

GREATER SHEBOYGAN COMMITTEE

VF

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Subject: Sheboygan Fire Department Issues & Answers

The City of Sheboygan Finance Department recently released a financial analysis of the Sheboygan Fire Department (SFD) and its ambulance operation (EMS). While it does not address every issue related to the SFD, it is a good starting point to begin the discussion of financial issues related to the SFD.

We have also noted the swirl of reader comments generated in the Sheboygan Press every time the Press publishes a SFD related news article. Unfortunately, some of the comments posted on the Press web site are merely "rhetorical shouting" and contribute little. On the other hand, many of the comments made and questions raised are well reasoned and deserve serious consideration. Since most Press web site posters chose to remain anonymous, there is no way to attribute to those who have presented ideas and questions there. However, to the extent possible, we have incorporated them into this white paper as appropriate.

It is also noted that many people have difficulty separating emotional feelings from rational discussion when it relates to the SFD. As soon as one begins raising questions about the cost effectiveness and/or management of the SFD, some people see it as an attack on the bravery of the SFD staff members or it's questioning the quality of their EMS efforts.

It is without question that the SFD personnel do a potentially dangerous job and that their quality of EMS service is very good. These are not the questions. However, the local tax base is not growing. State aids to cities are continuing to be cut. Local residents are facing personal financial stress and are ill prepared to deal with property tax increases. At the core of the discussion is how can the City and the SFD provide an acceptable level of public safety within the constraints of flat revenue and increasing expense? Cities are going to continue to struggle to provide modest levels of municipal services. All City departments must evaluate how they provide service and possible financial alternatives.

With the above having been said, one disappointment is related to the management of the SFD. For the most part, management of the SFD recognizes only one way to do things and that is based on its historical mode of organization and operation. Unfortunately, budget constraints will not allow "business as usual." What is needed is change to meet the current and future realities of municipal funding.

In addition, SFD management has frequently responded on an emotionally charged basis. To summarize, "We are experts and your lives are in great danger if you don't follow our recommendations." While public safety is an important component of the discussion, it should be balanced with a factual component to the analysis. Even in the face of extreme budget pressure, the SFD management has offered little in the way of alternatives.

With the above information as background, it is time to begin a more detailed analysis of the related issues. These will be presented in the form of Questions and Answers.

1. Does then SFD ambulance service (EMS) make a profit? I hear so many numbers quoted I don't know what to believe.

Unfortunately the answer is maybe yes and maybe no. The original financial reporting process for the SFD EMS was set up on a marginal cost basis. It is an economic concept that takes into consideration only the direct costs associated with the EMS operations and does not consider indirect costs.

For example, the current EMS accounting system presumes there is no management cost to run the EMS service; a highly unlikely scenario. The marginal cost analysis answer to this is that SFD management costs were there anyway, so no need to include them. However, if the existing SFD managers can entirely absorb the EMS management, it would indicate the management area was over staffed and continuing that staffing level is in fact a cost attributable to the EMS.

Another example would be the pay grades of the entire SFD staff job classified as paramedics. If there was no SFD ambulance service and the SFD members who are being paid as paramedics would be paid as fire fighters and assuming that would be a lesser amount, then that difference is a marginal cost of the ambulance service. While a number of SFD staff were paramedic qualified prior to the assumption of the ambulance service, and that may have been desirable but for their pre ambulance duties it was not necessary for them to be paramedic qualified and that is a marginal cost.

A full functional cost analysis would give a far better indication of the profitability of the SFD EMS service. This would include all direct and indirect costs associated with the EMS and would account for the total cost impact on the City rather than just the immediate marginal costs.

While the EMS service does make a contribution to City revenues, it is unlikely all the marginal costs associated with it are being captured. If all marginal costs are included, there may be no actual contribution.

In summary, whether one is versed in the intricacies of accounting or not, the current financial reporting for the SFD EMS is simply incomplete and should not be used for making long run strategic decisions.

2. In summary, what does the Finance Department analysis of SFD indicate?

The Finance Department study is based on a number of assumptions:

- There will be 2.75% growth in costs for each of the next two years followed by 3% per growth for the following eight years.
- There will be no growth in tax funding or other revenue for the SFD (except in the scenarios that show the SFD retaining the EMS).

The results, as depicted in five scenarios, show accumulated losses for the next 10 years that range from \$17.5 million to \$4.4 million, depending on the scenario.

One thing demonstrated by the scenarios is that even under the most favorable assumptions the retention of EMS service does not off set the accumulating SFD deficits. In fact the scenario that shows the least accumulated 10 year loss (\$4.4 million), consists of no ambulance service and 3 fire stations. While there is current discussion about the “profitability” of the ambulance service, it is really irrelevant as there is no long run scenario which does not result in a large SFD deficit.

The biggest component of SFD expense is labor. The continued growth in salaries, benefits and retirement costs of SFD personnel drives large deficits in the future regardless of the scenario considered today. All of the scenarios indicate the current (and future) level of wages and benefits for SFD personnel is not sustainable, without significant property tax increases.

Every financial indicator points to a need to develop alternatives to the current methods of SFD operations. To do otherwise, only delays the inevitable financial problem.

3. The Finance Department report on the SFD compared Sheboygan to 18 other communities. What can be summarized from these comparisons?

- In terms of the ability to collect tax revenue, Sheboygan has the third lowest tax base, and the second lowest tax base/resident. This indicates a low level ability to property taxes. Never-the-less, Sheboygan property taxes + State shared revenues bring it close to the average for revenue available. However, this does indicate a high dependence on State funding which is unlikely to be available in the future.
- In terms of fire protection costs, SFD is near the average for the 19 communities. However, there are a number of areas which do not match the average:
 - The number of square miles covered by each Sheboygan fire station is approximately 50% of the area covered by stations in the other communities (i.e., SFD has approximately twice as many stations as other cities based on square miles covered per station).
 - SFD has approximately twice as many administrative support staff as the average of the communities.
 - Average population density for the 19 communities is 2,456 residents per square mile. Average population density for Sheboygan is 3,587 residents per miles.
 - The number of fire related calls in Sheboygan is 38% below the nineteen community average. This indicates that in spite of the higher population density, there are fewer fire related calls in Sheboygan. This is perhaps the result of better fire prevention and safety education. In any case the greater population density does not appear to be a highly critical factor.

4. The SFD often points to the Manitowoc Fire Department (MFD) as an example of good financial operations for a fire department run ambulance service, and uses Manitowoc’s numbers to support the SFD’s position. Is this appropriate?

- While it appears the Manitowoc FD may run an adequate ambulance service, it doesn't mean their performance translates to Sheboygan:
 - In 2007, the SFD projected ambulance account collections based on MFD's collection history. SFD failed to achieve similar collection results.
 - In 2007, the SFD projected ambulance revenue per call based on MFD's results. SFD then failed to code ambulance bills properly, resulting in foregoing significant revenue.
 - SFD again has used MFD as a comparative to base the SFD's desire to expand its medical transport business. This is being done in spite of the fact that MFD has no competing transport business in Manitowoc, while the SFD has a definitive competitor in the form of Orange Cross.
 - It appears that SFD desires to compare its operations to MFD because MFD's numbers look good. However, SFD has consistently failed to meet MFD's performance levels, or tries to make inappropriate comparisons to MFD.
 - If SFD is going to make comparisons to other fire departments, it should do so on a broad basis and not just on MFD.

5. It appears the ambulance service in many communities is part of the local fire department. Therefore, wouldn't that be the best place for it in Sheboygan?

- In many communities, there is simply not enough EMS activity for a private (even non profit) ambulance service to operate successfully on a financial basis. Since the local municipality has an obligation to provide ambulance service, it often winds up in the local fire department by default, often because that is the only option. However, in larger population areas (La Crosse and Appleton are examples); there is enough EMS activity for a private non profit ambulance service. If the EMS activity is high enough, having the ambulance service in a fire department becomes merely an option, not a necessity.

6. Isn't there a minimum number of fire fighters needed at all times? There appears to be no option in dealing with the staffing requirements.

There are fire departments in Wisconsin that cover larger areas with fewer fire stations. There are cities in the U.S. that are similar in size to Sheboygan, yet operate with fewer fire fighters. Following is a list of some of those cities:

- Wyoming MI, 25 square miles, 70,000 pop., 24 full time and 27 paid on call
- W. Des Moines, IA, 34 sq miles, 58,000 pop., 45 full time and 45 paid on call
- Maple Grove, MN, 36 sq miles, 64,000 pop., 90 paid on call
- Loveland, CO, 31 sq miles, 62,000 pop., 50 full time and 80 volunteer
- Eden Prairie, MN, 36 sq miles, 62,000 pop., 9 full time and 90 paid on call
- Bloomington, MN, 57 sq miles, 85,000 pop., 140 paid on call

Does that mean that all of those municipalities have taken on significantly higher levels of risk? Not necessarily.

- They are obviously following a different model than the one used by the SFD.
- It is not being suggested that these different models of organization are perfect alternatives, however they warrant consideration.

- Those that use a mix of full time firefighters and paid on call or volunteer fire fighters are called “combination fire departments”. Combination fire departments address the need of having on duty fire fighters available to immediately respond backed up by those who can be called in as needed. They are an alternative to the old concept of staffing 100% of the time for the large fires which happen infrequently. There are literally thousands of combination fire departments. Why not take the time and effort to find out how they work because they obviously do?
- The fire departments in Sheboygan County have recently entered into a County wide MABAS agreement which is an enhanced form of mutual assistance.
- What is disappointing in the current discussions is that these alternatives are simply not being addressed. They have not been brought forward by SFD management as possible solutions.
- This dismissal is based on the opinion that the alternatives compromise public safety. Unfortunately, this is an opinion and is not necessarily one based on fact and research. Public safety should not be compromised, but neither should discussion of alternative ways of doing things be ignored.
- All alternatives need to be included in the discussion. The current SFD organizational structure should not be perpetuated simply because it has “always been this way.” If there is an acceptable way to provide fire service response at a lower cost, should that not be considered?

7. What should be taken into consideration when discussing the SFD funding and organizational structure?

When some of these questions are raised, the immediate reaction is to talk about “response times”. For example, when the prospect of reducing the number of fire stations from five to three is mentioned, the criticism is that “response times” will increase. That’s part of the issue, but not all of it.

- What are the response times of the other fire departments that cover larger areas with fewer stations?
- While response times are very important, so are results.
 - What are the average annual fire property losses in the 19 cities included in the Finance Department study for the last five years?
 - What are the average annual fire caused fatalities in the 19 cities included in the Finance Department study for the last five years?
 - These are examples of additional data that would assist in making determinations of safety and cost.

Unfortunately, the comparison of response times is hindered by the failure of SFD to file response time data with the NFIRS since at least 2006, even though the failure is a violation of Federal and State regulation. Willful noncompliance is hard to justify when there has been more than adequate time to take corrective action.

Summary and Conclusions

As demonstrated by the Finance Department analysis:

- All five scenarios show large deficit operations in the future for the SFD.
- Having the ambulance service will not resolve the deficits.
- The smallest aggregate deficit will be without any ambulance service.
- The number of fire stations operated has a significant impact on SFD costs.
- There is no anticipated source of new revenue for the City that would permit the SFD to operate in its historical mode.

Other items of note:

- The discussion of SFD operations is often clouded with emotional responses.
- The current SFD senior management is unresponsive to change and does not embrace innovation.
- The Council has recently increased the educational requirements for SFD Chief which is a positive step. As an example, the North Shore FD (north of Milwaukee, 25 square miles, 68,000 people) recently appointed a new chief whose educational back ground is an undergraduate degree in fire service management and a master's degree in fire and emergency management administration. This is the level of management expertise that will be necessary in the future.
- All alternatives should be addressed when discussing SFD organization structure
- Future SFD wages and benefits need to be part of the solution.

Intermediate Steps:

- Assuming public safety is not compromised, the appropriate long run direction appears to be toward three fire stations.
- Unfortunately, the current locations of the five SFD fire stations are not well suited to a three station solution (choosing any combination of three of the existing five does not result in even coverage).
- The City needs a long term plan to deal with the issues. Operating all five stations may be necessary in the short run, but it should not be done without incorporating a more definitive solution that is structured today for implementation over the next five years.
- A long term plan may result in construction of new fire station facilities, however, that may still be more economical than continuing to operate five stations indefinitely.

Assuming the SFD continues to operate the ambulance service (which makes little long run financial sense) the financial reporting of the EMS/ambulance service needs to be addressed for once and for all. We would suggest the Council appoint a panel of qualified citizens with back grounds in finance and accounting to develop a financial reporting system for the ambulance service. To not do so will leave lingering doubts as to the financial performance that is not helpful to the Council, citizens and the SFD.

Finally, any determinations of the SFD future need to be made with caution. It is far too easy for the emotional issues to be drawn into the process. Any pronouncements or statements by any involved parties need to be viewed as opinions until supported by some amount of factual data.

