

To: Board of County Commissioners
Penny Postoak Ferguson, Interim County Manager
From: Maury L. Thompson, Acting Deputy County Manager
RE: Executive Summary: Review of Johnson County Fire District #2
Date: April 19, 2018

I. Introduction

The Johnson County Board of County Commissioners (BOCC) has the responsibility for appointing the members of the Johnson County Fire District # 2 (District) Board of Directors and approving the District's budget.

As a result of concerns brought to the attention of the BOCC regarding governance, personnel and financial issues of the District, the BOCC, at their March 15, 2018 Business Session, made, seconded and adopted the following motion.

"I move to direct County Staff to conduct a review of Johnson County Fire District # 2 in regards to the District's short and long term financial viability, stability of operations and strength of service; and explore options referenced in the Cooperative Services Feasibility Study (July 2017). As a first step, County Staff shall organize a meeting with the Fire Board Chairman and Board Treasurer of Fire District # 2, the Fire Chief and Financial Officer of Fire District # 2 and County Officials. This review shall be done within 30 days."

In directing County Staff to conduct this review, the BOCC emphasized their concern as to the long-term financial feasibility of the District, and its desire to address and mitigate any future disruptions to the District.

The meeting referenced above was held Tuesday, March 20, 2018. Those identified above were present.

As a result of the review which has taken place at, and since this initial meeting, the following financial threats have been identified.

II. Threats to Ongoing Viability

Transition to Kansas Police and Fire (KPF):

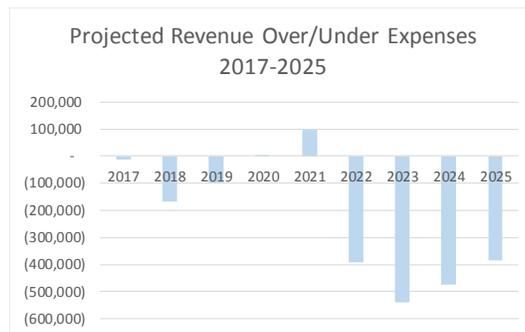
Effective January 1, 2018, Fire District # 2 transitioned from Kansas Public Employees Retirement System (KPEERS) retirement to KPF. The change will cost an additional \$330,735 in 2018. The additional expense is not an immediate threat, but it creates an increase in expenses while the district faces impending losses in revenue.

Overland Park Contract:

Overland Park officials have advised the Fire District # 2 Chief that the contract between the City of Overland Park and Fire District # 2 will be discontinued. During 2022, Fire District # 2 will discontinue services and Overland Park will make the minimum payment under the contract of \$220,000. The contractual relationship will be discontinued at the end of 2022 with the exception of the “island annexation area” that accounts for an inconsequential amount of revenue. The discontinuation of contract services will result in an estimated loss of revenue of over \$770,000 annually.

The loss of the contract does not appear to provide an immediate opportunity to close stations or decrease staffing while still maintaining adequate response time and service levels. As a result, Fire District # 2 is unlikely to remain financially viable beyond 2021 without raising the fire district mill levy or affecting service levels.

Assuming optimistic annual increases in ad valorem revenues (5% to 6%), and a reasonable growth in expenses (3.25% annually), Fire District # 2 would experience a deficit of nearly \$400,000 in 2022 and over \$500,000 in 2023 due to the lost contract. (This information is provided as an attachment to this report, and summarized in the table below. This financial information was provided by John Martin, Certified Public Accountant for the District.)



In the course of verification of the City of Overland Park’s plans as to this contract, the following information was received from the City.

“If current financial assumptions hold true and subject to City Council approval at the appropriate time, staff has developed a plan to assume operational responsibility of the "8-mile" contract area by the end of 2022 from a station identified in the CIP but yet to be constructed. The scenario of transitioning before the end of the contract is possible, but not probable. The conditions indicating an acceleration would require OP 5-year financial projections to hold as well as considerable increase of the assessed valuation of the contract area. Basically it would be a financial decision to move sooner.”

Ambulance Service:

While transitioning away from providing ambulance services is an option, it is unlikely to significantly decrease costs. The fire district uses cross-trained staff to respond to emergency medical calls and fire emergencies. Discontinuation of ambulance services would not significantly reduce staffing needs.

City of Spring Hill and Miami County Contracts:

With the loss of the Overland Park contract, retention of the Spring Hill contract is essential for Fire District # 2 to continue to operate autonomously at an acceptable level of service. The Spring Hill contract accounts for 18% of revenues, and the services (and revenues) related to the Miami County contract are dependent upon the Spring Hill station. Additionally, the discontinuation of the Spring Hill and Miami County contracts would also result in the loss of most of the ambulance revenue, and that service seems likely to be discontinued as a result. The loss of the Spring Hill station would also result in the need to increase staffing levels at the remaining stations to continue to serve the area outside the City of Spring Hill but currently in the service area of the Spring Hill station. The likely outcome of the loss of the Spring Hill contract is a reduction of 28% of the fire district’s revenue but a decrease in expenses of only 18%-20% for a net revenue loss of 8%-10%.

III. Options

2017 Cooperative Services Feasibility Study Strategies:

Strategy A- Status Quo: A status quo approach does not appear to be tenable for Fire District # 2 given the anticipated loss in revenue beginning in 2022.

Strategy B □ Cooperative Services: While collaborating to offset training and administrative costs is appropriate, cooperative efforts are unlikely to result in enough cost savings to offset the anticipated loss in revenue.

Strategy C □ Consolidation: Kansas statutes allow for consolidation of fire districts with the approval of each fire board and authorization of the BOCC. It appears consolidation may include any number of districts. Consolidation may reduce administrative costs and improve staff coverage. Consolidation requires findings that all impacted districts will benefit from the action, and that fire insurance rates may be positively impacted. Additionally, while this action would benefit citizens in Fire District # 2, it may be difficult to gain the support of the existing fire boards.

Strategy D □ Merger as a County Department: This action would require the dissolution of the fire district and may require legislation. The county’s chief counsel advised that there are steps that could be taken to implement this strategy.

Strategy E - County-wide Fire Department: Creating a single countywide fire department that encompasses all cities and districts in the area is pragmatic but ambitious and is likely impractical in the near future. This option would require an agreement between all cooperating cities and fire boards.

Strategy F □ BOCC Governance: (not identified in Feasibility Study) – As a “transitional” approach should it become necessary to protect the sustainability of operations and/or continuation of existing contracts, the BOCC may opt to dissolve the existing fire board and assume direct governance of the fire district.

Staff provide this report with a recommendation that the BOCC review the options detailed within, and provide for public information and input as it works toward a recommended solution.

Thanks to Johnson County Staff, Tom Dugan, Ken Kleffner and Ellen Wernicke, and Fire District Personnel Jim Francis and John Martin for their work on this review.

Respectfully submitted,

Maury L. Thompson

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