

Town of Friday Harbor San Juan County Fire District No. 3



FIRE DEPARTMENT CONSOLIDATION AND FINANCIAL ANALYSIS

February, 2011

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February 11, 2011

Mr. C. King Fitch, Town Administrator
Town of Friday Harbor
60 Second Street
Friday Harbor, Washington 98250

Chief Steve Marler
San Juan Island Fire Department
1011 Mullis Street
Friday Harbor, Washington 98250

Subject: Fire Department Consolidation and Financial Analysis Study

Dear Mr. Fitch and Chief Marler:

Attached is our report concerning the Town's Fire Department Consolidation and Financial Analysis study. We want to thank you and your staffs for the assistance we received in gathering data and reviewing costs for our study. Based on our analysis, an annexation with an interlocal agreement to pay the Town for the District's use or purchase of the Town's fire engines might benefit the Town, its residents, and possibly the District's residents. We analyzed four different scenarios, but the critical element in the analysis is whether the District will pay the Town for the use or purchase of the fire engines. Besides the financial aspects of any consolidation, there are several policy questions that the Town might want to consider as it deliberates what actions, if any, it wants to take. Under the current interlocal agreement with the District, the Town is still paying less for fire protections services than it did in 2009. If you have any questions, please feel free to contact me at (425) 867-1802 ext. 228.

Sincerely,

A handwritten signature in black ink that reads "Peter Moy". The signature is written in a cursive, flowing style.

Peter Moy

Principal

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CHAPTER I: INTRODUCTION

Because of personnel vacancies in the Town of Friday Harbor's Fire Department, the Town and the San Juan County Fire Protection District #3 (the District) are considering several options for providing fire services that take advantage of cooperative opportunities for more efficient and cost effective delivery of fire protection services within their respective jurisdictions. Because of the vacancies at the Town's Fire Department, the Town recently contracted with the District in November, 2010 to provide interim administrative, training, and incident response services through April, 2011. As part of this effort, the Town engaged FCS GROUP to assist the Town and the District identify the costs and financial issues involved with such cooperative opportunities which include the current interlocal agreement and the Town's potential annexation into the District.

To assist the Town and the District identify their costs and options, the scope of work involved working with the Town and District to do the following:

- Identify the organizational and operational consolidation framework,
- Determine the cost of service, and
- Determine and analyze the costs and the financing of the different governance and organizational alternatives.

To accomplish the scope of work, FCS GROUP interviewed and met with Town and District staff, worked with the staff to develop the organizational and cost frameworks, reviewed budget, financial, and other data and documentation concerning the two fire departments, analyzed the data, identified key issues, briefed Town and District management and presented results to the Town Council and District Commissioners.

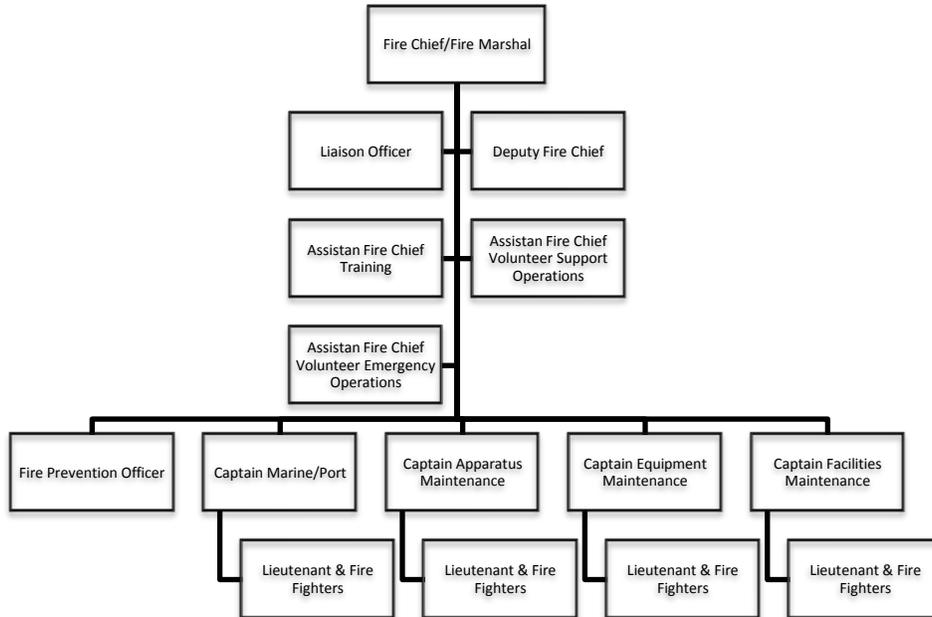
We want to acknowledge all the staff that assisted us: Town Administrator C. King Fitch and Town staff Wendy Picinich and Keri Talbot, and District Chief Steve Marler and Carolyn Hudson.

The following sections provide background on the Town's Fire Department and the District.

TOWN OF FRIDAY HARBOR FIRE DEPARTMENT

The Town of Friday Harbor has had a volunteer Fire Department for almost 100 years, but the Town's volunteer Fire Department was formally created in 1953. Prior to 2011, a full time Fire Chief was responsible for the department, and other staff also included an Assistant Fire Chief as a full time training officer, 18 active fire fighter volunteers, and additional support volunteers. The Department's organizational chart is shown in Exhibit 1. The Chief also served as the Town's Fire Marshal. The Town's one fire station is located adjacent to Town Hall and houses three fire trucks: two fire engines and a ladder truck. The new fire engine (Engine 6) was recently purchased in 2010, and the ladder truck (Engine 7) was purchased in 1999. Another fire engine (Engine 5) is also available, if needed, and is leased from the Friday Harbor Firefighters Association. In addition to its fire engines, the Department also has a fire boat that was purchased in 2003 and is located at the Port of Friday Harbor's marina where the Port donates the moorage for the boat. The boat provides fire protection at the marina and along the Town's shoreline and is staffed by a volunteer crew of five. The Town's Fire Department responds only to fire and emergency rescue calls. The San Juan Island Hospital District is responsible for responding to calls for emergency medical services on the island.

**Exhibit 1
Town Fire Department Organizational Structure**



According to the Town’s 2002 Comprehensive Plan, the Department’s overall average response time to calls averages six minutes. The Plan states that response times vary between five to eight minutes to points within the Town, and in general, a duty officer and the command unit can respond within two to five minutes. In 2010 there were 116 calls. As shown in Exhibit 2 the number of calls within the last five years has ranged from a high of 135 calls in 2008 to a low of 107 calls in 2007.

**Exhibit 2
Number of Calls for Service for the Town of Friday Harbor**

Year	Calls for Service
2006	116
2007	107
2008	135
2009	127
2010	116

Prior to 2011, the major costs for the Department were employee and volunteer pay and the debt service for the new fire engine. In 2009 and 2010, the Department had two full time employees, the Fire Chief and an Assistant Fire Chief Training Officer. The volunteer fire fighters are compensated on a per call basis and for the training sessions that they attend. In 2010 the compensation was \$19.77 per call and \$6.73 per training drill.

Because the Fire Chief and the Assistant Chief positions became vacant during 2010, the Town began contracting with the San Juan County Fire Protection District #3 to provide interim administrative, training, and incident response services to the Town. The Town Council adopted Resolution 1818 in November, 2010 authorizing the Mayor to execute an interlocal agreement with the San Juan County Fire Protection District. The agreement pays the District \$8,000 per month to provide the services. With this agreement, the Town’s budgeted cost for 2011 will be less than what

it has spent the previous two years. Exhibit 3 shows the actual expenditures for 2009 and 2010 and the 2011 budget for the Fire Department. The Town funds its Fire Department from its Current Expense Fund, which has many different revenue sources such as property taxes, sales taxes, license and permit fees, charges for services, and fines and forfeitures.

Exhibit 3
2009-2011 Town Fire Department Operating Expenditures

Cost Category	2009 Actuals	2010 Actuals	2011 Budget
Administration	\$92,509	\$110,530	\$44,160
Fire Suppression Land	\$175,894	\$69,256	\$84,260
Fire Suppression Boat	\$14,024	\$13,204	\$15,450
Training	\$75,135	\$30,808	\$32,500
Facilities	\$10,969	\$9,380	\$10,150
Debt Service	\$0	\$70,000	\$76,000
Total	\$368,531	\$303,178	\$262,520

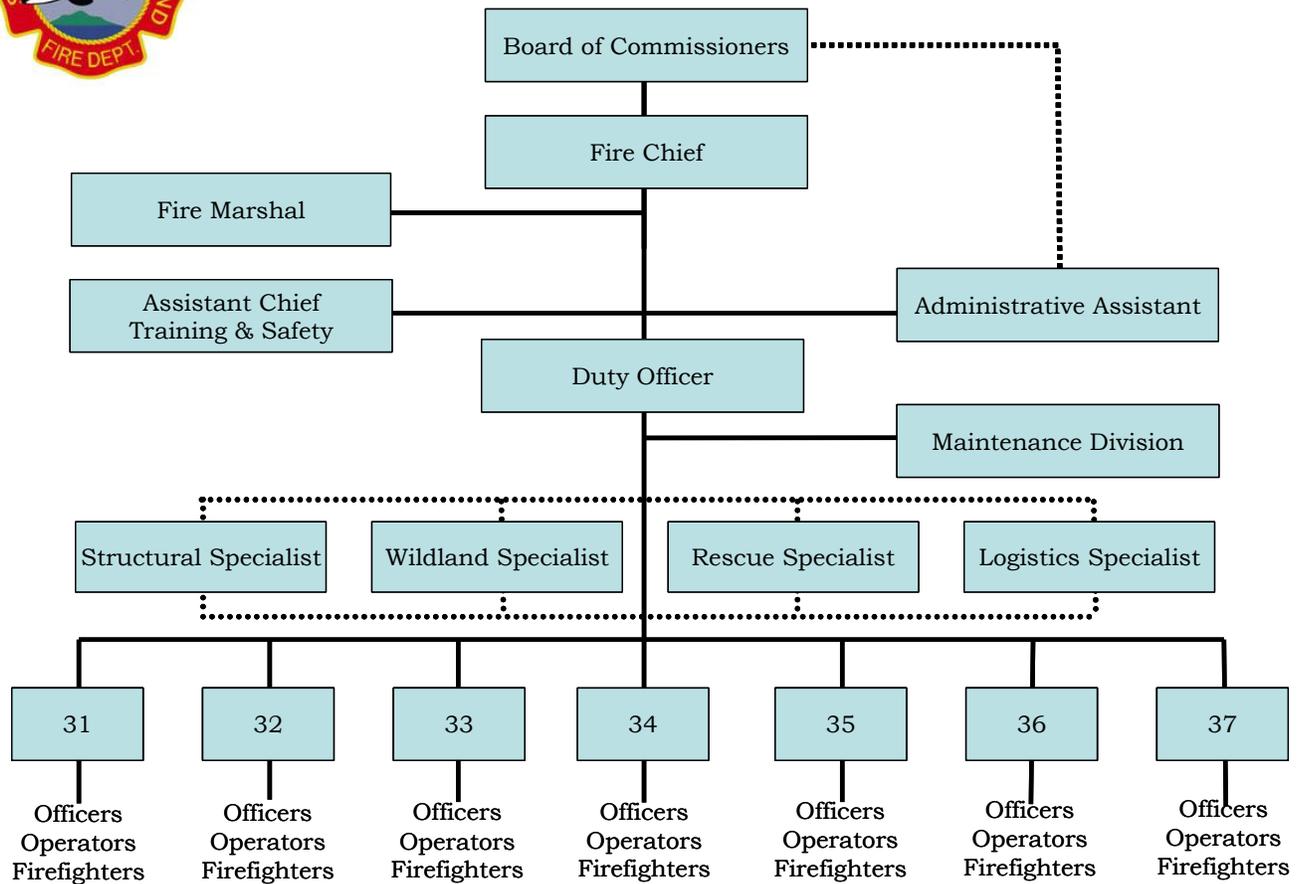
SAN JUAN ISLAND FIRE DEPARTMENT

The San Juan County Fire Protection District #3, also known as the San Juan Island Fire Department, was chartered by the State of Washington in May of 1957. The District operates with six full time staff, 50 volunteer fire fighters, and ten logistics volunteers. The District's service area covers 55 square miles outside of the Town of Friday Harbor, including Brown and Pearl Islands, and serves a resident population of about 6,000. There are seven fire stations including the headquarters station located at 1011 Mullis Street. In 2001 the department opened its headquarters station which included meeting and classroom spaces, exercise equipment and locker rooms for fire fighters' use, a day room and bunk rooms for the sleeper / resident program, maintenance shop, and administrative offices. The District's equipment and apparatus include one heavy rescue vehicle, two water tenders, two specially designed wildland / urban interface engines, five structural fire fighting engines, three smaller wildland engines and one intermediate engine. Exhibit 4 shows the current organization of the District.

Exhibit 4
San Juan Island Fire Department Organization



SAN JUAN ISLAND FIRE DEPARTMENT



The District responded to slightly more than 200 calls for service in 2010. During the past five years the District responded to a high of 240 calls in 2006 and a low of 173 calls in 2009. Exhibit 5 shows the number of calls for service for the past five years. In 2010, approximately 23% were fire calls; 16% of the calls were rescue/emergency medical responses, 24% were mutual aid, and 37% were all other types of calls (e.g. false alarms, hazardous materials, etc.).

Exhibit 5
Number of Calls for Service for the San Juan Island Fire Department

Year	Calls for Service
2006	240
2007	195
2008	186
2009	173
2010	207

The District's operating costs are generally about \$1.1 million and can be higher depending on how much is transferred to bonds and equipment funds to pay for debt service and other equipment costs. Exhibit 6 shows the actual expenditures for 2009 and 2010 and the 2011 budget for the District. The cost categories are different than ones used by the Town, and the District's funding is primarily from property taxes (90%) along with permit fees and contracts for fire protection services with the Port of Friday Harbor and the University of Washington.

Exhibit 6
2009-2011 District Fire Operating Expenditures

Cost Category	2009 Actuals	2010 Actuals	2011 Budget
Commissioners	17,663	32,611	20,945
Administration	192,209	189,600	191,635
Operations	105,314	89,273	97,700
Volunteers	162,470	186,423	125,475
Equipment	93,470	158,414	159,500
Fire Prevention	101,243	28,343	43,168
Training	128,250	120,170	136,430
Maintenance	338,051	309,313	337,976
Bonds & Transfers	236,863	70	216,200
Total	\$1,375,533	\$1,114,217	\$1,329,029

CHAPTER II: CONSOLIDATION ALTERNATIVES AND POLICY ISSUES

As mentioned in the Introduction, the Town of Friday Harbor has an opportunity to consider other alternatives for providing fire protection services other than staffing and operating its own Fire Department. These alternatives include the following:

- Continue the interlocal agreement and contract with the District for fire protection services,
- Annex the Town into the District, and
- Create a regional fire authority.

With each of these alternatives, there are different governance and financing mechanisms. The Town Council has already received a presentation on these options, but in summary the governance and financing mechanisms are the following:

- With an interlocal agreement, the Town can still maintain its governance and oversight role as well as specify the level of service, and the Town's Current Expense fund will continue to provide the funding support.
- With an annexation, the District commissioners will be responsible for governance and oversight of the fire protection services provided to the Town, and Town residents would need to be elected as a District Commissioner to participate in the governance of the District. Funding for the District's services comes from a separate property tax levy for the District. To start the annexation process, the Town Council must adopt an ordinance stating its intent to join the District and a finding that the public interest will be served as a result. If the District's Board concurs, notification is sent to the county legislative authority. The County then calls for an election by resolution, and if a majority of both the town residents and the district residents vote for the annexation, it is approved. Should the Town want to withdraw from the District, both the Town and the District must pass resolutions authorizing the withdrawal, or three years after the annexation the Town places the issue before the voters by passing a resolution to withdraw from the District.
- A regional fire authority's governance and financing are established as part of a plan that must be approved by the voters covered by the authority. Funding sources are the same as a fire district: property taxes and fire benefit charges. To establish an authority the following must happen:
 - A Planning Committee consisting of three elected officials from each jurisdiction is required to develop a regional fire protection service authority plan,
 - The Plan is submitted to participating jurisdictions to initiate the approval process,
 - A majority vote of the persons living in the service area of the regional fire protection authority is required unless the Plan calls for fire benefit charges or other taxing sources requiring a 60% vote. Then, a 60% passing vote is required, and
 - A governance structure is established which consists of only elected officials.

Several policy questions that involve governance, operations, and service levels as well as finances might determine how the Town decides what alternative is best for the Town and its residents. Depending on their policy choices, the Town's elected officials might make a decision to operate a separate Town Fire Department, continue with the interlocal agreement, or become part of the San Juan County Fire Protection District #3 through annexation. The following are several key policy questions that the Town might want to consider before a decision can be made.

- What is the Town's goal for considering a change in who provides the Fire Department's services?
- Is the Town willing to give up control and responsibility for fire protection services to another organization?
- Can a separately elected Board of Fire Commissioners respond to and meet the needs of the Town's residents, visitors, and businesses?
- Will service levels change, and can either the Town or the District maintain the service objectives that the Town currently has?
- How will working with the District affect the Town's emergency management plans and response?
- Are the potential savings to the residents sufficient to warrant making a change, and if not what are the alternatives for maintaining and improving the Town's Fire Department and coordinating with the District?
- Does the Town have higher priorities that can be funded by any savings from a consolidation of fire protection services?

Although this study is focused on the financial impacts of consolidating fire protection services, the Town's and the District's responses to these policy issues might also affect which consolidation scenario best meets the needs of the Town and the District.

CHAPTER III: CONSOLIDATION FINANCIAL ANALYSIS

Each consolidation alternative potentially has different financial impacts for the Town and the District as well as the Town's residents and businesses. Because of the personnel vacancies at the Town's Fire department, the 2011 budget (\$262,520) is based on the expected costs of implementing the interlocal agreement, operating from the Town's fire station, maintaining the Town's fire equipment and apparatus, and paying the debt service for its recently purchased fire engine. The Town will pay \$8,000 per month (\$96,000 annually) to the District for administrative, incident response, and training services. As previously mentioned, the Town's costs are now lower than they were in 2009 when they had two full time staff. Compared to 2009, the Town spent \$368,500 for its Fire Department, and of that total, the costs for just the Fire Chief's and Training Officer's salaries and benefits totaled about \$134,100. In comparing the consolidation alternatives, it is assumed that the current 2011 budget and interlocal agreement now represent the Town's base line instead of the 2009 fully staffed Fire Department.

As noted in the previous chapter, there are three potential consolidation alternatives for providing the Town's fire protection services: continue contracting with the District via interlocal agreement, annexing into the District, and forming a regional fire authority. From the financial and cost perspectives, forming a regional fire authority is the same as an annexation except that the governance structure is different. To compare the cost of services to the current contracting method with the District, four annexation scenarios were developed where the major differences involve use of the Town's fire station and whether the District pays the Town for use of the fire station and fire engines to help offset the debt service costs for the Town's recently purchased fire engine.

- **Scenario A** - The District would continue to operate from the Town's fire station, keep the fire boat at its present location, use the Town's apparatus and equipment, and make no payment for use of the fire engines.
- **Scenario B** - The District would serve the Town by using its headquarters station and closing the Town's station, keeping the fire boat at its present location, moving the Town's apparatus and equipment to the headquarters station, and making no payment for use of the fire engines. The Town could then remodel the fire station and use it for its Town Council meetings and for offices.
- **Scenario C** - The District would continue to operate from the Town's fire station, keep the fire boat at its present location, use the Town's apparatus and equipment, and make payments for the use of the fire engines.
- **Scenario D** - The District would serve the Town by using its headquarters station and closing the Town's station, keeping the fire boat at its present location, moving the Town's apparatus and equipment to the headquarters station, and making payments for use of the fire engines.

KEY COST ASSUMPTIONS

To determine the financial framework for the consolidation financial analyses, various assumptions were used to determine the Town's and the District's costs and savings and to account for and accommodate differences in how the Town and District budget and categorize their costs. In the future, conditions or negotiations might change these assumptions if the Town decides to pursue an annexation alternative. The key assumptions involved with the financial analysis and cost of service analyses are the following:

- All Town Fire Department volunteers would become part of the District's volunteer pool,
- Cost comparisons are based on the 2011 budget for the Town and the District,
- If there was an annexation, use of and or payments for Town assets (e.g. fire apparatus and the fire station) would need to be negotiated between the Town and the District. Scenarios C and D assume that payments would be made to cover the debt service on the new fire engine.
- To compare the District cost impacts of the current contract and annexation alternatives on residents, an equivalent property tax rate per \$1,000 in assessed value is used. The District's main revenue source is its property tax, and because the Town's Current Expense Fund consists of many revenue sources, an equivalent property tax rate needed to be calculated to make comparisons. The assessed value total is based on the value used for 2011 property taxes. The District's assessed value is \$2,802,817,508 while the Town's is \$554,588,992.
- The volunteers responding to calls are paid hourly at the District while the Town pays on a per call basis. For 2011, the Town would have paid \$20.26 per call. The District's hourly rates are the following:
 - Fire Fighter - \$14
 - Lieutenant - \$18
 - Captain - \$18

To calculate the volunteer fire fighter costs if the District hires the Town's existing volunteers, the Town provided a year's worth of data on the hours spent responding to calls for each volunteer. Using this data and other data about the volunteers, we calculated the volunteer costs for responding to the Town's fire calls. Volunteer response hours totaled 322 hours.

- The amount paid to volunteers for training drills is higher at the District than for the Town. For 2011, the Town would have paid \$6.91 per drill. The District pays on an hourly basis and the hourly rates are the following:
 - Fire Fighter - \$8.55
 - Lieutenant - \$13.55
 - Captain - \$14.55

To calculate the volunteer fire fighter costs if the District hires the Town's existing volunteers, the Town provided eleven month's worth of data on the number of training drills attended by each volunteer. Assuming that each training drill lasted two hours, the volunteer costs for training the Town's volunteers was calculated. Volunteer training drill hours totaled 2,034 hours.

- In addition to the District's hourly rates, another fifty cents per hour is added if the fire fighter is a fire fighter I, and another fifty cents is again added if the fire fighter is a fire fighter II. Also, another fifty cents per hour is added for every five years that a fire fighter has worked.
- The cost of repairing and maintaining the Town's equipment and apparatus is based on the Town's 2011 budget of \$30,500 for repair and maintenance. The District's Fire Chief has

contacted the Town's contract mechanic and was told that the total estimates are much lower at \$7,500. However, the mechanic's numbers do not include any catch up work due to deferred maintenance, and for this financial analysis, the 2011 budget figure is being used to account for some deferred maintenance.

- For all consolidation alternatives, the Town will remain responsible for enforcing its fire codes. The Town's previous Fire Chief acted as the Town's fire marshal, but with the vacancy, the Town Administrator anticipates that the Town building official's responsibilities will increase. A corresponding salary increase will cost the Town about \$7,200.
- If the Town's fire station is not used by the District, the Town might consider converting the station's training room into an accessible Town Council meeting room and offices. The apparatus bays could be used for storage and archives and could house the antique fire engines. In addition, the current Town Council meeting room in the Town Hall would be converted to office space. The Town Administrator estimates the cost of these changes at about \$500,000.

ANNEXATION COST SCENARIOS

As previously described, there are four annexation scenarios, and the differences between the scenarios is whether the District operates from the Town's existing station or uses its headquarters station and whether the District pays the Town for use of the fire engines. The Town station issue could also apply to the current contract. To estimate the District's cost of providing services to the Town, we met with the District's Fire Chief to review the Town's 2011 budget and identify what changes in costs might occur if the Town became part of the District. Appendix A shows how the Town's costs were classified into the District's budget categories. The key changes in costs compared to the current Town's budget are the following:

- Because the District already pays the Fire Chief and the Training Officer, no additional costs for these positions are needed with an annexation.
- With the hiring of the Town's volunteers, the District will have additional payroll costs to train volunteers and to respond to Town calls for service.
- Additional District costs will also include operating and maintenance costs for the Town's fire equipment, three fire trucks, and the fire boat as well as the facility costs for using the Town's station. Scenarios B and D do not include the facility costs associated with the Town's station.
- For Scenarios A and B, the Town would continue to pay the debt service on the Town's recently purchased fire engine and the District would not pay for the use of the station or fire engines. Scenarios C and D assume that a payment equal to the debt service will be made

Based on these changes, Exhibits 7 and 8 compare the District's current budget to the annexation scenarios.

Exhibit 7
Comparison of the District's 2011 Budget Without Payment for the Station and Fire Engines

Cost Category	2011 District Budget	Scenario A Use the Town Fire Station		Scenario B Use the District's HQ Fire Station	
		Annexation with Town Fire Station	Change in Costs	Annexation without Town Fire Station	Change in Costs
Commissioners	\$20,945	\$20,945	-	\$20,945	-
Administration	191,635	191,635	-	191,635	-
Operations	97,700	113,850	16,150	102,700	5,000
Volunteers	125,475	158,375	32,900	158,375	32,900
Equipment	159,500	178,850	19,350	178,850	19,350
Fire Prevention	43,168	43,168	-	43,168	-
Training	136,430	138,930	2,500	138,930	2,500
Maintenance	337,976	368,076	30,100	368,076	30,100
Bonds & Transfers	216,200	216,200	-	216,200	-
Capital/One Time Costs	-	-	-	-	-
Total	\$1,329,029	\$1,430,029	\$101,000	\$1,418,879	\$89,850

Exhibit 8
Comparison of the District's 2011 Budget With Payment for Use of the Town's Fire Engines

Cost Category	2011 District Budget	Scenario C Use the Town Fire Station		Scenario D Use the District's Fire Station	
		Annexation with Town Fire Station	Change in Costs	Annexation without Town Fire Station	Change in Costs
Commissioners	\$20,945	\$20,945	-	\$20,945	-
Administration	191,635	191,635	-	191,635	-
Operations	97,700	113,850	16,150	102,700	5,000
Volunteers	125,475	158,375	32,900	158,375	32,900
Equipment	159,500	254,850	95,350	254,850	95,350
Fire Prevention	43,168	43,168	-	43,168	-
Training	136,430	138,930	2,500	138,930	2,500
Maintenance	337,976	368,076	30,100	368,076	30,100
Bonds & Transfers	216,200	216,200	-	216,200	-
Capital/One Time Costs	-	-	-	-	-
Total	\$1,329,029	\$1,506,029	\$177,000	\$1,494,879	\$165,850

TOWN FINANCIAL SAVINGS

Even though the Town annexes into the District, the Town will still have costs associated with responsibilities that will still remain with the Town. These costs are for storage of one of the Town's fire engines (\$5,500) and enforcement of Town fire codes (\$7,200). If the District makes no

payments to the Town for the station or fire engines, the Town would still need to pay the debt service on the recently purchased fire engine. For Scenarios A and B, the Town's continuing costs total \$88,700, and in Scenarios C and D, the Town's remaining costs are \$12,700. Even with these remaining costs, the Town will save money compared to what it has budgeted in 2011 and in previous years. Exhibit 9 shows the Town savings compared to its currently contracted costs in 2011. The Town's Fire Protection Budget includes the additional \$7,200 for code enforcement that were not previously budgeted.

**Exhibit 9
Potential Town Cost Savings from an Annexation**

	Scenarios A & B	Scenarios C & D
2011 Town Fire Protection Budget	\$269,720	\$269,720
Minus: Town Costs After Annexation	88,700	12,700
Total	\$181,020	\$257,020

FINANCIAL IMPACTS ON TOWN RESIDENTS

The initial financial analysis shows that the Town can save money by annexing into the District, but from a resident's tax perspective, a resident will now pay both the District's property tax levy and the taxes to support the Town's remaining costs. The total 2011 budgeted cost for the Town is \$269,720, which includes an additional \$7,200 for fire code enforcement, and this amount represents an equivalent property tax rate of \$.48634 per \$1,000 in assessed value. The District's 2011 property tax levy rate is \$.42016 per \$1,000 of assessed value, and the District's estimated 2011 property tax revenue is \$1,177,631. If there is an annexation, the District can apply its current tax rate to the Town's assessed value, and if this occurred in 2011, the District's revenue increase would total about \$233,000, which is significantly more than what is needed to support the Town's additional costs.

Because none of the scenarios require the additional revenue based on the current tax rate, the tax analysis and impacts are based on the revenue needed to support only the additional costs. To estimate the tax impacts on Town residents if there is an annexation, the District's revised property tax levy could be based on the combined assessed value for both the District and Town and the District's current property tax revenue plus the additional costs related to serving the Town. For example, Scenario A would require property tax revenue totaling \$1,278,631 (i.e. the current property taxes of \$1,177,631 plus the \$101,000 in additional costs). The District's assessed value will increase by 19.8%, and depending on the scenario, District costs will only increase between 6.8% to 13.3%. Because the Town must still support its remaining responsibilities and costs, Town residents will also need to fund either \$88,700 or \$12,700 in costs associated with its remaining responsibilities. These costs are equivalent to a \$.15994 or \$.02290 equivalent Town property tax rate, respectively. Exhibit 10 summarizes the changes in costs by scenario.

**Exhibit 10
Town Resident Costs by Scenario**

Cost Category	Scenario A	Scenario B	Scenario C	Scenario D
2011 District Operating Budget	\$1,329,029	\$1,329,029	\$1,329,029	\$1,329,029
Additional Town Costs	101,000	89,850	177,000	165,850
Total District Costs with Annexation	\$1,430,029	\$1,418,879	\$1,506,029	\$1,494,879
Town Costs after Annexation	\$88,700	\$88,700	\$12,700	\$12,700

Based on the revenue/cost method of calculating the District's revised property tax rate, Exhibit 11 shows the equivalent property tax impacts for each scenario.

Exhibit 11
Comparison of Equivalent Property Tax Rates for Town Residents

Consolidation Alternative	District Annexation Property Tax Rate	Town Equivalent Property Tax Rate (Remaining Town Costs)	Total Town Equivalent Property Tax Rate
2011 Town of Friday Harbor Budget	N/A	\$.48634	\$.48634
Scenario A	\$.38084	\$.15994	\$.54078
Scenario B	\$.37752	\$.15994	\$.53746
Scenario C	\$.40348	\$.02290	\$.42638
Scenario D	\$.40015	\$.02290	\$.42305

With the combined equivalent property taxes from an annexation and the Town's remaining costs, the Town residents would actually pay more in equivalent property taxes for Scenarios A and B. Because the additional costs of serving the Town is significantly less than the revenue added from the Town's assessed value and the combined tax rate, the property tax revenue from the Town residents is greater than the cost of service and provides additional funding that helps to offset other District costs besides the direct costs of serving the Town. Such costs might include Commissioner, administration, and facility costs. As a result, the District's residents might benefit by having a lower property tax rate than they would have had without the Town. In Scenario A, the additional revenue contribution is \$110,209, while for Scenario B the amount is \$119,517. If the District's current property tax rate is used, the additional revenue would be about \$132,000 and \$143,200, respectively.

To make the annexation scenarios more equitable and cost effective for the Town residents, more costs could be added as part of the annexation. Scenarios A and B left the Town with about \$88,700 in costs. The major portion of this cost, \$76,000, is the Town's debt service on its recently purchased fire engine. Since this cost is a Town debt, the District cannot legally assume the debt, but because the District plans on using this fire engine to serve the Town, the Town could have an interlocal agreement with the District that charges the District for the use or purchase of the engine as portrayed in Scenarios C and D, which increases District costs by \$76,000. This shift in costs makes the annexation scenarios less costly than the current interlocal agreement and decreases the amount of revenue the Town's assessed value generates over and above the District's added costs. In Scenario C, the additional revenue contribution to help offset commissioner and administrative costs is \$46,763, while for Scenario D the amount is \$56,071. In addition, it increases the Town's savings from the annexation because the District's payments to the Town offset the debt service costs.

Because the Town's added assessed value generates more property tax revenue than the estimated costs to serve the Town, District residents could also benefit by having a slightly lower property tax rate. For 2011, the District's property tax rate is \$.42016, and depending on the scenario, the District's revised property tax rate would have been between \$.37752 and \$.40348 based on 2011 assessed values.

CHAPTER IV: CONCLUSIONS

The previous chapter's financial analyses show that for Scenarios C and D consolidation of fire protection services with the District through annexation can reduce the overall costs for the Town and its residents as well as the District's residents if an alternative tax rate is calculated and used. The keys to achieving the overall cost savings for both the Town and the District in these scenarios are developing an interlocal agreement involving District payments for the use of the fire engines in order to help the Town offset its debt service costs for its recently purchased fire engine and revising the District's property tax rates when annexation occurs. Based on the current estimated 2011 expenditures for the Town and the District and the revised revenue/cost property tax rate methodology, Exhibit 12 shows the potential cost savings for fire protection services by group.

Exhibit 12
Potential Cost Savings for the Town and San Juan Island Residents

	Scenario C Use Town Station	Scenarios D Use District Station
2011 Town Savings	\$257,020	\$257,020
Town Residents Estimated Tax Savings	\$33,254	\$35,101
District Residents Estimated Tax Savings*	\$46,763	\$56,071

* Assumes that the District revises its property tax rate when the Town annexation occurs

As discussed in Chapter II, there are several policy considerations besides the financial aspects regarding consolidation that the Town should address in making a decision either to continue its interlocal agreement with the District, to annex into the District, or to form a regional fire authority. The policy considerations involve governance, service levels, coordination, and Town funding priorities. In addition, while there is a savings specifically for the cost of fire protection services, Town residents benefit from the savings for fire protection services if Town taxes or charges are reduced accordingly or if the Town uses its savings to increase the level of service for other Town services.

For the District, the key policy decision involves determining what property tax rate should be used when annexation occurs. The District is allowed to apply its existing rate for Town properties plus a one percent growth in revenues. If that rate is used, District residents might not have any tax savings, and savings will be lower for Town residents.

APPENDIX A: ALLOCATION OF 2011 TOWN
COSTS TO THE DISTRICT'S BUDGET CATEGORIES
FOR AN ANNEXATION

DESCRIPTION	2011 Interlocal Budget	District Budget Categories					
		Operations	Volunteers	Equipment	Training	Maintenance	Total
EXPENDITURES - CURRENT FUND							
FIRE PROTECTION							
ADMINISTRATION							
PERSONNEL	-						
FIRE CHIEF/FIRE MARSHAL/DUTY OFFICER							
OVERTIME	-						
BENEFITS	-						
FIRE CHIEF/FIRE MARSHAL							
SUPPLIES	500						
FUEL	250						
SMALL TOOLS	100						
PROFESSIONAL SERVICE	100						
MISCELLANEOUS							
COMMUNICATIONS	1,500						
PHONE							
CELL PHONE							
SHIPPING							
TRAVEL AND/OR TRAINING	10						
ADVERTISING							
STORAGE	5,500						
REPAIR & MAINTENANCE	100						
COMMAND VEHICLE							
SOFTWARE SUPPORT							
MISCELLANEOUS							
MEMBERSHIPS							
SUBSCRIPTIONS							
SAN JUAN COUNTY FIRE DISTRICT #3	36,000						
EQUIPMENT	100						
MISCELLANEOUS							
TOTAL FIRE ADMINISTRATION	44,160	-	-	-	-	-	-
FIRE SUPPRESSION LAND							
PERSONNEL (FIRE CALLS)	-		5,900				5,900
OVERTIME (TRAINING OFFICER)	-						-
BENEFITS	-						-
BOARD OF VOLUNTEERS							-
PHYSICALS							-
UNIFORMS	-						-
SUPPLIES	-						-
FUEL	150						-
SMALL TOOLS	-						-
CONTRACT/PROFESSIONAL SERVICES	2,000						-
HOSE TESTING							-
FLOW TEST SCBA'S							-
COMMUNICATIONS	500						-
ADVERTISING	500						-
FIRE TRUCK LEASE	1,000						-
INSURANCE	10,200	5,000					5,000
REPAIR & MAINTENANCE							-
PUMP TESTING	1,000					1,000	1,000
AERIAL INSPECTION	1,000					1,000	1,000
VEHICLES	23,000					23,000	23,000
EQUIPMENT	1,500					1,500	1,500
MISC.	100					100	100
SCBA'S	3,500					3,500	3,500
MISCELLANEOUS	10		100				100
BACKGROUND CHECKS							-
DAMAGES							-
INTERGOVERNMENTAL							-
DISPATCH SERVICE SJ CO SHERIFF	5,700			5,700			5,700
DEPT OF HEALTH/HEPATITIS SHOTS			100				100
SAN JUAN ISLAND FIRE DISTRICT #3	30,000						-
MISC.	100		100				100
AIR SERVICE	-						-
IMPROVEMENTS	-						-
EQUIPMENT							-
PAGERS	3,000			3,000			3,000
PERSONAL PROTECTION EQUIPMENT							-
HYDRANT FIRE MANIFOLDS							-
FIRE EXTINGUISHERS	500			500			500
HELMETS							-
RADIOS	500			500			500
TRANSFER TO EQUIPMENT RESERVE							-
FIRE TRUCK PAYMENT	76,000						-
TOTAL FIRE SUPPRESSION LAND	160,260	5,000	6,200	9,700	-	30,100	51,000

DESCRIPTION	District Budget Categories						
	2011 Interlocal Budget	Operations	Volunteers	Equipment	Training	Maintenance	Total
FIRE SUPPRESSION BOAT							
PERSONNEL							-
BENEFITS							-
SUPPLIES				500			500
FUEL	500			500			500
SMALL TOOLS	50			50			50
INSURANCE	6,300						-
UTILITIES	200			200			200
REPAIR & MAINTENANCE	6,000			6,000			6,000
MISCELLANEOUS	100			100			100
EQUIPMENT	2,300			2,300			2,300
RESCUE SUITS							-
TOTAL FIRE SUPPRESSION BOAT	15,450	-	-	9,650	-	-	9,650
FIRE TRAINING							
PERSONNEL	-						-
TRAINING OFFICER							-
TRAINING DRILLS FIREFIGHTERS			26,700				26,700
BENEFITS							-
TRAINING OFFICER							-
SUPPLIES	-						-
REGULAR							-
FIRE PREVENTION							-
FUEL	-						-
PROFESSIONAL/CONTRACT SERVICES							-
FIRE TRAINING SERVICES							-
COMMUNICATIONS							-
CELL PHONE							-
TRAVEL AND/OR TRAINING	2,500				2,500		2,500
FIREFIGHTERS							-
OUTSIDE TRAINERS							-
ADVERTISING	-						-
REPAIR & MAINTENANCE	-						-
TRAINING OFFICER VEHICLE							-
SAN JUAN COUNTY FIRE DISTRICT #3	30,000						-
EQUIPMENT							-
MISCELLANEOUS							-
TRAINING PROPS							-
TOTAL FIRE TRAINING	32,500	-	26,700	-	2,500	-	29,200
FIRE FACILITIES							
SUPPLIES	1,000	1,000					1,000
SMALL TOOLS	100	100					100
UTILITIES	7,000	7,000					7,000
40% OPALCO							-
TOWN							-
REPAIR & MAINTENANCE	1,350	1,350					1,350
MSC.							-
PAINTING							-
HEAT SYSTEM							-
MISCELLANEOUS	-						-
LIGHTS FOR CENTENNIAL							-
INTERGOVERNMENTAL	200	200					200
PRESSURE INSPECTION							-
MSC.							-
IMPROVEMENTS		1,000					1,000
EMERGENCY RADIO TRUCK BAY							-
Turnout Racks							-
EQUIPMENT	500	500					500
MISCELLANEOUS							-
TOTAL FIRE FACILITIES	10,150	11,150	-	-	-	-	11,150
TOTAL FIRE PROTECTION	262,520	16,150	32,900	19,350	2,500	30,100	101,000