

May 5, 2023

Nick Falley, Fire Chief
City of Cosmopolis Fire Department
111 D Street
Cosmopolis, WA 98537

Subject: City of Cosmopolis Ambulance Utility Rate Study

Dear Chief Falley:

Thank you for reaching out to FCS GROUP regarding the feasibility of creating a new city owned-operated ambulance utility to fund basic life support (BLS) services. We propose not limiting the analysis to the creation of an ambulance utility, but to also include informing the City Council of other approaches such as creating a city-owned and operated fire department, or annexing to a neighboring fire district and evaluating what these alternatives may mean to the City's finances in the near and long term.

We propose a three-phased scope of work, modeled closely after our approach to a similar evaluation we prepared for the City of Black Diamond (for your reference, see attached report).

Phase 1 includes an overview of WA State laws governing the establishment of an ambulance utility.

Phase 2 includes an overview of alternative approaches to creating and funding a BLS program.

Phase 3 includes assistance in implementing the preferred model.

If the City wishes to discuss further, I would be happy to meet remotely with the City Council during a workshop setting to answer questions.

Yours very truly,



Martin Chaw
Sr. Project Manager and Management Consulting Practice Area Lead
Attachment

cc: Todd Chase, Principal

Project Understanding

The City of Cosmopolis is located in Grays Harbor County and incorporated in 1891. The City's fire department includes 17 volunteer firefighters and serves a City population of 1,655 (2022) and a daytime population of over 1,900 people. The City's single fire station serves a geographic area of over 10 square miles. During the April 25, 2023 special election, a ballot measure to create a regional fire authority between the cities of Cosmopolis, Aberdeen and Hoquiam failed. Based on discussions with Nick Falley, Fire Chief, FCS GROUP prepared the following scope of work to evaluate alternatives to providing local basic life support ambulance services.

Proposed Scope of Work

Phase 1:

Description: Overview RCW governing the creation of an ambulance utility, how it is funded, and example fiscal impact to residents and the City. Deliverables include one written issue paper, one presentation to City Administration and one presentation to the City Council in a workshop setting.

Estimated budget: \$5,000

Phase 2:

Description: Overview other approaches to creating and funding a BLS program; Prepare respective financial plans, funding sources, and funding impacts.

Potential approaches to be evaluated include:

- Annexing to Aberdeen for fire services, and impact to City's property tax revenues.
- Creating a new city owned/operated fire department, including funding sources and budget considerations.
- Forming or joining a regional fire authority, and impact to City's property tax revenues (note: this alternative can be excluded given the City's recent unsuccessful public vote).

Estimated budget: \$10,000-\$15,000, range is dependent upon the number of approaches the City may want FCS GROUP to evaluate.

Phase 3:

Description: Provide assistance to the City in implementing its preferred option, including implementation considerations, proposed timeline and key milestones.

Estimated budget: \$10,000-\$20,000, range is dependent on the option and what type of support may be needed to establish an implementation strategy and how involved you wish me to be.

May 5, 2023
Nick Falley, Fire Chief
City of Cosmopolis Fire Department

ATTACHMENT

**City of Black Diamond
Fire Services Evaluation
March, 2021**

FCS GROUP Scope of Work

The City engaged FCS GROUP to prepare an independent review of four fire service options:

1. Continue contracting with the MVFD.
2. Form a new City owned and operated fire department.
3. Annex into the MVFD.
4. Annex into a Regional Fire Authority (RFA).

Fiscal Impact on the City

It is estimated that the annual cost of operating Station 98, Station 99, and operating the new Lawson Hills Station under a similar level of service will total approximately \$1.7M per year. This estimate includes funding a proportionate share of District administrative costs based on the City's share of calls for service over the past three years totals.

If the City were to form and operate its own Fire Department, FCS GROUP estimates that the new Department would require between 11.0 to 16.0 FTEs with a marginal cost of between \$1.2M to \$1.8M annually. Department staffing would include leadership, support, and additional fire fighters. While these costs are presently funded by the District, its costs are distributed and shared among the District's six stations (the District has a total of eight stations including the two City stations - Station 98 and Station 99).

Annexing into the MVFD or the RFA will result in a shift in the current property tax levy from the City to the MVFD or the RFA, resulting in a reduction in property tax revenue for the City, unless the City Council takes action to increase its property tax levy (which would also result in a net increase in the property tax bill for City property owners).

The following table summarizes the estimated fiscal impact of each option.

Exhibit 2: City Fiscal Impact of Fire Options

Type of Impact	1) Continue Contract with MVFD	2) Form City Owned Fire Department	3) Annex to MVFD*	4) Annex to RFA*
Additional Annual Expenditure to fund Fire Services (above current \$615,000 spent for MVFD fire contract)	\$1.1M (\$1.7M/yr total cost)	\$1.2M - \$1.9M (\$1.8M to \$2.5M/yr total cost)	No additional City expenditures. However, a reduction to General Fund expenditures may be required unless new revenue sources are approved to offset the loss in City Property Tax revenue.	
Annual Loss of Property Tax Revenue	No loss in revenue. However, a levy lid lift may be required to fund the additional expenditure needs.		\$1.7M	\$1.1M

*The MVFD or RFA may require the City to make capital improvements to Station 98, Station 99 and upgrade fire apparatus prior to annexation. These additional costs are not known at this time and are not included in these figures.

Assumptions:

Maintain operations of S98, S99 and operates LH with similar level of service as S98.

Forming own Fire Department will require between 11.0 to 16.0 new FTEs to maintain current levels of service as well as sufficient coverage in event of staff absences and provide Department leadership and support.

Annex to MVFD assumes shift of \$1.50/\$1,000 in assessed value in property tax levy from City to Fire District. Annex to RFA assumes shift of \$1.00/\$1,000 in assessed value in property tax levy from City to RFA. Both annexation options assume a revenue neutral shift in the property tax levy.

FISCAL IMPACT (BLACK DIAMOND HOMEOWNER)

The following table summarizes the estimated impact to property taxes to the typical \$500,000 home in the City of Black Diamond from each option.

Exhibit 3: Property Tax Impact of Fire Options

Type of Impact	Current Property Tax Levy	1) Continue Contract with MVFD	2) Form City Owned Fire Department	3) Annex to MVFD	4) Annex to RFA
Levy Rate Detail					
MVFD / RFA	--	--	--	\$1.50***	\$1.00****
Fire District M&O	--	--	--	\$0.30***	--
Library District	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36
City of Black Diamond	\$1.90	\$2.89*	\$2.99**	\$0.40***	\$0.90****
City of Black Diamond levy increase (to maintain City Services)	--	--	--	\$0.90****	0.49****
Total Levy	\$2.26	\$3.25	\$3.35	\$3.46	\$2.75
Annual Property Taxes	\$1,130	\$1,625	\$1,675	\$1,775	\$1,375
RFA Annual Fire Benefit Charge	--	--	--	--	\$220
Annual City property tax & RFA revenue generated	\$2.1M	\$3.2M	\$3.3M	\$1.5M	\$1.5M

Assumptions

*Continuing to contract with MVFD would require increasing City property tax levy to \$2.89 to generate additional and sufficient revenue to maintain current City services.

**Forming own Fire Department (at 11FTEs) would require increasing City property tax levy to \$2.99 to generate additional and sufficient revenue to maintain current public services.

***Annexing to MVFD would shift \$1.50 in property tax levy capacity to District. City would need to increase remaining levy by \$0.90 to maintain current public services. District voters approved a 4-year maintenance and operations levy of \$0.30 in 2020 election; by annexing to the District, a City homeowner would incur this M&O levy.

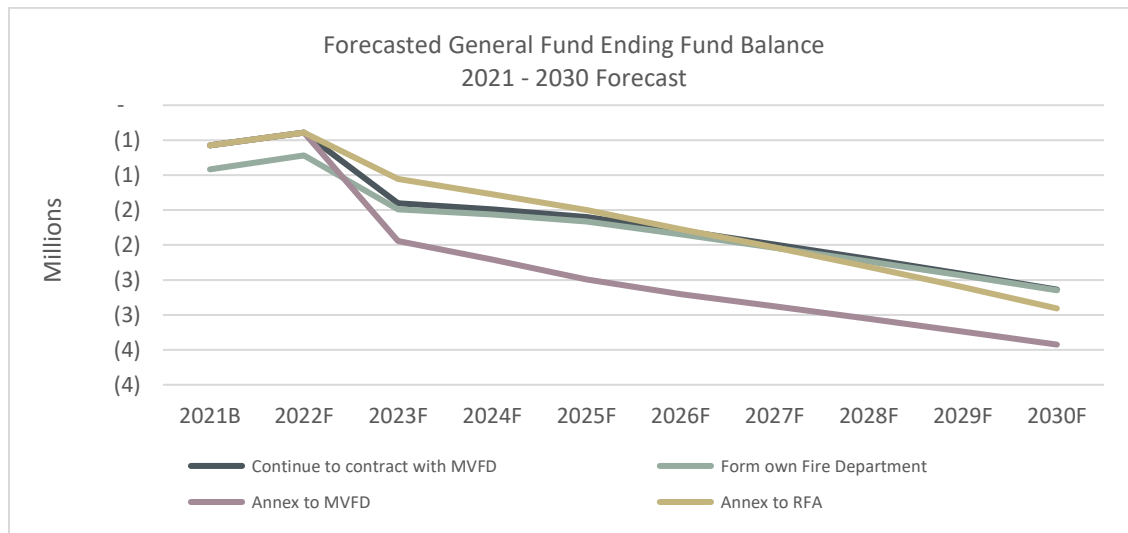
****Annexing to RFA would shift \$1.00 in property tax levy capacity to RFA. City would need to increase remaining levy by \$0.49 to maintain current public services.

City property tax revenue based on City assessed valuation of \$1.105B; Annual property taxes based on a \$500,000 home.

Impact to General Fund Ending Fund Balance

The following graphic illustrates the forecasted 10-year impact to the General Fund of each of the four options presented. As shown below, continuing to contract with the MVFD is estimated to have the smallest (albeit negative) impact to the General Fund. The largest impact would result by annexing to the MVFD due to permanent shift of \$1.50 in property tax levy capacity from the City to the District.

Exhibit 4: Forecasted Change to General Fund Ending Fund Balance 2021-2030



To address the fiscal impact of either additional expenditures for fire services or to offset the loss in property tax revenue and thus maintain City public services, the City has essentially three options – (1) increase revenue; (2) decrease expenditures; or (3) some combination of both. The following sections describe potential revenue and expenditure options for the City to consider.

REVENUE OPTIONS

Property Taxes

Property taxes are the City’s single largest source of revenue to the General Fund, supporting nearly one-fifth of the City’s General Fund expenses. Property taxes are limited to 1% growth, plus new construction, under State law. Increasing property taxes above the 1% limit (through a levy lid lift) requires a public vote, provided that the City has capacity within the statutory limit of \$3.60.

The City’s current property tax levy (\$1.90) and the Library District (\$0.36; the Library District’s statutory maximum is \$0.50) totals \$2.26 per \$1,000 assessed value. A levy lid lift cannot cause the total levy to exceed the statutory limit of \$3.60. In other words, under current levy parameters, the City’s levy rate could be as high as \$3.24 or \$3.10 if the Library District chose to levy its full \$0.50 authorization.

- Continuing to contract with the MVFD or forming a City owned and operated Fire Department (scenarios 1 and 2) will not affect the City’s property tax capacity. These options would provide the City the greatest amount of flexibility in its property tax levy rate, within statutory limits. **If the City were to levy \$3.10, it would generate an**

additional \$1.3M/yr in property tax revenue. See below for a more detailed discussion of the statutory limit and the effect it has on the City’s property tax revenue.

- Under scenario 3, annexing to the MVFD (the District is fully levying its authorized limit of \$1.50 for all properties in the District), and assuming that the Library District levies its full \$0.50, would result in the greatest negative impact to the City’s property taxes and cause the City’s statutory property tax levy rate to be capped at its lowest statutory maximum rate of \$1.60/\$1000 of assessed value. Furthermore, this option would preclude the City from the option of instituting a future levy lid lift as the total \$3.60 statutory limit is reached. **Under this scenario, the City’s current \$1.90 City levy rate would need to be reduced by \$0.30, or equal to about \$332,000/yr reduction in property tax revenue.**
- With scenario 4, annexing to the RFA will cause the City’s statutory property tax levy rate to be capped as low as \$2.10. Compared to the current \$1.90 City levy rate, the City would have about \$0.20 in remaining property taxing capacity, **or about an additional \$222,000/yr in property tax revenue if the City were to levy up to \$2.10.**

**Exhibit 5: Property Tax Statutory Maximums
 Local Levy Rate per \$1,000 Assessed Valuation**

	Current	1) Continue Contract with MVFD or 2) Form City owned Fire Dept.	3) Annex to MVFD	4) Annex to RFA
Fire District	\$0	\$0	\$1.50	\$1.00
Library District	\$0.36	\$0.50	\$0.50	\$0.50
City of Black Diamond	\$1.90	\$3.10	\$1.60	\$2.10
Total Levy Rate per \$1,000AV	\$2.26	\$3.60	\$3.60	\$3.60
City Property Tax Revenue	\$2.1M	--	--	--
Annual Addition or Reduction to City Property Tax Revenue	--	Additional \$1.3M/yr	Reduction – will require reduction in property tax levy and revenue loss of \$332,000	Additional \$222,000/yr

Other Revenue Options

Public Safety Sales Tax (New)

The City receives approximately \$900,000 annually from sales taxes. The City is levying its authorized basic and optional rates of 0.5% each, for a total local sales tax rate of 1.0%. RCW 82.14.450 authorizes the City to levy up to an additional 0.1% sales tax for public safety, which include fire services. A public vote is required. This taxing authority does not become available if, at such time, King County elects to levy this tax authority first. **The estimated revenue, if the City levied the full 0.1%, is about \$90,000/yr.**

Utility Taxes (Increase)

The City receives approximately \$640,000 annually from utility taxes. The City utility tax rate is 6.0% for all utility services except for stormwater which is taxed at 18.0%. State law establishes a 6.0% cap on electric, natural gas and telephone services. No cap is provided for other utility services. The City could consider raising its utility tax rate on cable TV, water, sewer, stormwater, and solid waste services. **However, the amount of additional tax revenue is limited, as each additional 1.0% on each service generates about \$54,000/yr.** For example, if the City wished to generate \$1.1M exclusively by increasing its Utility Tax, this tax would need to be increased by 20 percentage points on each service (ie, the revised utility tax rate on cable TV, water, sewer, and solid waste would be 26% and the utility tax on stormwater would be 38%).

Business and Occupation Tax (New)

The City presently does not assess a Business and Occupation Tax. State law allows the City to institute a B&O tax of up to 0.2% applied on the gross receipts of businesses operating within the City limits. Implementing the tax can be made by a simple majority of the City Council. The B&O tax can go above 0.2% but would require a public vote. According to the WA State Department of Revenue, taxable retail sales in 2019 within the City of Black Diamond totaled \$109.8 million. **Using this as a basis, a 0.2% B&O tax would yield approximately \$220,000/yr.** In general, a B&O tax is unpopular with businesses. Of the 290 cities in Washington State, only 46 cities impose a B&O tax.

Marijuana Excise Tax State Shared (New)

The State of Washington assesses a 37% excise tax on the sale of marijuana or marijuana infused products. Revenues collected are shared with cities, towns and counties that allow the siting of marijuana producers, processors and retailers. These revenues are distributed on a per capita basis and a proportionate share based on retail sales. State shared marijuana excise tax distributions to cities, towns and counties in 2019 totaled \$15M. However, the majority of these revenues were distributed to counties and larger cities that have allowed the siting of marijuana businesses in their jurisdiction.

For example, in 2019, the state shared marijuana distributions to King County totaled \$2.3M, Snohomish County \$1.2M, Pierce County \$1.1M, City of Seattle \$1.4M, Tacoma \$521,000, Spokane \$443,000, and Bellevue \$263,000. Distributions to smaller communities were very small – for example, Fircrest \$8,000, Lake Forest Park \$7,000, and Sultan \$6,000. **This is likely not a material source of revenue for the City of Black Diamond.**

EXPENDITURE OPTIONS

Reducing General Fund Expenditures

Reducing City General Fund expenditures is another option. The City's annual 2021 General Fund operating budget totals about \$10M. Assuming the City continued contracting with the District for the operation of Station 98 and Station 99 as well as operating the new Lawson Hills Station, the additional annual cost (above the current contract of \$615,000) is estimated at \$1.1M, or about 11% of the General Fund budget. **This would be equivalent to 50% of the 2021 Police Department budget or the combined 2021 budgets for Administrative Services, Legal, and Municipal Court.**

Limit Operations to One Fire Station

Another option is to limit station operations to only one station, such as consolidating all fire station operations to the new Lawson Hills Station and closing Station 98 until such time City revenue permit its reopening, or vice versa. Such options have not been fully examined at this time.

CONCLUSION

Council decision-making regarding its role in maintaining fire services can be best summarized with the following policy questions.

How important is it to the City Council to maintain local control over fire services?

Local control is defined as the City's ability to establish policy and expectations in the delivery of fire services (level of service), either through a direct contract for services or by owning and operating its own Fire Department. For example, the Mayor and City Council will have a voice in determining how fire services are delivered as part of its contract negotiations and/or as part of the City's annual budget decision making process.

Annexing into the MVFD or the RFA will relegate the decision on how fire services are delivered to the respective Boards of the MVFD or the RFA. While, under state law, the City will have representation on the RFA board (if annexation occurs), it is important to remember that there will also be other jurisdictions represented on the Board, which could effectively dilute the level of control the City would have in maintaining levels of service.

While having a City owned and operated Fire Department will maintain local control, it also comes with new administrative needs, a likely new labor union, and another Department to consider and compete for City resources during the budget process.

How important is it to the City Council to preserve local revenue options for future non-fire services?

While this study focused on funding fire services, there are (or will be) other non-fire related needs of the City that may eventually require funding. For example, the City Council recently discussed the need to construct a new City Hall and to hire a City Administrator. While funding these other non-fire needs is beyond the scope of this study, the need to maintain City flexibility in its revenue options should also be carefully considered.