.

Station 13 is located on Rim Club Parkway near State Highway 260 and is staffed around the clock with a minimum of three firefighter EMTs at all times with at least one being Paramedic level. Under normal staffing, one of the firefighters is a Captain and one is an Engineer. Station 13 apparatus consists of Engine 131.

Christopher Kohls Fire District

The Christopher Kohls Fire District (CKFD) was formed in 1980 as a volunteer fire department serving Christopher Creek and Kohls Ranch. Today the Christopher Kohls Fire District is a combination staffed department with paid career firefighters and paid reserve firefighters. CKFD operates three stations and provides 24/7 paramedic response from Christopher Creek. Paid staff consists of the Fire Chief, the Administrative Assistant, three Captains and three Firefighters. Reserve staff is comprised of approximately 10 firefighters with various levels of training and certification.

Station 51 is located on Christopher Creek Loop in Christopher Creek and is staffed around the clock with a minimum of two paid firefighter EMTs at all times with at least one being paramedic level. Under normal staffing, one of the firefighters is a Captain and the other is a Firefighter. Station 51 is also staffed with reserve firefighter positions on on-call status. Station 51 apparatus consists of Engine 511, Engine 526, Engine 516, Rescue 511 and Water Tender 511.

Station 52 in Kohls Ranch is staffed by reserve firefighter EMTs responding from home. Station 52 apparatus consists of Engine 521 and Water Tender 512.

Station 53 in Colcord Estates is staffed by reserve firefighters on-call only. Station 53 apparatus includes Engine 531 and Water Tender 531.

The reserve firefighter positions mentioned above often go unfilled causing CKFD to request aid from neighboring departments.

Houston Mesa Fire District

The Houston Mesa Fire District (HMFD) was formed in 1977 as the Mesa Del Caballo Fire District. The name was changed to Houston Mesa Fire District in 2003 to reflect the expanded service area provided. The Houston Mesa Fire District is a

reserve staffed fire department with most of the staffing being from a reserve pool shared with the Payson Fire Department, which provides operational management for the district under an IGA.

Station 31 is centrally located in Mesa Del Caballo and is staffed by on-call reserve firefighters responding from home. Payson Fire Department provides 24/7 paramedic level response to the entire district from Station 12. Station 31 apparatus consists of Engine 311, Engine 316 and Water Tender 311.

Once again, it should be noted that the reserve firefighter positions mentioned above often go unfilled causing HMFD to request aid from neighboring departments.

Common Values Identified

The participants identified some of common values all of the local fire departments share. It was the participants' belief that future collaborative efforts strive to maintain or enhance these common values.

- All of the organizations have a long history of service through emergency response and community involvement.
- Each organization prides itself on providing outstanding customer service to the residents and guests of their communities.
- All of the organizations value their employees and responders and strive to create a safe and professional workplace.
- Each of the organizations is acting with sound fiduciary responsibility and expending the public's tax dollars to the best benefit of their communities.
- All of the organizations are committed to improving services to their communities whenever possible.

Regional Fire Service Issues Identified

The study participants identified regional issues that were often common to all local fire departments. Identification of these issues is important to understanding the potential benefits of collaborative options moving forward.

- **Lack of available volunteer and reserve first responders.** Fire departments across the State have seen a decrease in local citizens who are willing and able to gain and maintain the certifications necessary to be EMT firefighters. Gone is the time when an able-bodied man or woman could simply learn firefighting and medical aid by on the job training. Now it requires at least a year of college-level training and state certification testing to be able to fill the role. Once certified, they must regularly attend departmental trainings to be ready when the emergency call comes. This often proves to be too much for the potential candidate who must also continue to work his or her regular job and fill other family responsibilities.
- **First responders employed by multiple fire departments.** Those community members who are willing to be volunteer reserve firefighters are often shared by multiple departments. Often the willing first responder hopes to gain a career in the fire service and therefore offers his service at multiple departments in hopes to have an improved chance at gaining that career job. This situation causes a variety of problems for the region. One problem is that it makes it appear that together the agencies have more firefighters than the region actually has. For example, six Hellsgate reserve firefighters are firefighters for the Payson Fire Department. In one case, the HFD reserve firefighter is a career firefighter for Christopher Kohls Fire Department and a reserve for the Payson fire department. Finally, agencies are forced to compete for the responder's available time.
- **Costs for common responders are multiplied.** First responders who work with multiple local fire departments duplicate cost for each department while only providing one regional first responder. Each department must pay for the administrative costs of the first responder as well as the protective equipment costs and insurance costs. Protective equipment costs to outfit the firefighter for one agency can easily be \$2,000.
- **Lack of standardized training.** While some regional fire departments try to take advantage of joint training exercises, more often than not each department is left to develop training topics and schedules alone. These trainings are sometimes teaching quite different approaches to dealing

with emergencies, which can cause confusion when agencies need to work together on emergency scenes. In the case of smaller departments, training may not occur at all. Finally, shared responders may have to attend trainings for multiple departments, causing scheduling conflicts and burn-out of the responders.

- **No standardized operating procedures.** While Hellsgate and Payson are now using the same fire ground hazard zone operating procedures, this is a recent exception to what has been the rule that we do not share standardized operating procedures. Traditionally, regional fire departments have sent our candidates to the same local basic fire operations and EMT courses. Once completed, the new responders return to their departments and use whatever operating procedures that department has. In some cases, no written operating procedures exist and it is up to the Captain or senior responder on scene to determine the best approach to deal with an emergency.
- **Inability for one department to put an adequate number of personnel on an emergency scene to operate safely.** Due to line-of-duty deaths and injuries of first responders, best practices and standards have been developed as well as Occupational Safety and Health Administration laws to protect emergency workers. These standards and laws place strict numbers of personnel required for emergency scenes and in some cases exceed the entire number of career firefighters on duty in the Payson area on any given day. This is why it is vitally important that local fire departments respond to each other's major emergencies and have common operating procedures.
- **Unable to replace aging equipment.** Virtually every fire department in the Rim Country has apparatus and equipment over 20 years old, including Payson Fire Department. Hellsgate operates one front-line engine that is 28 years old out of the Tonto Village station and has a 1976 military style wildland engine as the second out engine at the Mead Ranch station. Fortunately, Hellsgate's main engine out of Star Valley is a 2012 modern fire pumper and other equipment has been maintained well. However, the

cost of modern fire apparatus is often too high to purchase outright and departments settle for a newer used apparatus or they lease-purchase over a period of 10 years. Finally, it is just impossible to replace apparatus without severely impacting every other area of a department's budget and operations.

- **Difficulty in paying a competitive salary for career staff.** All participating departments have found it difficult to pay competitive wages to career firefighters. Local career firefighters can often increase their salaries by \$10,000 to \$15,000 each year by commuting to a larger metropolitan department. This increases staff turnover and many costs associated with hiring and training a new firefighter. The value of lost local knowledge when a firefighter leaves to work elsewhere for a salary increase is immeasurable, but certainly real.
- **Difficulty in absorbing major breakdowns alone.** Smaller fire departments including Payson find it difficult to absorb major breakdowns or unexpected expenses alone. Some departments do not have a suitable reserve engine without putting one station out of service. Even Payson Fire Department with three stations and a reserve engine has had to press the Houston Mesa engine into front-line service during breakdowns.
- **Difficulty in maintaining services with sudden losses of key personnel.** Smaller fire departments can be severely impacted by the loss of a chief or other key personnel. Hellsgate, Christopher Kohls and Houston Mesa Fire Departments have all experienced sudden and unplanned losses of chiefs in recent years. In each case, neighboring fire departments had to increase their level of readiness to potentially cover if needed until a new chief was in place.

Collaborative Options Defined

Several options exist for Arizona fire districts to join together and operate as one. The first is “**merger,**” in which both district boards vote to join together, forming an entirely new district. In a merger, the original fire districts are divested into the new district under a new name with a new board comprised of members of the

original boards. The new district would have all of the powers granted under Arizona statutes concerning fire districts. It would also assume all of the assets and liabilities of the former two districts. Statute requires the new district have a new name. An example of this was in 2008 when the Diamond Star Fire District and the Tonto Village Fire District merged to form the new Hellsgate Fire District.

Another option for fire districts to join is called “**consolidation.**” Under consolidation, one district ceases to exist by divesting into and under another fire district. In this example the districts consolidate under one district, usually the larger, which continues to exist and the board remains. The district would assume all of the assets and liabilities of the district that consolidates under it. The board of the district that consolidates under the other district ceases to exist and is disbanded. The boundaries of the remaining district grow to include the area of the other district. The name of the district can remain that of the district which remains.

Provisions for municipalities such as the Town of Payson and fire districts to merge or consolidate are not provided for in Arizona statutes. The process of merging a fire district and municipality fire department into one entity has few options. The only way to merge the operations, administration, and budgeting of the fire service operations of a fire district and a Town is a **Joint Powers Authority (JPA)**. Under a JPA two or more legal entities divest their operational and administrative obligations to a new overarching third legal entity; the “Fire Authority.” The mechanism that creates this third entity is an Intergovernmental Agreement (IGA). The employees of the original entities become employees of the Fire Authority. A Fire Authority has no ability to tax; the Town and the fire district retain their taxing authority and bonding capacity as the Fire Authority and jointly contribute to the funding of the Fire Authority. Typically, the assets, apparatus and facilities are also transferred to the Fire Authority and become the Fire Authority’s responsibility to maintain and replace. The Fire Authority is also responsible for all administrative tasks such as human resources, finance, payroll, etc. The Fire Authority is a separate entity from the legal entities that created it and thus assumes the majority of liability associated with providing services. The

Fire Authority would be responsible to provide all fire and EMS services to the Town and the fire district in accordance with the IGA.

An **Intergovernmental Agreement** could also be considered a collaborative option. Fire districts and municipalities can enter into IGAs for any number of reasons. IGAs can be used to provide collaborative efforts such as management services from one organization to another. An example of an IGA is the management agreement the Houston Mesa Fire District has with the Payson Fire Department.

Collaborative Options Explored

Four variations of collaborative options were explored along with one non-collaborative option to, “do nothing.” The study participants reviewed the definitions and statutory background of each option. Pros and Cons of each option were discussed and researched.

Do Nothing Option

One option is always to do nothing. While Arizona statute says this study must be conducted, it does not say the fire district board or any other public body must act on it, other than the requirement for the fire district board to hold a special meeting to hear and consider the results. The study group felt this option would need to be covered because most of the other options would naturally be weighed against the “do nothing” option. In this option all of the organizations would remain individual providers and hope that going forward things would work out and we could all continue providing the same level of services.

Potential Positives

- Hellsgate and neighboring departments retain their organizational identity.
- Each department could make its own decisions without regard for neighboring departments.
- Wildland revenues remain with agency providing service and not shared.

Potential Negatives

- Decrease in services over time.
- Decrease in staffing (job losses).
- Increased response times to emergencies.
- Increased losses to residents.
- Decreased safety to responders.
- Increased injuries and workman's compensation claims.
- Increased insurance costs
- Unable to benefit on joint purchasing (economy of scale)
- Increased calls on Payson FD and Christopher Kohls FD, increasing their costs.
- Forced changes verses controlled choices.
- Increased Insurance Services ISO ratings and increased costs to residents.
- Town of Star Valley forced to step in and provide services.

Merger/Consolidation Option

As mentioned before, merger and consolidation are defined statutory options for fire districts only. The options merging or consolidating the Hellsgate and Christopher Kohls fire districts were explored. Houston Mesa Fire District, while legally having these options, was not considered because neither Hellsgate nor Christopher Kohls Fire District could provide current levels of service being provided by Payson Fire Department. Considering HMFD for merger or consolidation would have clearly been outside of our principle of "service levels being maintained or improved."

Potential Positives

- Decrease in duplicated services and programs.
- Shared resources such as equipment and personnel.
- Increased wildland response and revenues generated.

- Decreased vehicle maintenance costs.
- Decreased administrative costs and equipment costs for shared personnel.
- Gain economy of scale.

Potential Negatives

- Payson cannot merge or consolidate, leaving them out.
- Hellsgate carries debt that would be shared by new organization.
- CKFD tax rate would increase and need to equal that of HFD and the current state maximum.

Hellsgate Operated by Town of Payson Option

In this option the Hellsgate Fire District would remain a fire district with taxing authority and the administration and operations would be provided by the Town of Payson and the Payson Fire Department.

Potential Positives

- May save jobs.
- May maintain service levels.
- Workforce may be happier under PFD leadership.
- Shared liability with Town of Payson.
- Reduction of duplicated efforts.
- Possible gain economy of scale.

Potential Negatives

- Loss of local control of services and personnel.
- Loss of control of facilities and operations.
- Potential loss of wildland revenues.
- Does not solve Town of Payson's liability issue (increases).

Joint Powers of Authority - JPA/Fire Authority Option

The only way to merge the operations, administration, and budgeting of the fire service operations of a fire district and a town is a Joint Powers Authority (JPA). Under a JPA two or more legal entities divest their operational and administrative obligations to a new overarching third legal entity, the Fire Authority. The mechanism that creates this third entity is an Intergovernmental Agreement (IGA). The employees of the original entities become employees of the Fire Authority. A Fire Authority has no ability to tax; the Town and the fire districts retain their taxing authority and bonding capacity as the Fire Authority and jointly contribute to the funding of the Fire Authority. Typically, the assets, apparatus and facilities are also transferred to the Fire Authority and become the Fire Authority's responsibility to maintain and replace. The Fire Authority conducts all administrative tasks, for example, human resources, finance, payroll, etc. The Fire Authority would be responsible to provide all fire and emergency medical services to the town and the fire district.

A Board of Directors governs the Fire Authority. The number and composition of that Board is decided by the parties and dictated by the IGA. The Authority Board is similar to a Fire District Board or Council in that they hire the Fire Chief to oversee the day-to-day operations, approve budgets, expenses, and policy of the Fire Authority.

A Fire Authority is not authorized to levy its own taxes and must be paid by the parties, and the funding mechanism should be part of the IGA. The two parent entities will tax their residences, the town primarily through sales tax and the fire district through property tax. The entities will then pass on the operations money to the fire authority.

The employees of the originating organizations become the employees of the Fire Authority. With their transfer is also the transfer of the retirement plans and employee-related costs.

Potential Positives

- Each government entity remains and has a voice in the direction of regional services.
- Governed by a defined board allowing each entity to participate.
- Representative board members chosen by the sponsoring entity (Payson Town Council and Fire District Boards).
- Reduces or eliminates the liability for Town of Payson because Fire Authority would provide services inside and outside of Payson.
- Possible gain of economy of scale.
- Benefits of employees transferring to Fire Authority:
 1. More specialized career options (special response teams/prevention)
 2. Larger workforce to cover Paid Time Off (PTO)
 3. More advancement opportunities
 4. In-house handling of pay and personnel issues
 5. Labor representative has single organization to work with
 6. Larger employee pool for employees from smaller entities and possible better insurance premiums
- No change to service delivery or increase to service delivery.
- Problems solved regionally vs each entity's choice.
- Possible better ISO rating for areas served.
- Reduction in duplicated efforts.
- Standardization of operating procedures.
- Standardization of training.
- Standardization of personnel policies.
- Multiple funding sources vs single (property taxes and sales taxes could be more resilient during economic fluctuations).
- Increased grant opportunities due to new needs and qualifications of new Fire Authority.

Possible Negatives

- Loss of department community identity.
- Some loss of shared local control.
- Multiple entities may prove to have too many differences to work well together.
- Wildland revenues controlled by Fire Authority.
- Employees may not want to transfer to Fire Authority.
- Multiple funding sources vs. single (multiple funding sources may increase chance of one source under performing and affecting budget).
- Decreased grant opportunities due to reduction in number of agencies able to apply.

Fiscal Concerns Explored

Fiscal concerns for the various options were explored using current and predicted financial data. To look forward on the possible collaborative options, certain assumptions had to be made. For example, property values within fire districts were assumed to continue to increase at a slow to moderate rate, which would allow district budgets to increase slowly. Also, minor increases to the Town of Payson's sales tax revenues were assumed, which would translate to minor increases over time to the PFD budget.

Do Nothing Option

The "do nothing option" has financials already existing. Each partner will have their available fiscal resources and their predetermined expenses.

Hellsgate Fire District is expected to have low to moderate property value increases over the next few years. The Gila County Assessor's office data released to Hellsgate for the upcoming tax year shows a 4.6 percent increase in assessed valuation for the district. Hellsgate has historically been a key State fire cooperator agency and has been able to capture several hundred thousand dollars in wildland revenue each year. Chief Wisner has increased the emphasis of

wildland cooperator response in hopes of continuing or increasing wildland revenues moving forward. The current fiscal year is turning out to be a busy wildland revenue year for HFD, which had fire crews on fires in California as late as the Christmas holiday. It is estimated that after expenses HFD should be able to move \$250,000 to \$300,000 over to the next fiscal year. The extension of Hellsgate's staffing grant is great news and will allow Hellsgate to recapture some personnel costs going back to January 3, 2018, and cover costs moving forward to July 2, 2018. This should translate to roughly another \$250,000 positive to the HFD budget. This staffing grant extension is expected to continue past July for approximately 18 months. Hellsgate's workers compensation premiums were severely impacted in recent past years by the line of duty death of a reserve firefighter and several other significant work related injuries. Fortunately, work-related injuries are down and Hellsgate's premiums for the coming budget year are dropping nearly \$60,000, which is arguably the expense of one firefighter position or the annual payment on the new fire station in Tonto Village. While Hellsgate's fiscal position has improved since this study was ordered, it should be noted that wildland revenues are not certain and the staffing grant will end in 2020. Without wildland revenues, Hellsgate will be forced to use reserve funds to pay some firefighter salaries. Hellsgate firefighters are paid well below those in similar positions in metropolitan areas, but vary in the degree in which they are below Payson firefighters from a few thousand dollars annually to as much as ten thousand dollars below annually. Hellsgate will be forced to raise salaries moving forward to keep wages competitive and avoid losing personnel to agencies that pay more. It is uncertain if assessed property values will increase enough to maintain current staffing and service levels beyond 2020 if little or no wildland revenues were to be realized.

Christopher Kohls Fire District is also expected to have low to moderate property value increases over the next few years. The Gila County Assessor's office data released to Christopher Kohls for the upcoming tax year shows a 4.3 percent increase in assessed valuation for the district. Under the leadership of Chief Lockhart, CKFD has significantly increased wildland cooperator responses with the State and has been able to bring a significant amount of wildland revenues into

the district. CKFD plans to use revenues from wildland responses to complete critical station improvements and to repair and modernize aging equipment. CKFD firefighters at all levels are paid well below what other firefighters in the area are being paid. This is also true for the CKFD fire chief. CKFD will most likely struggle to keep experienced career personnel unless firefighter wages are increased. CKFD will likely have to raise the tax levy to the statutory cap to generate enough revenue to bring the existing staff salaries in line with other area fire departments. It is doubtful that assessed property values will increase enough, or that wildland revenues will stay consistent enough, to meet rising operational costs without CKFD raising the tax levy.

The **Town of Payson Fire Department** is funded out of the town's general funding account, which is primarily generated by sales tax revenues. With Arizona's unemployment rate at the lowest level in 10 years, according to the University of Arizona's Eller Economic and Business Research Center, and the recent revision of Arizona's job growth for 2017 to 2.4 percent, one can argue Arizona is in a period of economic growth. Statewide Arizona individual income tax revenues are projected to increase 4.1 percent and similar percentage projections are expected for Arizona sales tax revenues. The Governor's most recent budget plan for Arizona reflects this as well. One could assume that the Town of Payson's tax revenues will see similar increases. Payson has a relatively significant percentage of retired residents collecting social security benefits or fixed pensions, and these retirees will likely see less than 4 percent increases in income, while other non-retired Payson residents and many town visitors could likely see increases as predicted statewide. Historically, the Town of Payson has enjoyed increased sales tax revenues during periods of economic growth as tourism increases. While a 4.1 percent increase in sales tax revenue is a sign of a healthy and growing economy, it is still below the increases HFD and CKFD will see in their respective assessed property tax valuations. Payson Fire Department has identified a number of front-line apparatus which must be replaced in the next few budget cycles. Even if the department's budget grows by 4.1 percent, general fund revenues have not recovered to pre 2008 levels. While Payson Fire Department is a State of Arizona wildfire cooperating agency, revenues are paid to the Town of Payson and the fire

department is reimbursed only for actual expenses incurred above what was budgeted. This practice does not allow the fire department to utilize the additional revenues and does not improve the fire department’s financial position.

Merger or Consolidation Option (HFD and CKFD)

The financial outlook of these two partners merging is not encouraging. Without non-sustainable revenues (e.g. wildland fire, etc.) this option results in a negative balance sheet. There is a possible savings of the fire chief position from one of the entities if they merge or consolidate; however, this is not enough savings to offset the negative cash flow and it should be noted that there is an operational impact to the reduction of this position.

	Estimated Balance Sheet*				
	19/20	20/21	21/22	22/23	23/24
Estimated Revenue	\$2,113,926	\$2,188,153	\$2,265,038	\$2,344,680	\$2,427,178
Estimated Expenses	\$2,206,823	\$2,264,235	\$2,323,297	\$2,384,058	\$2,446,567
Difference	(\$92,897)	(\$76,083)	(\$58,259)	(\$39,378)	(\$19,389)

*Does not assume wildland revenues and CKFD at max levy.

JPA/Fire Authority Option (HFD,PFD,CKFD,HMFD)

An analysis of the fiscal realities of the partners forming one entity was conducted and found that the option of forming a fire authority is a possibility. The analysis simply considered reliable income (taxes) from the partners compared to realistic expenses based upon past history. The net result is that

there is enough income from these sources to cover expected expenses with a small amount remaining to address unforeseen expenses or address issues that the partners have been unable to address apart.

Estimated Balance Sheet*

	19/20	20/21	21/22	22/23	23/24
Estimated Revenue	\$5,629,444	\$5,816,772	\$6,010,421	\$6,210,610	\$6,417,565
Estimated Expenses	\$5,555,040	\$5,721,859	\$5,874,007	\$6,035,626	\$6,197,904
Difference	\$ 74,404	\$ 94,913	\$ 136,414	\$ 174,984	\$ 219,660

*Does not assume wildland revenues and CKFD at max levy.

Some factors considered in this budget are a year over year increase in general spending on each line item, a three percent raise each year for the employees, and a \$100,000 contingency fund each year. It is also important to understand that any monetary savings will initially need to go to funding operational expenses that have been reduced by the recession. It is also understood by the committee that if the partners come together, there is a need to move the tax rate for the fire district partners off the 3.25 rate cap. The timeframe for accomplishing this will require a few years of experience in the operations of a merged entity to determine.

Conclusion

The first conclusion of this study is that all of our organizations hold common values and face common challenges regionally. We realize that while our organizations are separated by the political makeup they were formed under, we share more in common than we have differences. We serve the same customers. Children from Christopher Creek and Tonto Village ride the same school busses and pass through each of our response areas on their way to school in Payson. We transport our sick and injured friends and neighbors to the same hospital and

utilize the same ambulance service provider. We utilize the same dispatch center and are dispatched to each other's fires and major emergencies. Yet, when we financially struggle, we often do so alone, not being able to take advantages of cost saving opportunities or move funding from one entity to another to ensure continued reliable services to the customers we share. Furthermore, we participate in the same State retirement programs and offer similar but separate benefits to our employees. Often those benefits are at a higher premium because our group is too small to realize the price breaks of a larger employee pool. We share the same employees and are forced to duplicate expensive protective gear and mandatory physical testing.

It is the conclusion of this study group that we owe it to the common customers and tax payers we serve to seek out and take advantage of any opportunity to share common resources, reduce duplication of efforts, address regional issues together and improve regional emergency response capabilities. It is in the best interests of each of our communities and the customers we serve for our organizations to thrive and be successful. We cannot afford to sit by and watch one of our organizations decrease services because we depend on the response from that organization to help each of us when we have a major emergency in our response area.

We considered other regional services and the service models they use. When considering the Payson Unified School District, none of us felt our children would be better served by having multiple schools in multiple communities with no standardized curriculum or centralized budget. We agreed such a division of schools would be very limited in the enrichment programs they could offer and would most likely not be able to provide sports and arts programs. Yet, somehow, it is okay for the same area and residents of the school system to be served by multiple fire departments that struggle to provide anything other than basic services. Similarly, we did not believe citizens of the region would be better served by multiple medical clinics instead of a hospital. Why then do we operate our fire departments in this way? With this in mind, we considered the various

collaborative options of this study and how our communities and firefighters might benefit from them.

After examining all of the options in this study, it is the conclusion of the study group that the only feasible collaborative option is the JPA/Fire Authority option. This model has significant potential to address and solve a number of the regional fire service issues identified in this study while at the same time maintaining the common values shared by the participating organizations. Furthermore, this is the only collaborative model that has a projected budget which maintains or improves the current service model of the area and is fiscally possible without heavily relying on wildland and grant revenues. This model also allows all of the stakeholders to have input into the future of emergency services of the region rather than just the local board addressing the needs of a single area.

Merger and consolidation of Hellsgate Fire District and Christopher Kohls Fire District alone is problematic at best and has a negative fiscal impact to both districts. Hellsgate Fire District carries a variety of debt as it relates to stations and apparatus. Hellsgate's tax levy is at the maximum allowed, \$3.25 per \$100 dollars of assessed property value. Christopher Kohls does not carry debt and has a tax levy of \$3.02 per \$100 dollars of assessed property value. However, Christopher Kohls Firefighters are paid significantly less than Hellsgate Firefighters. Merging or consolidating would mean that a single tax levy rate would have to be established for the newly-formed district. The study group agreed that the newly-formed district would need to bring the tax levy up to the maximum and eliminate one of the chief's salaries, as well as have significant wildland revenues to have enough revenue to operate as a single district with similar pay scales. This is problematic because it goes against the original principles of this study group which were "nobody gets hurt, and services are maintained or improved." Clearly one position would be cut, harming one person, and services would be decreased by having one less operational chief officer for area responses.

As stated before, merger or consolidation with Houston Mesa Fire District was not considered because it is not possible for Hellsgate or combination of Hellsgate

and Christopher Kohls to maintain or improve the services to HMFD that Payson Fire Department is already providing. It is the opinion of this study group that HMFD should stay aligned with Payson fire department.

Recommendation

We recommend the fire districts and the Town of Payson work together to develop and enter into an intergovernmental agreement (IGA), forming a Regional Fire Authority. This Fire Authority would provide fire and other emergency services to the organizing fire districts, the Town of Payson, and to other contracting entities.

Next Steps

Should the various fire district boards and the Payson Town Council find merit in this study and approve the recommendation to form a Fire Authority, we recommend that those elected bodies authorize the Fire Chief and other key staff to participate in a formation committee comprised of various stakeholders from the various participating agencies. This committee would gather any and all administrative, financial and operational data necessary to draft an IGA between the parties, which if signed, would form a regional Fire Authority. This IGA would cover every aspect of the relationship between parties, governance of the Fire Authority, funding sources and obligations, operational considerations, employee relations, time frames and dissolution considerations. Representatives from the committee would report back to the various elected bodies, with sufficient detail as necessary, to keep those elected representatives of the public informed on the progress of the committee's work and findings. Once the IGA language is finalized, it would then be presented to each elected body for consideration. If approved by the elected bodies of the parties, the Fire Authority would be formed and begin providing services at a predetermined date as set in the IGA language. In the meantime, all of the agencies involved would begin working under a Joint Management Agreement (JMA) for the purpose of blending the organizations involved into one.