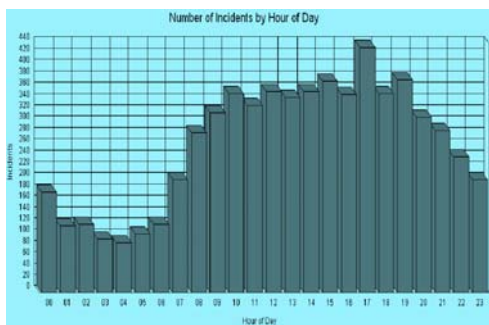
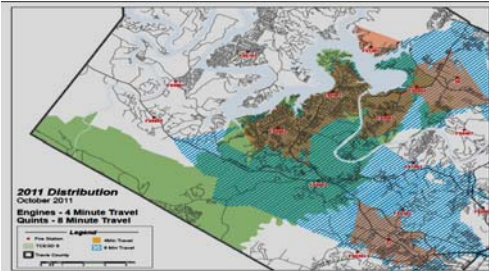




Texas Emergency Services Districts in High Growth Areas



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Executive Summary

Texas Emergency Service Districts (ESDs) are diverse in their funding, size, and service delivery models due to differences in population, geography and natural barriers, transportation networks, and prior legislative history. Many small ESDs have sufficient revenues and some large ESDs have millions in reserve and contingency funds, and both have lower tax rates than the maximum allowable caps. Based on that information, it would appear there are no major financial or operational problems statewide. However, the situation is different for medium and large ESDs in areas with relatively rapidly growing populations. High growth ESDs appear in many of the state's metropolitan areas, usually in suburban areas or what once were considered outlying areas. Because of new residents' service expectations and current limits for raising revenues, some high growth ESDs face significant financial and operational challenges.

This analysis examines financial and operational outlooks for high growth ESDs. Data were collected by: (1) reviewing ESDs in the State of Texas; (2) collecting quantitative and qualitative information on a small number of ESDs; (3) conducting interviews with individuals knowledgeable about Texas ESDs and municipal fire departments nationally; (4) identifying and analyzing relevant national studies on fire performance; and (5) compiling recommendations for possible administrative and legal alternatives to improve ESD performances.

Based on detailed review of three high growth districts, there are many indications that current finances have deteriorated: (1) districts have transferred funds from their reserves for the last two years because general fund expenditures cannot be met with incoming annual revenues; (2) districts have uniformly reduced maintenance expenditures and deferred or postponed entirely new equipment purchases and fire station construction; (3) districts have altered the type of purchases and method of financing from cash, pay-as-you-go to lease/purchase; (4) staffing levels are not being increased despite increased service demands; (5) response times generally are not improving and in some areas within districts, response times are substandard.

The current troubles of unmet needs and limited finances will NOT be fixed when economic growth begins again. These troubles will take longer to address and fix. The sales and use tax has helped to bridge the revenue/expenditure gaps in the past for some ESDs. Two of the three case study districts, however, and many other high growth districts statewide, have no opportunity to ask their residents to raise either their ad valorem or sales tax rates to improve performance. Not only will these districts be unable to fund their backlog of unmet needs from prior growth, these districts are likely to encounter equal or greater needs in the next several years, without the ability to finance as in the past. Further, new developments, now postponed, will be started, forcing ESDs to provide services before revenues from these developments are received. And ESDs in high-growth areas still will be faced with the prospect that some developments will be annexed, depriving them of current revenues.

As illustrated by their current and prior positions in the statewide ESD association, the three districts examined in detail, are among the statewide ESD leaders. Further, they are in the forefront among ESDs in fighter professionalism, performance evaluation, financial management, and management and governance. And in a comparison with municipal fire departments in high growth Texas cities, the three districts were very efficient. If these types of

“leadership districts” are facing major issues, then other ESDs will soon be facing similar dilemmas.

Possible solutions include both financial and non-financial alternatives. Most high growth ESDs do not have recourse for local option elections for additional property or sales taxes, because they are at their maximum limits on both. There are several apparent financial options: (1) raise additional revenues from fees, surplus asset sales, donations, or grants; and (2) receive authorization from the Texas Legislature to generate additional resources. The first option categorically will not resolve current financial and service issues as the potential revenues are insignificant. The second option was considered seriously in the 81st Legislature, particularly the alternative that would authorize an ESD, with local voter approval, to levy an additional 5 cents per \$100 valuation for infrastructure or capital acquisitions. However this option, while helpful, would have been limited to constructing fire stations and purchasing equipment and provided no funding for firefighters to staff the stations. A third option would be to allow a pilot test which would authorize, with voter approval, an increase in the property tax cap for non-duplicating emergency services in one or two metro areas with the most need.

If both the increase in ad valorem tax rates and a pilot test for one or two metro areas prove unacceptable, then the choices are either deteriorating services or a non-financial option. One of the best, if not the best option, is consolidating some ESDs. Consolidation would reduce the number of ESDs in some metro areas, permit economies of scale, enhance professionalism, and potentially lead to both more effective and more efficient services, but would not add any significant revenue to address fundamental problems.

Unfortunately there will not be a significant increase in the number of consolidations anytime soon—they are currently hampered by administrative barriers as well as a number of statutory challenges and governance obstacles. These range from an election quirk (avoiding service provision on election day), a requirement that multi-county consolidations be authorized by voters, and the necessity of maintaining two boards after consolidation. Perhaps the biggest obstacle, however, is the existing statutory provision which requires the tax rate after consolidation to be no higher than the lowest rate of the ESDs being consolidated. If this were a business merger, this would be termed a “poison pill” which is implemented explicitly to fend off possible suitors and prevent a merger, or in this instance, a consolidation. In sum, voluntary consolidations, which hold the potential for more efficient operations without altering tax rates, are precluded in practice by a number of existing statutory provisions.

Fire and EMS are essential public services—universally one of the most respected governmental services. Unlike some governmental outputs which are discretionary, or whose level can be increased or decreased as resources are available, fire and EMS services cannot be diminished or increased easily—the level and quality of these services must be provided in all economic conditions. Fire and EMS services must be scrutinized, held to strict standards, streamlined, and be made more productive. ESD board members are taxpayers and are quite aware of voters’ skepticism in general about government expenditures. Changing the current laws to provide ESDs with more flexibility to enter into operational consolidations with overlapping districts would provide an opportunity, and only an opportunity, to convince voters, the ultimate decision-makers, that their services and taxes are properly balanced.

I. INTRODUCTION

Purpose and Goals

This analysis assesses the current and projected financial and operational outlooks for an important category of Texas Emergency Service Districts (ESDs): medium and large ESDs in areas with relatively rapidly growing populations. Unlike the large majority of ESDs which are in rural and slow-growth areas, this category (high growth districts) of ESDs appears in many of the state's metropolitan areas, usually in suburban areas or those between the major city and what once were fringe, outlying areas. Because of new residents' expectations for services equivalent or superior to those received in the major city, and the current limits for raising revenues, some high growth ESDs appear to be facing significant current and projected service challenges.

The major tasks of this analysis were: (1) reviewing in general Emergency Service Districts in the State of Texas; (2) collecting quantitative and qualitative information on a small number of ESDs; (3) conducting interviews with individuals knowledgeable about Texas ESDs and municipal fire departments nationally; (4) identifying and analyzing relevant national studies on fire performance; and (5) compiling recommendations for possible administrative and legal alternatives to improve ESD performances.

To obtain a general overview of ESDs, we analyzed revenue information on all ESDs in the State of Texas to identify current patterns in property appraisals and tax rates. Also, we reviewed interim reports from the Senate Intergovernmental Relations Committee arising from the 80th and 81st legislative sessions.

To probe further and obtain additional insights, we interviewed multiple individuals at three large and medium-sized Emergency Service Districts. From those interviews and from information provided by those districts, case study profiles were prepared about each district's history, current and projected fiscal and operational trends, current and projected service challenges (including requirements to meet enhanced response time goals), and possible lessons for other Texas ESDs.

To acquire additional perspectives about ESDs and municipal fire trends nationally, we conducted other in-depth interviews with knowledgeable individuals that focused on current and projected financial constraints, revenue and staffing comparisons of municipal fire departments and ESDs, alternative strategies for raising revenues and possible innovative financial and operational approaches.

We also conducted a literature search to understand more fully the key performance outcomes in this specialized field. Specifically, we reviewed a series of major reports from the Fire Analysis and Research Division of the National Fire Protection Association, the preeminent non-partisan, industry organization in the United States.

Based upon our objective review of national fire data information, statewide information on ESDs, detailed reviews and case studies, and interviews conducted with individuals with extensive experience and knowledge of Texas ESDs, a number of potential alternatives for possible improvements were developed for high-growth, emergency service districts.

Data Limitations

This review is not an audit report. Namely, it was not prepared under generally accepted auditing principles and practices. Due to time and resource constraints as well as the goals of the study, the research team did not attempt to examine financial or administrative records on site. We relied primarily on self-reporting and verification of received data. A number of auditor reports were reviewed however.

Interviews with knowledgeable individuals were conducted with the pledge that their anonymity would be honored and their comments would be reported *en masse*. While some quotes have been extracted to illustrate specific points, the majority are unattributed to honor this promise of anonymity.

Report Organization

This report presents key findings and recommendations in the executive summary, detailed materials in individual chapters, and more specialized materials in the appendices. The report seeks to minimize technical language and present simplified graphics.

Chapter 2 describes ESDs statewide, their revenue sources, and the sub-category of ESDs which is the primary focus of this report, ESDs in high growth areas.

The next three chapters present case studies which portray major ESDs today and the challenges some ESDs face. Each illustrates the unique experiences of that ESD and describes their service and financial challenges. Chapter 3 focuses on Travis County Emergency Service District #2. Chapter 4 examines Comal County Emergency Service District #3. Chapter 5 describes Travis County Emergency Service District #6.

Chapter 6 examines and compares the three case study ESDs on two key metrics with Texas municipal fire departments in rapidly growing areas over the past decade.

Chapter 7 provides the summaries of interviews with individuals who have extensive knowledge of ESDs in Texas. This material covers current and near-term service and financial challenges as well as possible financial and non-financial alternatives to mitigate the challenges.

Chapter 8 summarizes the key findings and presents recommendations for possible consideration by policymakers.

A number of appendices and technical materials are provided subsequent to the main report.

II. BACKGROUND

Emergency Service Districts are political subdivisions which deliver fire and emergency medical services throughout the State of Texas. When the Texas Legislature authorized counties to create Emergency Services Districts with voter approval, these ESDs were created in the Texas Constitution, Sec. III, Article 48 –e. The constitutional amendment was approved by the voters in 1987. (The statutory authority for the enabling legislation and amendments are found in Chapter 775 of the Health and Safety Code. Chapter 776 is for counties with a population of 125,000 or less. ¹ Depending on the source and compliance with existing state regulations regarding filing of annual reports, there are approximately 280 ESDs in Texas as of 2010.

Revenue Sources and Revenues

Nearly all ESDs raise revenues from ad valorem levies, which current law authorizes at a maximum rate of 10 cents per \$100 of valuation. As of 2009, 42 ESDs received revenue from local sales taxes, with rates ranging from 2% to a low of 0.25%. ²

ESDs are extremely diverse in size, with budgets ranging from less than \$20,000 for some volunteer districts to more than \$1 million for at least 70 ESDs in 2009. ³ In the aggregate, as of 2007, ESDs raised approximately \$191 million from property taxes and approximately \$15 million in sales taxes, for a total of about \$206 million. For 2009, in the aggregate, ESDs raised slightly more than \$237 million from property taxes and between \$15 million and \$23 million in sales taxes, for a total of \$252 million to \$260 million statewide.

In terms of ad valorem tax rates:

- roughly one-quarter (65 of 280--23%) of the ESDs statewide are at the maximum rate of 10 cents;⁴
- roughly one-third (90 of 280--32%) of the ESDs have a rate of 9 cents or more;

¹ For more background, see the Interim Report to the 82nd Legislature from the Senate Committee on Intergovernmental Relations, page 100.

² Data provided by SAFE-D, the State Association of Fire and Emergency Districts.

³ SAFE-D classifies large districts as having more than \$500,000 annually in tax revenues, medium districts as having revenues between \$250,000 and \$500,000, and small districts as having revenues of less than \$250,000.

⁴ All percentages are approximate and rounded.

- nearly 40% (108 of 280--39%) have a rate of 8 cents or more; and
- nearly 60% (164 of 280--59%) have a rate of 5 cents or more.

Table 2-1 enumerates the ESDs with ad valorem tax rates above 8 cents. ESDs are shown in dozens of counties in nearly all regions of Texas.

TABLE 2-1. EMERGENCY SERVICE DISTRICTS WITH AD VALOREM RATES GREATER THAN 8 CENTS IN 2010 (SEQUENTIAL LISTING BY TAX RATE)

ESD	Ad Valorem Tax Rate	2009 Certified Taxable Value	Ad Valorem Tax Levy
Trophy Club ESD	.10914/100	\$ 47,615,023	\$ 51,967
Bexar County ESD #1	.10/100	580,154,013	580,154
Bexar County ESD #10	.10/100	72,142,667	72,143
Bexar County ESD #11	.10/100	690,219,232	690,219
Bexar County ESD #6	.10/100	458,282,764	458,283
Bexar County ESD #7	.10/100	1,357,921,135	1,357,921
Burnet ESD #2	.10/100	165,476,797	165,477
Burnet ESD #5	.10/100	191,409,435	191,411
Burnet ESD #7	.10/100	265,143,661	266,142
Cameron County ESD #1	.10/100	2,703,336,387	2,703,336
Duval County ESD #1	.10/100	480,951,814	480,950
El Paso ESD #1	.10/100	1,247,730,247	1,247,730
El Paso ESD #2	.10/100	2,601,609,290	2,601,609
Ellis County ESD #8	.10/100	36,737,626	36,737
Hardin County ESD #2	.10/100	941,227,130	941,227
Hardin County ESD #3	.10/100	58,664,370	58,664
Hardin County ESD #5	.10/100	429,138,900	429,139
Harris County ESD #1	.10/100	8,461,952,631	8,461,953
Harris County ESD #10	.10/100	2,075,177,695	2,075,178
Harris County ESD #17	.10/100	3,043,497,027	3,043,497
Harris County ESD #25	.10/100	1,298,654,141	1,298,654
Harris County ESD #28	.10/100	2,639,491,775	2,639,492
Harris County ESD #47	.10/100	1,972,363,577	1,972,364
Harrison County ESD #5	.10/100	1,064,144,992	1,064,145
Hays County ESD #8	.10/100	1,719,722,464	1,719,723
Hudspeth County ESD #1	.10/100	76,110,819	76,111
Medina County ESD #5	.10/100	234,338,598	234,264
Montgomery County ESD #11	.10/100	266,208,166	266,208
Montgomery County ESD #12	.10/100	270,423,576	270,424
Montgomery County ESD #14	.10/100	170,628,756	170,628
Montgomery County ESD #7	.10/100	679,990,661	679,991
Montgomery County ESD #9	.10/100	405,985,057	405,985
N.W. Leon County ESD #3	.10/100	1,082,794,780	1,082,795

Nueces County ESD #1	.10/100	1,759,065,325	1,759,065
Nueces County ESD #4	.10/100	270,862,262	270,862
Nueces County ESD #4	.10/100	474,568	475
Orange County ESD #2	.10/100	701,509,396	702,450
Parker County ESD #1	.10/100	914,355,219	914,097
Parker County ESD #3	.10/100	616,161,880	616,162
Pleasant Grove ESD #3	.10/100	164,753,414	164,768
Rains County ESD	.10/100	580,513,223	580,526
S.E. Leon County ESD #1	.10/100	337,308,840	337,308
S.W. Leon County ESD #2	.10/100	207,371,800	207,372
San Jacinto County ESD	.10/100	1,240,957,290	1,240,957
Travis County ESD #1	.10/100	2,203,226,870	2,203,227
Travis County ESD #10	.10/100	1,277,103,662	1,277,104
Travis County ESD #11	.10/100	748,234,428	748,234
Travis County ESD #12	.10/100	1,062,825,267	1,062,825
Travis County ESD #13	.10/100	49,056,770	49,057
Travis County ESD #14	.10/100	1,008,434,747	1,008,435
Travis County ESD #2	.10/100	6,119,073,290	6,100,716
Travis County ESD #3	.10/100	2,107,093,615	2,107,094
Travis County ESD #5	.10/100	882,167,808	882,168
Travis County ESD #6	.10/100	8,921,531,461	8,921,531
Travis County ESD #8	.10/100	1,453,266,075	1,453,266
Tyler County ESD #1	.10/100	67,896,646	67,897
Wharton County ESD #2	.10/100	245,769,230	245,769
Williamson County ESD #1	.10/100	1,401,502,172	1,396,640
Williamson County ESD #10	.10/100	76,294,713	76,295
Williamson County ESD #2	.10/100	1,852,596,116	1,849,288
Williamson County ESD #3	.10/100	1,320,904,215	1,312,003
Williamson County ESD #5	.10/100	297,171,764	297,172
Williamson County ESD #6	.10/100	204,297,973	202,298
Williamson County ESD #7	.10/100	251,496,753	251,498
Williamson County ESD #9	.10/100	1,288,672,101	1,280,345
Orange County ESD #1	.0999/100	938,541,461	937,603
Bastrop County ESD #2	.0997/100	832,943,161	830,444
Williamson County ESD #4	.0994/100	1,232,547,151	1,215,793
Harris County ESD #4	.099/100	682,726,111	675,899
Montgomery County ESD #6	.0988/100	1,495,308,896	1,477,365
Travis County ESD #4	.0986/100	1,641,601,913	1,505,164
Montgomery County ESD #4	.0984/100	1,086,056,545	1,086,056
Montgomery County ESD #5	.0982/100	444,663,721	436,659
Comal County ESD #7	.098/100	1,327,362,805	1,300,815
Montgomery County ESD #1	.0975/100	2,063,732,546	2,012,139
Medina County ESD #2	.0973/100	284,835,350	277,145
Montgomery County ESD #3	.0972/100	1,405,282,027	1,365,934
Fort Bend County ESD #2*	.096/100	238,267,782	228,737
Medina County ESD #1	.095/100	879,784,865	837,121
Montgomery County ESD #10	.095/100	4,595,421,307	4,365,650
Bexar County ESD #12	.094250/100	169,463,488	159,719
Montgomery County ESD #2	.094/100	2,735,673,149	2,571,533
Brazoria County ESD #3	.0937/100	3,302,868,455	3,094,788
Hays County ESD #5	.0925/100	1,850,818,152	1,712,007

Comal County ESD #5	.092/100	1,158,913,259	1,066,200
Harris County ESD #24	.0919/100	3,279,533,732	3,013,891
Denton County ESD #1	.091648/100	1,474,082,816	1,341,155
Williamson County ESD #8	.090798/100	1,611,242,522	1,456,194
North Blanco County ESD	.0905/100	532,086,326	481,538
Van Zandt County ESD #1	.09/100	254,654,465	228,985
Bexar County ESD #5	.088353/100	724,603,910	640,209
Hico ESD	.0883/100	125,397,962	110,726
South Hays County ESD #3	.0877/100	708,839,092	619,722
Harrison County ESD #1	.0876/100	1,211,240,941	1,061,031
Jim Wells County ESD #1	.087396/100	69,781,315	60,986
Galveston County ESD #1	.0863/100	917,503,329	791,805
Bastrop County ESD #1	.085/100	1,415,814,942	1,203,442
Smith County ESD #2	.085/100	5,186,355,777	4,408,402
Travis County ESD #9	.085/100	5,352,453,239	4,549,585
Wilson County ESD #1	.085/100	529,028,493	449,674
Ellis County ESD #2	.0845/100	1,046,487,567	884,281
Parker County ESD #6	.0845/100	589,243,670	497,906
Delta County ESD #1	.084481/100	197,886,086	167,108
Fort Bend County ESD #4	.08234/100	2,078,707,772	1,711,608
Harris County ESD #48	.08169/100	5,939,213,686	4,851,744
Burnet ESD #4	.081/100	25,578,655	20,718
Brazoria County ESD #1	.08/100	495,151,487	396,121
Comal County ESD #3	.08/100	2,670,203,326	2,136,161

Some ESDs have both sales taxes **AND** ad valorem rates:

- Sixteen of the 65 ESDs (25%) with ad valorem rates of 10 cents also have a sales tax;
- Twenty-four of the 90 ESDs (27%) with ad valorem rates of 9 cents or more also have a sales tax;
- Twenty-seven of 108 ESDs (25%) with ad valorem rates of 8 cents or higher also have a sales tax; and
- Thirty-two of 164 ESDs (20%) with ad valorem rates of 5 cents or higher also have a sales tax.⁵

Table 2-2 enumerates the ESDs which have a sales tax. The table shows both their sales and ad valorem rates.

⁵ These computations were performed by the authors based on SAFE-D data.

TABLE 2-2. EMERGENCY SERVICE DISTRICTS WITH SALES TAXES IN 2010

ESD	Sales Tax <u>Rate</u>	Ad Valorem <u>Tax Rate</u>
Hardin County ESD #2	0.02	.10/100
Montgomery County ESD #9	0.02	.10/100
Travis County ESD #3	0.02	.10/100
Harris County ESD #10	0.01	.10/100
Travis County ESD #11	0.01	.10/100
Travis County ESD #5	0.01	.10/100
Travis County ESD #6	0.01& 0.0175	.10/100
Travis County ESD #8	0.0075	.10/100
El Paso ESD #2	0.005	.10/100
Hays County ESD #8	0.005	.10/100
Montgomery County ESD #12	0.005	.10/100
Montgomery County ESD #7	0.005	.10/100
San Jacinto County ESD	0.005	.10/100
Travis County ESD #2	0.005	.10/100
Duval County ESD #1	0.0025	.10/100
Williamson County ESD #7	0.0025	.10/100
Harris County ESD #4	0.01	.099/100
Montgomery County ESD #6	0.005	.0988/100
Travis County ESD #4	0.01	.0986/100
Montgomery County ESD #4	0.015	.0984/100
Montgomery County ESD #5	0.02	.0982/100
Montgomery County ESD #1	0.02	.0975/100
Montgomery County ESD #3	0.02	.0972/100
Comal County ESD #5	0.00625	.092/100
South Hays County ESD #3	0.015	.0877/100
Delta County ESD #1	0.005	.084481/100
Comal County ESD #3	0.01	.08/100
Orange County ESD #3	0.015	.06002/100
Comal County ESD #4	0.00625	.06/100
Harris County ESD #14	0.02	.05/100
Harris County ESD #50	0.01	.05/100
Harris County ESD #60	0.01	.05/100
Harris County ESD #21	0.01	.049/100
Harris County ESD #80	0.01	.04354/100
Harris County ESD #2	0.01	.03/100
Comal County ESD #6	0.005	.03/100
Harris County ESD #5	0.01	.02926/100
Harris County ESD #12	0.005	.025/100
Harris County ESD #6	0.005	.020/100
Brewster County ESD #1	0.01	
Jeff Davis County ESD #1	0.01	
Kimble County ESD	0.005	

This report is primarily focused on ESDs which have **both** a sales tax and ad valorem rates above 7 cents per \$100 valuation. With some notable exceptions, these ESDs tend to be the larger ones within the state. Within this group of ESDs there is a further concentration on ESDs which are in faster-growing suburban areas, both in major and medium-sized metropolitan areas.

Diversity of ESDs

Just as ESDs are diverse in their funding, they are very diverse due to prior legislation, local service delivery models, and management choices. Harris County ESDs for many years were capped at 6 cents per \$100 valuation, for instance. San Antonio ESDs for the longest time could not incur debt, which resulted in many unique agreements with municipal fire departments. While not well known or common, municipal utility districts have authority to provide fire fighting activities.⁶ And one ESD in Harris County provides EMS only, with its citizens receiving fire protection from six other ESDs.

There are also major differences due to the size of the ESDs, density of population, geography and natural barriers, as well as transportation networks and road access. Population size also can vary for districts which contain tourist attractions, as will be seen in two of the cases presented later—for some ESDs, the number of permanent residents is less than half the number of temporary residents at different times of the year. Weather and drought conditions also are more important factors for some ESDs, depending on the proportion of open areas or affecting the number of temporary residents.⁷ And there can be significant differences in fire and EMS needs because of the age of the citizens and the housing stock. These differences appear not only across counties but also within counties.

For all of the reasons cited above, as well as variations in available resources, management and staff capabilities, and equipment and facilities, there are important differences in response times by ESDs. Response times can be relatively short or lengthy depending on which ESD a person

⁶ One is in Williamson County (Blockhouse MUD) which pays 3 cents to Leander and 3 cents to Cedar Park for fire coverage.

⁷ According to one individual very knowledgeable about ESDs statewide, the diversity of ESDs is particularly apparent in Central Texas due to major differences in population density within metro areas and to lower overall density than in Harris County and the Metroplex.

lives in, and just as importantly for some ESDs, where a person lives in an ESD—nearby or far away from fire and EMS responders.

This study is NOT about alleviating those disparities in response times across ESDs. This report is about response time trends within the same ESD, because if response times suffer, that is usually a strong indicator that services are deteriorating. The questions which can be asked of any ESD, no matter how unique they appear to be, are:

- Are response times staying the same, are they becoming shorter, or are the response times becoming longer?
- Will resources be available to improve current response times in the near future?
- Will resources be available to meet projected population growth and citizens' service expectations?
- And will resources be available to reach national fire and EMS standards?

These questions and issues guide the remainder of the report and are at the center of the three case profiles in the next chapter.

Case Study Profile:
TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #2

OVERVIEW

Travis County Emergency Service District #2 (TCESD#2) covers approximately 80 square miles in northeast Travis County roughly bound by Farm-to-Market Road 1325 in the West, the Travis-Williamson County line on the North, Farm-to-Market Road 973 and Cameron Road on the East, and Yager Lane, Dessau Road and Howard Lane on the South. The estimated population of 80,000 residents is essentially evenly divided on the east and west side of Interstate 35. Two tollways have been built and opened through the north and eastern part of the District; State Highway 45 and State Highway 130, respectively. TCESD#2 includes the City of Pflugerville and the large unincorporated subdivision of Wells Branch.⁸

TCESD#2 was formally created in early 1992 when a majority of voters within Travis County Rural Fire Prevention District No.3 voted to convert to TCESD#2. In 1994 the district subsumed the Pflugerville Volunteer Fire Department, and it now provides fire suppression, fire prevention, and first response emergency medical care with four fire stations and 82 employees. Currently, over seventy percent (70%) of the District's calls involve first responder activities.

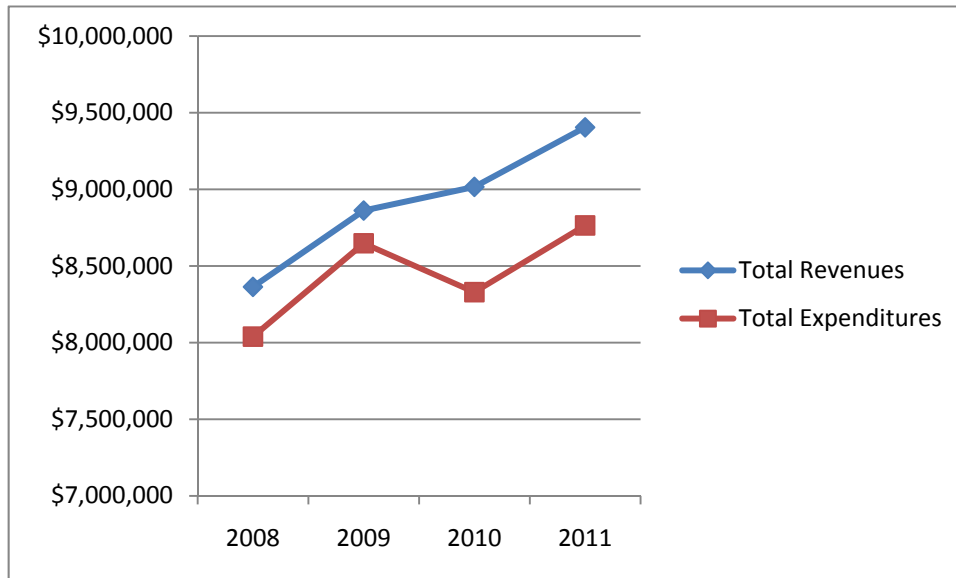
FISCAL TRENDS

The District is a taxing authority limited by statute to a maximum tax of ten (10) cents per hundred (\$100) of property valuation. Approximately 95% of the income comes from property tax and a half (0.5) cent of sales tax approved by the voters. The remainder is from facilities income, prevention, grants and donations, and fees.

⁸ This draws heavily from the background section of the Independent Auditors' Report (Padgett Stratemann & Co. LLP) dated March 11, 2010. Additional information is from the TCESD# website http://www.pflugervillefire.com/Our_Dept.htm.

In 2010-2011 total revenues are projected to be approximately \$9.4 million. That is an increase of about 4.3% over the \$9 million in 2009-2010. Graph 3-1 shows the trend of revenues and expenditures for the last four years.

GRAPH 3-1. REVENUES AND EXPENDITURES FOR TRAVIS COUNTY ESD#2, FY 2008-2011

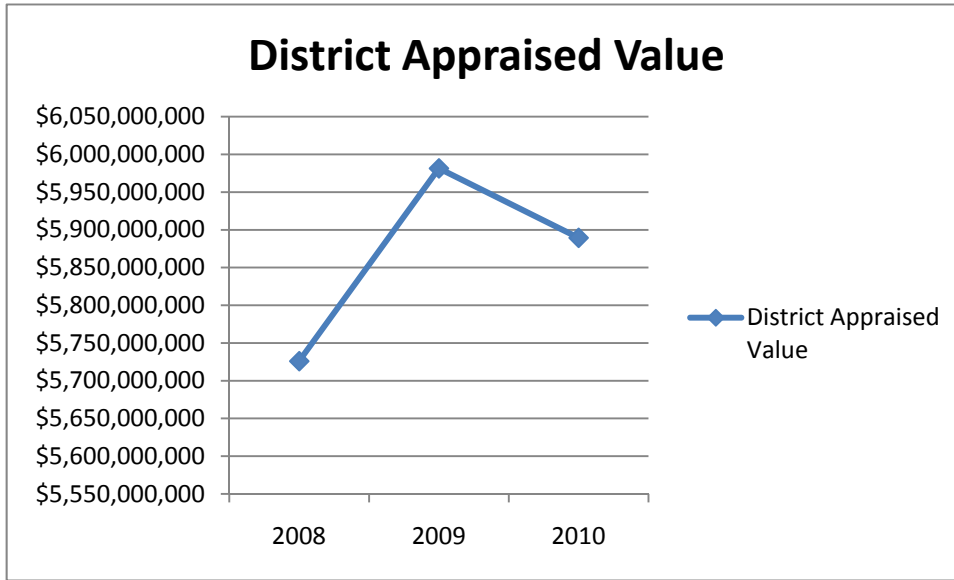


Sources: Please see footnote.⁹

Because the district still relies to a large extent on property taxes (more than 57% of total revenues in 2011, down from nearly 63% in 2008), revenue growth has been quite restrained. Graph 3-2 shows that the district’s appraised value declined in the most recent period.

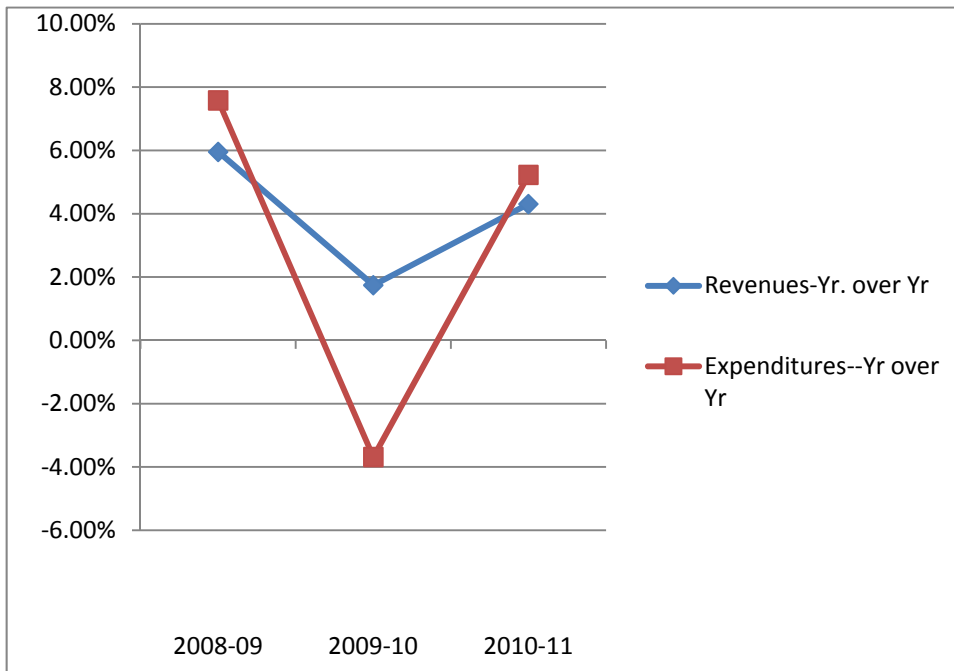
⁹ Sources of data for graphs 1 through 4: Travis County Emergency Services District No. 2, Budget Proposal – Fiscal Year ’10 (Ending September 30, 2010), no date. Travis County Emergency Services District No. 2, General Operating Budget, Fiscal Year ’11 (Ending 9/30/2011), no date. Padgett Stratemann & Co. LLP, Independent Auditors’ Report, dated March 11, 2010. Padgett Stratemann & Co. LLP, Independent Auditors’ Report, dated November 9, 2009.

GRAPH 3-2. TOTAL APPRAISED VALUE FOR TRAVIS COUNTY ESD#2, 2008-2010



The year-over-year changes in revenues and expenditures are shown in Graph 3-3.

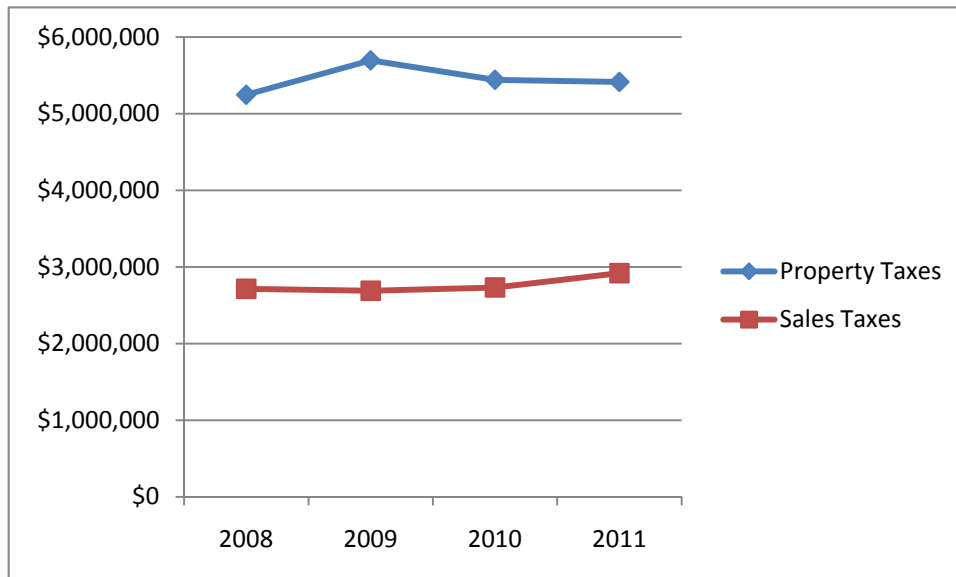
GRAPH 3-3. ANNUAL CHANGES IN REVENUES AND EXPENDITURES FOR TRAVIS COUNTY ESD#2, FY2008-2011



There is no direct correlation between the appraised values and year-over-year revenue/expenditure changes for a variety of reasons, including the fact that for both the 2009-2010 and the 2010-2011 budgets, the District prepared deficit budgets to prevent reductions in programs and personnel. Additionally, given notification of an overall 3% reduction in property tax collections released to the District in July 2010, the District postponed budgeted year end purchases and rolled those funds forward to balance the budget for fiscal year 2010-2011. As delayed purchases become an absolute, the District will be expected to use reserve funds; as other available funds are budgeted to cover operating expenses.

A fairly stable stream of revenues from the sales tax has allowed TCESD#2 to avoid larger transfers or personnel/program/service cuts. (Please see Graph 3-4.)

GRAPH 3-4. REVENUES FROM PROPERTY TAXES AND SALES TAXES FOR TRAVIS COUNTY ESD#2, FY2008-2011



The district’s total long-term debt was \$9.3 million as of September 30, 2009.¹⁰ The annual amount payable is about \$750,000, and its debt-to-equity ratio exceeds 50%.

¹⁰ This is comprised of \$4.5 million in notes, \$2.5 in bonds, and \$1.9 million in capital leases with the remainder for accrued leave.

CHALLENGES FACING THE DISTRICT

Interviews were conducted with Chief Ronald Moellenberg, Assistant Chief of Operations, Kevin Croegaert, Assistant Chief of Prevention, Thomas Crane, and Executive Director of Staff Services, Monica Reed. These interviews provided an opportunity to collect additional information about the challenges facing the district and what TCESD#2 has accomplished to date.

Revenue Issues

Prior to the economic contraction in 2008, TCESD#2 had seen revenue increases of 10% per year, despite a constant ad valorem rate since 1992. Growth in the district had fueled the increases. And until the FY 2010 budget, the district had always had balanced budgets. As noted previously in each of the last two years the district has prepared deficit budgets. To maintain services and staffing, the district has postponed some equipment and facility upgrades, reduced maintenance by freezing nearly \$100,000 in repairs, and has undertaken more lease-purchase deals for equipment than other districts. These lease-purchase arrangements are less costly in the short-term, although more costly over the life cycle of the equipment. The district has not experienced any major unexpected risk losses, although a mold infestations arose which cost the district about \$100,000.

Alternative revenues are very limited. They no longer have an option to raise their sale tax because the City of Pflugerville utilizes 0.005 for economic development.¹¹ Collections for fees-for-service have dwindled over the years. The district was collecting as much as \$100,000 at one time. Now they sometimes perform high cost low risk services such as handling hazardous material where they can collect as much as \$20,000. Fire prevention/code enforcement revenue of \$65,000 is relatively nominal and unlikely to grow appreciably.

The district has aggressively sought grants and other funding, and these funds have supplemented the core revenues from property and sales taxes. One grant for \$2.2 million over a

¹¹ They are aggressive in pursuing non-payments, using a consultant, who receives 20% of the total recovery, to oversee its sales tax collections.

five-year period pays for 9 firefighter positions, or more than 10% of all district personnel.¹² Another grant provided \$70,000 to buy an air and light trailer, which has a compressor that fills oxygen tanks for firefighters at the scene. (It also shines light on burning structures where sight is impaired.) A long-term strategy relying on grants has other costs—for example, funding a grants coordinator position.

Another possible source of revenue, at least for now, is not being pursued vigorously. The Board has taken the position of not pressing residents for payment of EMS if they dispute the charge or cannot afford it. And the district has not confronted insurance companies about full pay-for-services because of possible legal action on the part of the insurance companies.

And the District, like all ESDs, has suffered from the mismatch of when services must be provided to new residents, developments, and commercial entities, and when the District receives funds from these new clients. According to senior staff, they generally estimate they provide service for 18 months before any tax revenue is collected from on-going construction and development.

Expenditure Issues

Personnel

ESD#2 finalized their first collective bargaining agreement with firefighters to take effect October 1, 2010. District commissioners and firefighters were all aware of budget restrictions. However, the process itself adds expense to an employer, for example the district's legal costs for the agreement exceeded \$100,000. In general firefighters are paid well because of the emphasis on quality staff.¹³

¹² This SAFER (Staffing for Adequate Fire and Emergency Response) grant from FEMA, which has a progressive salary split offset, requires that TCESD#2 pay an increasing amount of the compensation over the five years.

¹³ Six volunteers currently contribute on prevention and education projects. Internships in prevention also are being examined.

Non-personnel

Operations and maintenance costs have not declined and in fact the cost of operating fire trucks has increased. (An oil change costs about \$500.) And maintenance costs on the facilities can only be deferred for so long because of their constant, around-the-clock use by firefighters.

Additional costs, albeit relatively minor, have occurred because of mandates and regulations. These include both state and federal mandates such as firefighter packets (\$2,000-\$3,000 to comply), higher certification fees, driver operator training, and other training. While Texas is not a NFPA state, the district has chosen to adhere to their guidelines.¹⁴

And the district believes some services should be provided even if their costs cannot be fully recovered. In years past, the district had the reputation of welcoming buildings which other localities refused. That encouraged growth but with increased risks and the potential for higher costs associated with mishaps due to the absence of a fire code. Today the district charges contractors for fire code inspections, although its costs are not fully recovered.

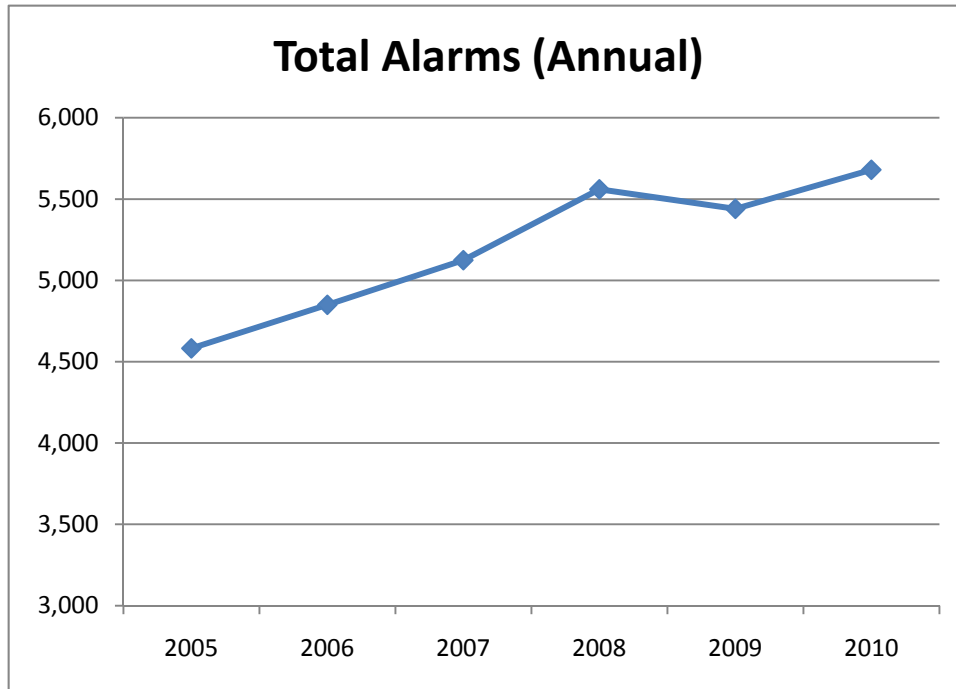
District officials indicated two other issues affect their service provision. The first is that they are providing new services. They are the EMS (first responder, not ambulance) and also responsible for HazMat. The district had a major chlorine accident in 2010. The second issue is much more difficult to quantify but a major factor nevertheless: the 80 square mile area of the district and its uneven population density. These are addressed in the next section.

Workload

Despite a significant slowdown in revenue growth and an actual drop in appraisal value, the TCESD#2 workload has continued to increase. Call volume has steadily risen for five of the past six years, declining only by 2% 2009. From 2005 through the end of 2010, total alarms have risen by about 19%, as shown in Graph 3-5.

¹⁴ Senior district personnel and the Board believe they are better off complying with certain laws or regulations although they have no legal requirement to do so. For instance, providing firefighters with the new bunker gear is preferable to having firefighters burned. And the district believes its firefighters should not breathe contaminated air. The district can also face some liability if firefighters do not have certification to operate some apparatus.

GRAPH 3-5. TOTAL ALARMS FOR TRAVIS COUNTY ESD#2, CALENDAR YEARS 2005-2010



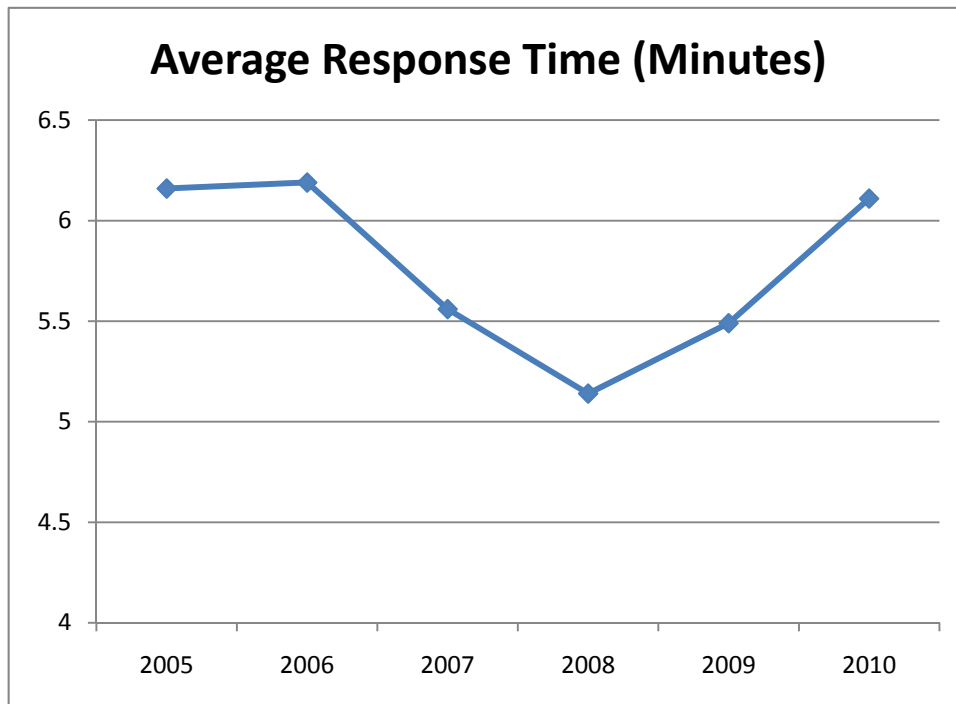
The proportion of EMS calls has fluctuated somewhat in the past six years, ranging from a high of 69.8% in 2005 to a low of 63.5% in 2007. Last year it was 68.1%.

There is an imbalance currently in the call volumes for the four stations. The central station has two crews and receives 2,400 calls annually while station 2 has one crew and receives more than 1,600 annually. The other two stations have fewer than 1,000 calls each. The District Commissioners believe there should be a “fill-in” to find relief for station 2 personnel, and preliminary planning has occurred.

For the key performance measure of response time, TCESD#2 uses a standard benchmark of 7 minutes. Graph 3-6 shows the average annual response time for all calls. The overall trend line is improving (that is the average annual response time is declining); however, in the past two years, the improving trend line has reversed itself and response times have worsened.

Although useful as a summary statistic, an overall response time goal and performance data hide important information about which areas have subpar services.¹⁵ This is an acute issue because the district is approximately 77 square miles and is densely settled in certain places and sparsely settled elsewhere. The district has concentrated its stations and personnel in the most densely populated areas. Whereas in the past the district could anticipate growth and place a new station in a less densely populated area, knowing that population and call volume would soon increase to an acceptable standard, that is no longer the case. Consequently some parts of the district, those which are less densely settled, have subpar response times. The District is examining a variety of options, besides the normal one of a new station, to meet these needs.¹⁶ Resources are unavailable at the present time to add new stations, and their 77 square mile area has become a major factor in their service delivery model.

GRAPH 3-6. AVERAGE RESPONSE TIMES FOR TRAVIS COUNTY ESD#2, CALENDAR YEARS 2005-2010



¹⁵ This summary statistic also does not permit separate analysis of response times when time is critically important--on structure fires and high priority medical calls.

¹⁶ They have considered among other alternatives, a small satellite office facility with reduced equipment and smaller staffs as well as some type of supplemental fee to finance the new service. It should be emphasized that planning is still in a very preliminary stage.

Response also has been affected by the two new tollways. These have reduced some of the traffic congestion, although they have also increased the number of high speed accidents which are very serious. During the planning of the toll ways the District requested adjustments for emergency operations; the final design did not include emergency crossroads, which limits access to accidents in some locations.

IMPLICATIONS FOR OTHER ESDs

Senior TCESD#2 staff do not view their challenges and problems as unique. They believe only that they are in the forefront of many other ESDs who will soon have similar challenges. The state continues urbanizing and suburbanizing. From San Antonio to Ft. Worth, along the IH-35 corridor, ESDs are confronting larger suburban populations nearly everywhere. This includes not only areas such as New Braunfels/Comal County and those in the counties south (Hayes, Bastrop) and north (Williamson) of Austin, but also areas which have traditionally not been growing as rapidly such as Waco. Fundamentally, TCESD#2 is no longer a rural area near a medium-sized city. It is an ESD which services a suburban community in an urban area. Unfortunately current statutes and financial limitations pertaining to all ESDs do not recognize the different needs of these types of ESDs.

Case Study Profile: COMAL COUNTY EMERGENCY SERVICES DISTRICT #3

OVERVIEW

The Comal County Emergency Services District #3 provides fire service to a 250 square mile area surrounding Canyon Lake, approximately 18 miles northwest of New Braunfels and 50 miles northeast of San Antonio. The full-time population is approximately 30,000, although it is highly variable, spiking to as many as 100,000 on holiday weekends during the summer season.¹⁷ Through a five-year interlocal agreement with Comal County Emergency Services District #2, it also provides EMS to the same area. Currently the district has four fire stations and 39 uniformed firefighters. The district has a tax rate of 8 cents per \$100 assessed valuation and levies a 1 percent sales and use tax.

The relatively unique fire and EMS arrangement between ESD #3 and ESD #2 reflects a historical division of fire and EMS services in the area. The Canyon Lake Area Volunteer Fire Department (VFD) was founded in 1964 to provide fire and emergency medical services. Revenue to operate the VFD came from donations and Comal County. A dispute within the VFD led to the separation of fire and EMS services. In the late 1980's the Comal County Emergency Services District No. 2 was established, with funding from a property tax rate of 2 cents per \$100 dollars valuation. ESD No. 2 contracted for service with Canyon Lake Volunteer EMS.

Then in the early 1990's, the Comal County Rural Fire Prevention District (RFPD) No. 4 was created, based on a property tax rate set at 3 cents per \$100 dollars valuation. RFPD #4 contracted for service with the VFD. In 1998 the split service delivery model was merged under the Canyon Lake Fire/EMS. The primary reason for the merger was the desire to bring the strong financial and management position of the volunteer EMS to the volunteer fire department.

¹⁷ The district has many second homes and therefore, part-time weekend residents. However, there are also large numbers of temporary Texans during the winter months. The current full-time population estimate is based on a past undercount in 2000, voter registration totals, electrical and water hook-ups, chamber of commerce estimates, and development permits filed with local government offices.

In 2003 the RFPD No. 4 was legislatively converted to the Comal County ESD No.3. And later in 2003, district voters approved sales and use tax levy of 1 percent and reduced the property tax levy from 3 to 2 cents per \$100 valuation for one year. The sales and use tax campaign emphasized the high call volume of tourists for emergency services.

In 2008, ESD No. 2 assumed ownership of all medic units and related medical equipment with ESD No. 3 simultaneously assuming ownership of fire stations and equipment, except for the central station in Sattler. After these changes, the Canyon Lake Fire/EMS had employees and EMS related income and expenses but no fixed assets. Then in December 2008, a decision was made to terminate the employees of the Canyon Lake Fire/EMS and have ESD No. 3 immediately hire them. This action allowed the employees to improve their retirement and health insurance benefits, gain recognition by the Texas Commission on Fire Protection, and clarify insurance coverage.

Although ESD No. 3 had an informal agreement with ESD No. 2 that the district would continue to provide fire and EMS service, in November 2009 the agreement became formalized as stipulated in a five-year interlocal agreement.

As a result of the various improvements and enhanced services being provided, the ISO ratings improved slightly in 2007 (7/9 to 7/8b), and significantly in 2008, going from 7/8b to 4. According to ESD#3, homeowners' insurance rates have been reduced by as much as 50%, or \$500 annually. For some residents, including the President of the Board, the reduction was greater than the additional cost of the fire and service improvements.

FISCAL TRENDS

Revenues

In 2009-10 the district had total income of about \$4.6 million. This income came from diversified revenue sources, although property taxes accounted for 44.5% or \$2.025 million of the total income. Other important revenue sources included funding from ESD#2, 19.6 %, \$900,000; sales and use tax, 16.3%, \$750,000; EMS billing, 9.8%, \$450,000; a SAFER (Staffing

for Adequate Fire and Emergency Response) Act grant, 7.4%, \$340,000; and 2.1% or \$95,000 in donations.

For 2010-11 the district approved a budget with total income of about \$4.84 million. Property taxes continue as the most important revenue source comprising 41.9%, \$2.025 million, of the total revenue. Funding from ESD#2 again follows as the second-leading revenue source making up 19.6%, \$950,000, of the budget revenue. Sales and use tax revenue accounts for 15.5%, \$750,000, a similar amount as in the previous year. The district anticipates 11.2%, \$540,000, from EMS billings and 6.2%, \$300,000, from the SAFER Act grant funding, albeit at a lower amount. Sale of surplus property, a 2000 Pierce Pumper, will provide the district with 3.6%, \$175,000, in 2010-11 revenue and lesser amounts from donations, 1.3%, \$65,000 and training fees, .03%, \$15,000.

Expenditures

In 2009-10 the district expended \$4.5 million, thus having what it termed “net income” of \$113,500. Of the \$4.5 million in expenditures, personnel comprised 68.6%, \$3,081,000. Other significant expenses included debt service, 8.1%, \$362,587; fire station expenses, 5.3%, \$237,000; fire apparatus, 3.1%, \$140,000; medical expenses, 2.9%, \$128,000; a station fund, 2.2%, \$100,000; and professional services, 2.0%, \$91,500. A variety of other expense items such as administrative expenses, capital fire equipment, communications, insurance fire training, and unplanned expenses, in the aggregate were roughly 10% or about \$350,000 of total expenses.

For 2010-11 the district is operating with a budget with projected expenditures of about \$4.7 million. Personnel cost are projected at 65.1%, \$3,081,000, this year. Other significant expenses include debt service, 14.0%, \$662,735; fire station expenses, 5.0%, \$234,500; medical expenses, 3.1%, \$145,700; fire apparatus, 3.1%, \$140,000; fire training, 2.3%, \$109,100; and professional services, 2.3%, \$109,000. Miscellaneous other expenses are projected to account for about 5%, \$250,000, of total expenses. The district is anticipating “net income” of about \$104,000 for 2010-11, slightly lower than in the previous year.

CHALLENGES FACING THE DISTRICT

Interviews were conducted with: Chief Shawn Wherry and Board President Keith Lewis. Mr. Lewis also serves as the President of the State Association of Fire and Emergency Districts (SAFE-D). These interviews provided an opportunity to collect additional information about the challenges facing the district and what CCESD#3 has accomplished to date.

Revenue

On the surface, Comal County ESD #3 appears to have adequate funding. Unlike Travis County ESD #2 and other ESDs throughout Texas, the district had a small operating surplus last year and is anticipating one this year. And the district is projecting that property tax revenues will be essentially flat this year, from last year, a situation most ESDs wish they had. Yet, the Board President, a retired banking executive, says that it is a false impression. Although they just opened a major new station in the fall of 2010, they need another new facility. They project the building costs to be approximately \$2 million, with another \$1 million required for equipment, and annual operating costs of about \$1 million. The district does not have these funds in hand and will not be able to generate them from their current financial structure.

Again, unlike many medium and larger ESDs in high growth districts, Comal County #3 is not at the statutory maximum ad valorem levy. Theoretically, it could increase the levy from the current 8 cents to 10 cents per \$100 valuation through local voter approval. That is one option. A second option is to obtain more revenue from ESD#2. As noted previously the two districts share co-terminus boundaries and are in the second year of a five-year interlocal agreement.

Expenditures

Personnel

The district has 39 authorized firefighter staff and five administrative staff. All but three of the firefighters have paramedic training. Thirteen staff are on duty around the clock, up from 8 in 2003. While the number of stations has increased this year, the number of firefighters has not. When the new station was added this year, funding was unavailable for new personnel;

consequently the district went from four staff per station to three staff per station. Funds were unavailable to provide any salary increases for 2010-11.¹⁸

Non-Personnel

ESD#3 has developed a long-range plan to replace the dilapidated facilities and equipment that the district inherited. The district also conducts periodic strategic planning sessions to address personnel and capital improvements issues. It has 20 vehicles at present. In December 2010 the district “broke ground” on another station at Island View. Because of the new station opened in 2010, debt service in 2010-2011 will increase by about 83%.

Other Issues

ESD#3 believes commissioners have to “stay out of the day-to-day” operations of a district. ESD# 3 assigns its commissioners distinct roles. The district has also developed core principles and defined key functions of an ESD governing board. A handout describing the principles and functions concludes that “the fundamental objective is to create a team of five commissioners who are willing to encourage teamwork to develop a strategy which results in a constant improvement for the good of the community they serve.”

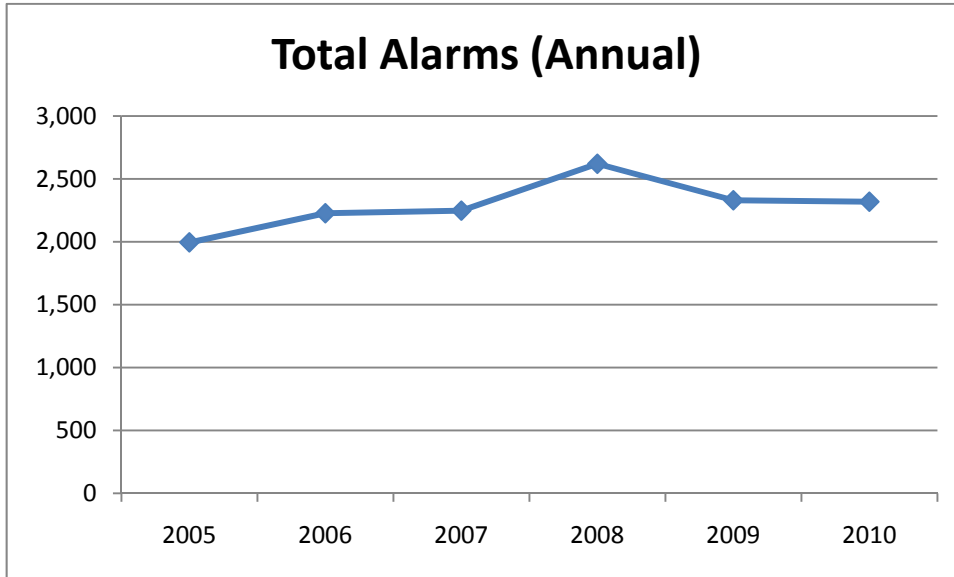
ESD#3 also has a policy of communicating with its constituency. The district sends an annual newsletter, at a cost of \$7,000 for 18,000 copies, to citizens. The main intent, according to the Chief, is to provide information about both achievements and needed improvements.

Workload

Total alarms in the last two years are both down from 2008 because of the economy and the drought conditions, which led to lower tourism figures. (Please see Graph 4-1.) Yet from 2005 to 2008 alarms increased more than 31% and although not shown in the graph, from 2004 to 2008, alarms increased over 40 percent.

¹⁸ The firefighters are unionized but there is no collective bargaining. Turnover is not a huge problem although they do lose individuals periodically to San Antonio, New Braunfels, and Austin because of pay discrepancies.

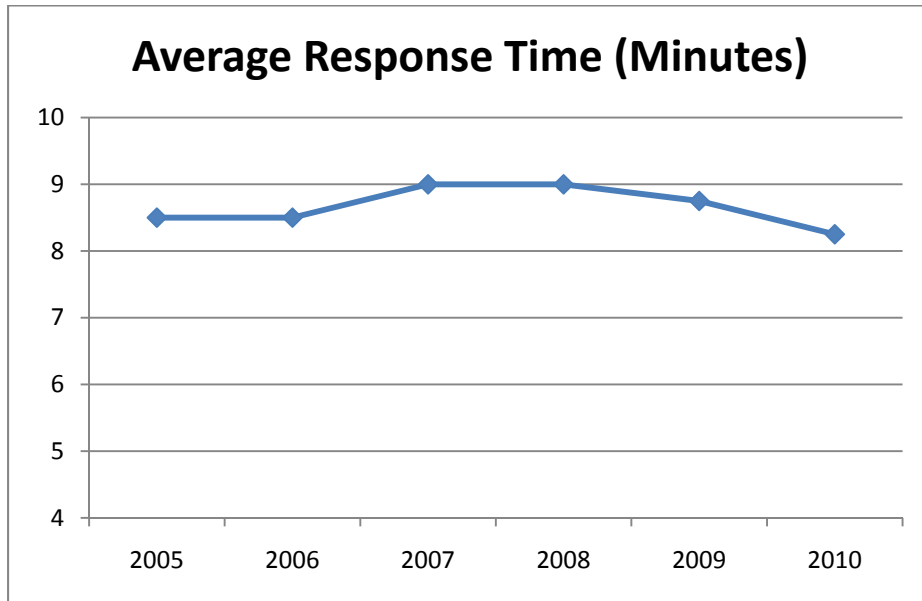
GRAPH 4-1. TOTAL ALARMS FOR COMAL COUNTY ESD#3, CALENDAR YEARS 2005-2010



Medical and rescue calls are relatively steady as a long term trend. In 2010 EMS and rescue calls comprised about 75% of total alarms, about the same proportion as in 2005.

Their response times have improved slightly since 2005, although they worsened to peaks of 9 minutes in 2007 and 2008. And the overall response time is not meeting national standards. In 2010, it was an average of 8 minutes and 15 seconds. Please see Graph 4-2 for the annual averages since 2005.

GRAPH 4-2. AVERAGE RESPONSE TIMES FOR COMAL COUNTY ESD#3, CALENDAR YEARS 2005-2010



IMPLICATIONS FOR OTHER ESDS

Certainly the two-district approach to delivering fire and emergency services has the potential for increased financial capabilities, economies of scale, and efficient delivery of fire and emergency services. Many ESDs would envy the combined 12.5 cents per \$100 valuation for fire and EMS. Yet this case would seem to indicate that additional funding AND current statutes are insufficient conditions for provision of high quality services. Clearly the 12.5 cents does not fund current service needs. Perhaps that level of resources would be adequate in a slower growing ESD or one whose population was much more stable. The major lesson for other ESDs, however, is probably that having two boards of directors may prove difficult and possibly unworkable. Maybe in some other places, the differences between two boards would be less, and maybe there are unique factors or individuals at play. But even when two boards in a coterminous area are financially codependent and are viewed by the citizenry as one organization, the Comal County case suggests operating an ESD with two boards may have inherent difficulties and challenges.

Case Study Profile:
TRAVIS COUNTY EMERGENCY SERVICES DISTRICT #6

OVERVIEW

The district was originally created in August 1985 as the Travis County Rural Fire Prevention District No. 5. A board of commissioners operated the Rural Fire Prevention District and provided emergency services through an interlocal agreement with the Hudson Bend Volunteer Fire Department.

In August 1995, the rural Fire Prevention District No. 5 was converted to an emergency service district; Travis County Emergency Services District No.6 governed by a board of five commissioners. Beginning in September of 1995, paid career firefighters were hired to begin working at two of the fire stations. Volunteers met the apparatus at the scene during the day and responded to the fire stations after the career staff finished their shifts during the week and entirely on weekends. By the end of December 1995, the number of paid career firefighters had grown enough to begin 24-hour shift rotations at two fire stations.

By February of 1996, the district had grown to 8 paid career firefighters and 35 volunteer personnel providing emergency services coverage for 135 square miles with an estimated population 19,000. In 1997, the district established staffing for four fire stations with two personnel per fire station. During this period, part-time personnel were utilized to work fire stations #3 and #4 with full-time staff operating fire stations #1 and #2. This allowed the district some flexibility to purchase new apparatus and maintain coverage. The District experienced rapid growth and development between 1997 and 2002, increasing the number of full-time staff to operate all four stations full time; purchased two new engines, a used ladder truck and additional administrative vehicles. In addition, during this time the district adopted a district fire code and established the office of district fire marshal.

In September 2002, the voters approved \$10 million of bond indebtedness, and the district sold its first \$3.5 bond package in May 2003, obtaining a Moody's Aaa rating. These bond funds provided the district the ability to construct fire station #5 to purchase a new Sutphen 110' Aerial/Platform ladder truck and two new Sutphen 1250 gpm engines. The district

commissioners approved funding to provide for the additional personnel needed to staff fire station#5 upon its completion in January 5, 2005. With annexation of approximately 65 square miles of land from Travis County ESD#8 on January 1, 2005, the district's coverage area increased to approximately 200 square miles.

In May 2006, the district voters approved collective bargaining rights for the firefighters employed by the district and the district commissioners accepted Professional Firefighters Local # 4117 as the firefighter's sole bargaining agent.

Also during 2006, the district commissioners employed an outside consultant, Management Advisory Group, Inc. to conduct a Management and Operational Evaluation of the entire district. The overall purpose of the evaluation was to evaluate the efficiency and effectiveness of the district's administrative and operational functions. As a result, a Financial and Administrative Manager was added to the staff in June 2006, functioning as the Chief Financial Officer, and a new Fire Chief Functioning as the Chief Executive Officer beginning October 1, 2006.

The district has had a long and proud history of providing emergency services to the community. The district has evolved from an all-volunteer organization, the Hudson Bend Volunteer Fire Department in the late 1960's, to the present-day ESD with five fire stations operating 24/7, 365 days a year. The district's current staffing level includes 73 career staff, 15 volunteers and support service personnel. The district's current vehicle fleet includes two ladder trucks, four first line engines, two reserve engines, two tankers, five brush trucks, one support services unit, one fire boat, three trailers (communications and fire safety house) and ten administrative vehicles. The district efficiently serves an estimated population of 73,000 people.

FISCAL TRENDS

Revenues

In 2007-08 the district was almost totally dependent on property taxes for revenue. At that time property taxes comprised 94.5 % of total revenue of about \$7.63 million. After a successful election in November 2008 the district began in 2009 to collect sales and use taxes. Collections

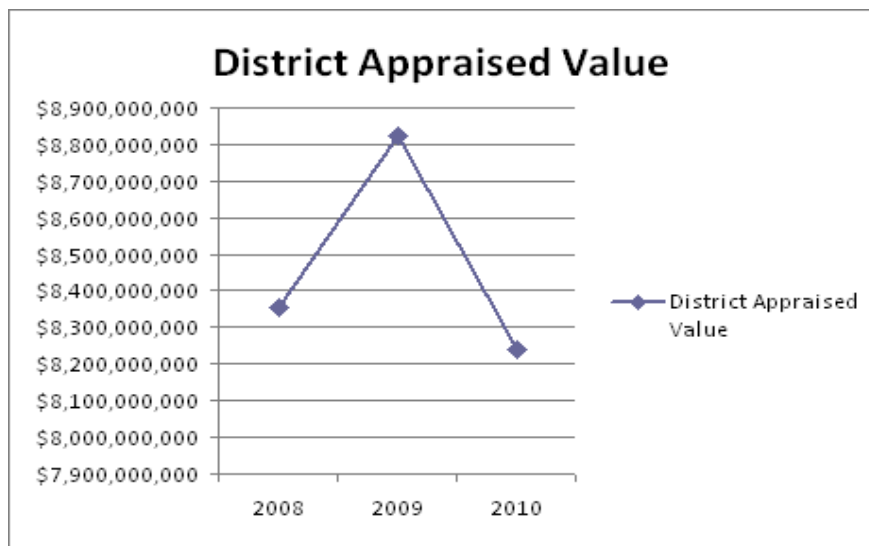
from this latter tax amounted to \$427,633 and property taxes accounted for 92.6% of the total revenue. Sales and use tax revenue more than doubled the next budget year, 2009-10, to about \$914,000 or 9.2% of the total revenues.

The district is projecting that for 2010-11 property taxes will yield about \$8.33 million, \$86.5%, and sales and use taxes, \$1,050,000, about 11%, of its \$9.63 million total income. The sales and use tax revenue reflects the results of yet another successful election in 2010. Inspections and principal and interest income makeup the largest portion of the remaining revenue amounts. From 1996 to 2010 the district received only about \$50,000 in grant revenue and nominal revenue amounts from contributions, rental income and occasional sale of assets.

The district has a property tax rate of .10 per \$100 assessed valuation, the legal limit that also includes debt service. It also levies a .01 cent sales and use tax to an area that includes the Hills and all property east of the Colorado River and .0175 cent sales and use tax to all the remaining area west of the Colorado River excluding the Hills. The Cities of Lakeway and Bee Cave are not assessed either of the sales and use tax rates. In September 2002, the voters approved \$10 million of bond indebtedness, and the district sold its first \$3.5 bond package in May 2003, obtaining a Moody's Aaa rating. In 2008, the district sold a bond package of \$3.74 million.

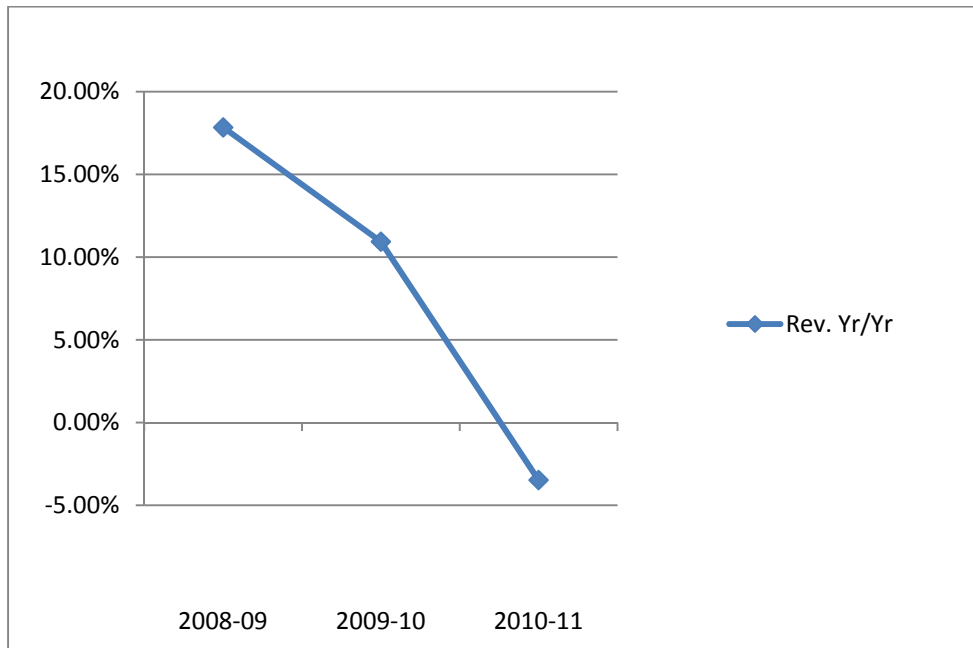
The pro-growth residential and development policies of the localities within the district allowed yearly assessed valuation growth. As Graph 5-1 shows these appraisal values peaked in 2009 at slightly over \$8.8 billion and then dropped, by almost 8%, to below 2008 levels in 2010.

GRAPH 5-1. TOTAL APPRAISED VALUE FOR TRAVIS COUNTY ESD#6, 2008-2010



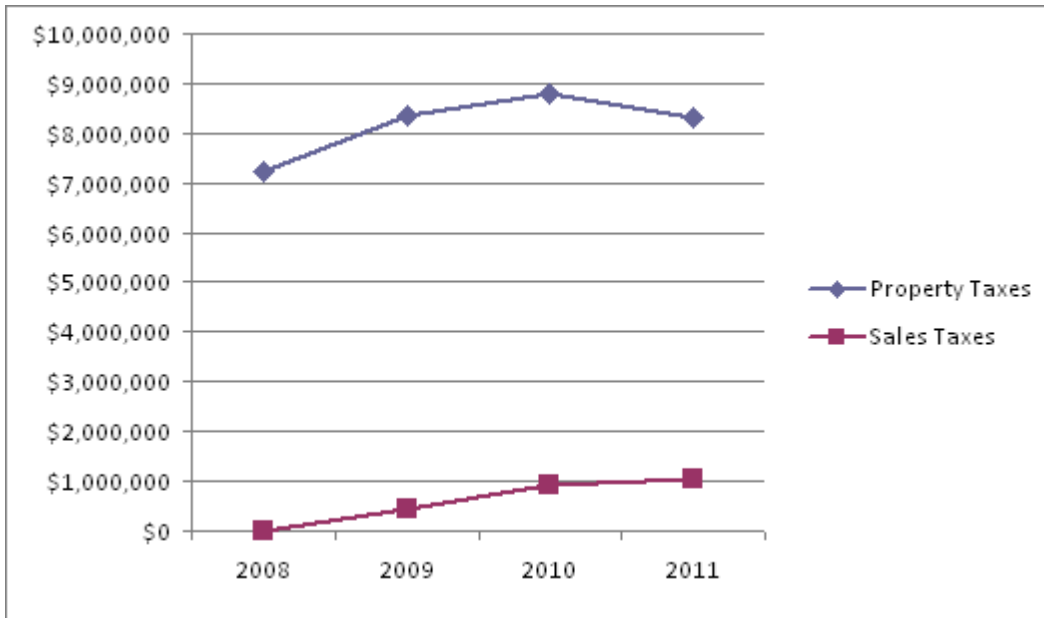
Increased appraisal values generated significant revenues for the district as shown in Graph 5-2. In 2008-09 and 2009-10 total revenues grew by about 17.80% and 11.0%, respectively. In 2010-11 the district is anticipating an almost 3.5% drop in total revenue.

GRAPH 5-2. ANNUAL CHANGES IN REVENUES FOR TRAVIS COUNTY ESD#6, FY2008-2011



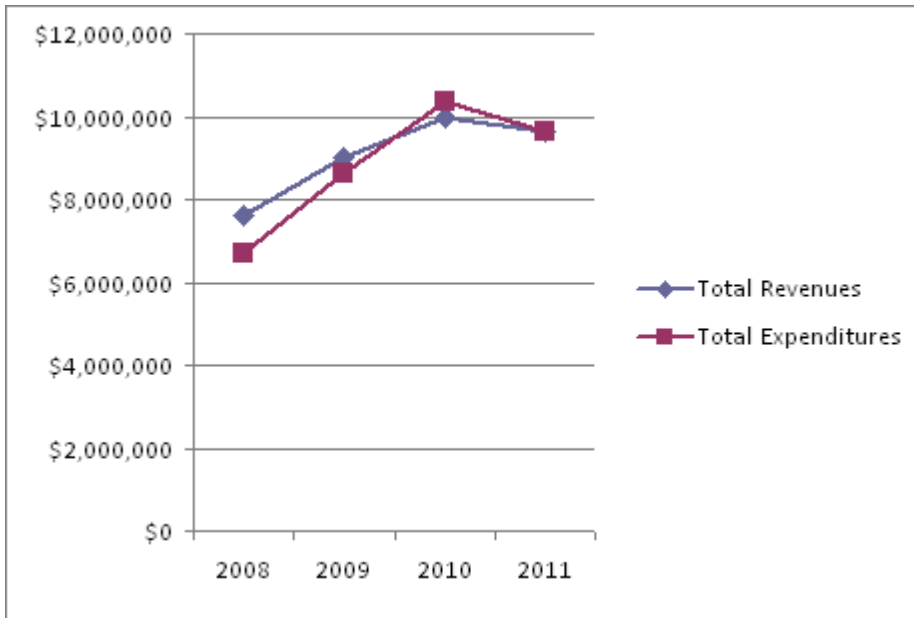
As Graph 5-3 shows, property tax revenue reached its highest level in 2009-10. The district, however, is anticipating declines in property tax revenue for 2010-11 and 2011-12. Graph 5-3 also shows that the district experienced growth in the sales tax revenue from 2009 through 2011. The 2011-12 sales tax revenue projection is about the same as the prior year.

GRAPH 5-3. PROPERTY AND SALES TAXES FOR TRAVIS COUNTY ESD#6, FY2008-2011



Graph 5-4 shows that in 2009-10, for the first time in its recent history, the district's revenues did not exceed expenditures. As a result, the district, also for the time, did not set-aside revenue for its fund balance account.

GRAPH 5-4. TOTAL REVENUES AND TOTAL EXPENDITURES FOR TRAVIS COUNTY ESD#6, FY2008-2011

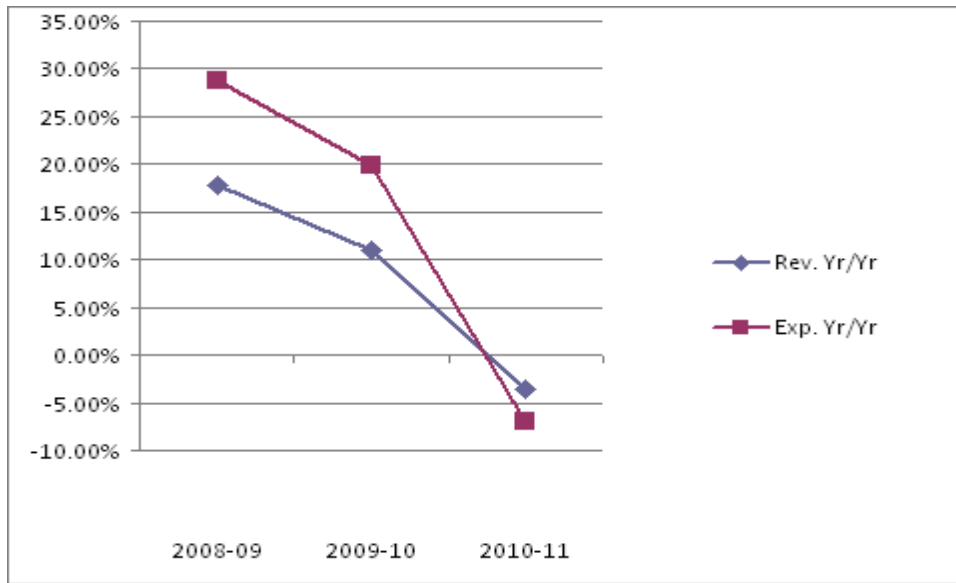


Expenditures

Salaries and benefits comprise the largest district expenditure. This latter cost item has ranged from a high of 75.2% or about \$5.3 million of \$6.7 million in total expenditures in 2007-08 to a low of 59.4%, \$6.15 million, in 2009-10. During this four-year period salaries and benefits averaged about 68.2% of the total budget. The district is estimating salaries and benefits will account for 72.2%, about \$6.95 million out of \$9.63 million, total expenditures in 2010-11. This expenditure category is also projected to grow from 2007-08 to 2010-11 by 31.1%. District officials attribute this increase to the collective bargaining agreement with the firefighters union.

Graph 5-5 shows that expenditure outpaced revenue growth in 2008-09 and 2009-10. This trend is reversed in 2010-11 with expenditures declining at a faster rate than revenues.

GRAPH 5-5. ANNUAL CHANGES IN REVENUES AND EXPENDITURES FOR TRAVIS COUNTY ESD#6, FY2008-2011



ESD management, a category which includes a variety of consultant expenses, fleet, operations, communications, technology, administration, and prevention and education, are the other recurring district expenses. ESD management costs average about 5-7% of total budget expenditures. The other expense categories account for even smaller percentages of the total costs.

The district incurred about \$1.22 million in capital outlay expenditures (two fire trucks) in 2008-09. It is also obligated to make debt service payments that amounted to \$529,738, in 2008-09, \$531,538 in 2009-10 and \$535,876 in 2010-11.

CHALLENGES FACING THE DISTRICT

Interviews were conducted with: Chief Jim Linardos, Assistant Chief, Operations, Robert Abbott, Assistant Chief, Prevention, John Durham, Chief Financial Officer, Jim DeWitt, and Accounting Supervisor & Administrative Manager Jessica Marczynski. These interviews provided an opportunity to collect additional information about the challenges facing the district and what TCESD#6 has accomplished to date.

Revenue Issues

In 2007 the district commissioned Citygate Associates, LLC, a California-based management consultant firm, to develop what the firm described as a “Master Operations and Standards of Response Plan” (fire station and company deployment). The study also included a review of some of the districts’ administrative services.

The study’s overall opinion was that ESD#6 faced the same challenges as those of many other Texas communities. In general the study highlighted that ESD#6 and other Texas communities are responsible for “providing an adequate level of fire services within the context of limited fiscal resources, competing needs, growing populations and uncertainty surrounding the exact timing of future development.”

In particular the study cast ESD#6’s main challenge by stating that “One can summarize the fire service challenges that face ESD#6 in two words, **insufficient revenue.**” Citygate also identified “the slow pace of development until more recently and a low tax rate at ten cents” (per \$100 assessed valuation) as the two principal sources that hindered ESD#6’s service capability.

The district is overwhelmingly dependent on property taxes to maintain and operate its fire and emergency medical services and make debt payments. In fact, prior to 2009 the district almost solely relied on ad valorem taxation. Inspection and permit fees were the other major source of revenue prior to 2009 when the district started collecting sales and use tax revenue. Total revenue from inspection/permit fees peaked in 2008 when they accounted for less than 3% of total revenues.

The district’s 2009-10 appraised property values (2009 net taxable values) amounted to about \$8.82 billion. The district’s Chief financial officer (CFO) also requested that Travis County Chief Appraiser provide the district with estimates on the rate of change of appraised values for the fiscal 2012-2016 time period. The Chief appraiser estimated that for this latter period the district would see a prior year decline in values of 2.75% in 2011-12, increasing by .05% in 2012-13 and then by 5.0 to 6.0% increases for the following three years.

Based on these latter figures, the district's CFO made property tax revenue projections in a 5 Year Financial and Capital Improvement (CIP) Plan presented to the district board that showed a decline of 5.2% in 2010-11 and 2.7% in 2011-12. Property tax revenues will then grow by 5 to 6% for the next three years.

The plan also contained sales and use tax revenue projections for the same period. Sales and use tax revenue will increase by 40 % in 2010-11 yielding about \$1.05 million. The CFO estimates that rates will then stabilize at 5 to 6% increases for the following years.

According to the Chief, an 8-to10 per cent increase in property assessed valuations is needed to keep up with costs annually. The Chief also said that sales tax revenues helped to keep the district flat-- no drastic cuts in operations or personnel. He said that without the sales tax revenue the district may have had to close a station. They also may have had to lay-off 6-9 firefighters as well.

The Chief also stated that the district has had three successful elections. In 2007, earlier leadership of the City of Lakeway placed a competing proposal on the ballot which effectively blocked the district's ability to collect revenue for one of the sales tax elections. Another community's action to avail itself of sales tax also had the unintended consequence of preventing ESD #6 from asking voters within the district for more revenue from this latter source. Had these two actions not occurred, the district's revenues would be significantly enhanced. State legislation did allow all ESDs to hold elections in areas not at the two cent sales tax limit. He said that instead of adding a half cent sales tax on a district-wide basis they now just collect a one cent sales tax in unincorporated areas. In May 2010 voters also approved an additional three-quarter cent sales and use tax for unincorporated areas south of Mansfield Dam.

Like ESD#2 the district also has limited alternative revenues. The CFO in his 5 Year Financial/CIP Plan provided some remarks for present and near short-term potential opportunities to increase revenues. Besides working with the Texas Legislature to increase funding, primarily involving the property tax, the plan listed revenue opportunities and remarks: inter-local agreement, explore inter-local agreements with all municipalities;

inspection/permits/fines, ensure the district is using appropriate billing structure; insurance processing, computerize and ensure all calls are processed on a timely basis; grants, determine opportunities annually and enlist professional assistance; donations, actively distribute and discuss district “wish list”, surplus asset sales, aggressively dispose of surplus assets, once status is determined and enhanced interest, analyze additional safe and liquid interest bearing opportunities. (Taken from 5 Year Financial and Capital Improvement Plan, pg.21)

Expenditures

The Citygate Study recommended that the district (1) add a fourth firefighter full-time to three of the existing units, (2) add a second staffed quint/ladder truck, (3) relocate station 603, (4) consider a joint fire station at the southern end of Hamilton Pool Road, (5) add a sixth fire station southwest of Lakeway and Village of the Hills as the development occurs and revenues allow and (6) increase necessary headquarters support positions.

Four years after the study, the district has not had the money to fully implement any of the six recommendations listed above. The district’s number one issue is still an inability to keep up with the growth of the community. The operational areas most affected by the revenue shortfall are in priority: staffing, vehicles and facilities. The revenue condition has placed the district in a reactive rather than planning mode.

To compound the problem, district officials all say that residents expect city-like services that they had when they lived in other metro-urban areas. These officials also noted that residents only realize the deficiencies when they have to make a call to receive services. Stations are not properly staffed. There are three-person crews. The district is unable to add a fourth person. As a result the district has had to provide extra training to line personnel.

The district has had to address significant fire station and equipment issues. For example, station #601, the previous district headquarters, caught fire in 2009. The chief said the original station was built by volunteers. This station once served as a dance hall that was not up to code and had many electrical problems. The district is rebuilding the station for \$1.6 million and equipping it

with an engine at a cost of \$600,000. Also, the district has acquired property in Serene Hills and will acquire property around the Hamilton Pool area. The nearest station now is about 7-8 miles. The estimated cost for the new station is about \$1.5 million. The average age of district vehicles is about four years. While the district used to have a policy that required cash purchases of vehicles, it now has a vehicle purchase/replacement schedule. He estimated that about half the fleet is less than 10 years old.

District officials are worried about response times for several reasons. The district cannot handle simultaneous calls since it is two engines short. More businesses are at risk when the Lake Travis water level declines as it has with multi-year droughts. When that occurs, call volumes increase by up to five percent due to camp fire activity, heat-related incidents, and more boating and still-water rescues. And one of the larger population areas within the district, the City of Lakeway, has had a 10 percent increase in call volume. For all of these reasons and the financial constraints, District officials have stressed to surrounding government officials about the stagnant state of the district's response times.

Another leading concern is that the district can only handle one large structural fire. If they have to deal with more than one large fire the district will have to rely on its reciprocal arrangements with other surrounding ESDs and the City of Austin (COA). The depth of coverage will also depend on the fire's location. Both topography and road access affect response time especially if highways 620 and 71 have heavy traffic or are under repair. In the past few years the district's largest fires have occurred at the Oasis Restaurant and the University of Texas Golf Club.

The district also faces other issues such as residential areas of the district increasingly interfacing with the wildlife and natural terrain. The City of Austin also has some planning and regulatory enforcement rights in its ETJ that is within the district's boundaries.

ESD#6, currently staffed by 63 firefighters with approval for 65 positions, has a number of personnel issues. First, the district, as well as ESDs 10, 9, 8, and 2, are confronted with their

firefighters leaving for better positions with the Austin Fire Department.¹⁹ Second, there is a need to expand the one-person Human Resources Department. Due to the Assistant Chief's personnel responsibilities, he has been forced to devote less time to field operations and training logistics.

The district also does not have its own training facilities—it uses a school parking lot. That arrangement is fairly unsatisfactory as it keeps training quite visible to the public, the lot has outside traffic, and it lacks vertical facilities. Selectively the district uses facilities owned by Oak Hill, Cedar Park and the Austin Fire Department that limits the training schedule. In addition, costs are about \$1,000 per day in overtime pay plus the time and expense of moving vehicles to the site.

Other important district activities that have been affected by the revenue shortfall include (1) public education/awareness campaigns in the public schools, (2) annual and routine-type inspections of commercial and residential property, (3) the next ISO evaluation, (4) plan reviews and (5) wildlife land mitigation and protection. For instance annual and routine-type inspections of commercial and residential buildings are being delayed due to the number of new plans' reviews and insufficient revenues.²⁰ And to meet the demands for wildlife mitigation and protection, a part-time volunteer position is being developed, along with a fire corps program that will consist of 14 to 15 volunteers.

Since its creation, ESD#6 annual expenditures have never exceeded annual revenues. 2010 was the first time the district did not transfer revenue from its general fund to its operations and capital acquisition reserve funds. In fact the district is projecting that it will not have the financial capacity to transfer funds to the operations reserve fund until 2014. The district is not projecting any fund transfers to its capital acquisition reserve fund.

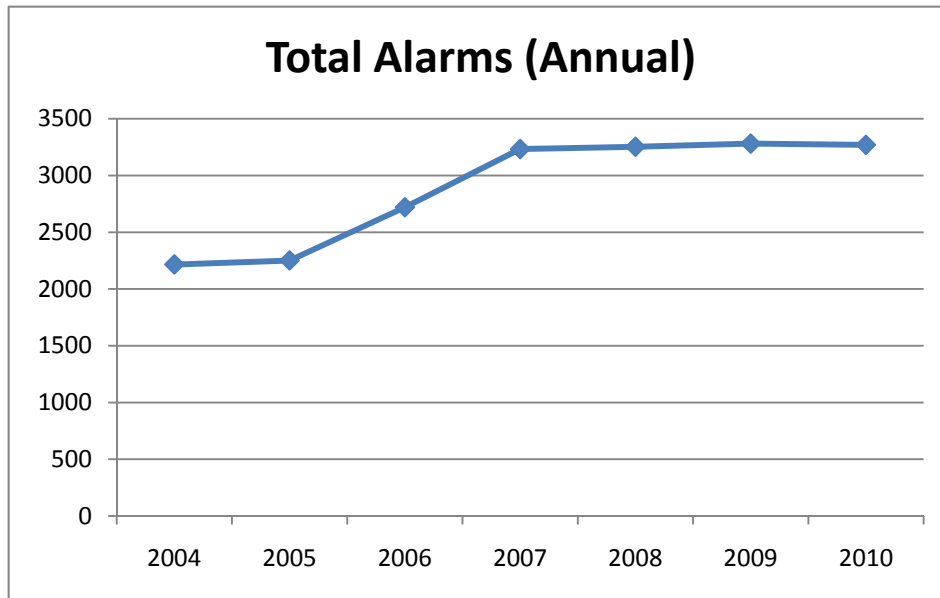
¹⁹ The Assistant Chief for Operations, who currently has responsibility and oversight for many personnel matters, believes the district can never effectively compete with Austin for line personnel as long as the tax rate remains at .10/\$100 valuation.

²⁰ The district has hired a third party plan reviewer for the larger and more technical plans. Help is needed to conduct routine maintenance inspections.

Workload

The TCESD#6 workload, as expressed by total alarms, has been relatively constant since 2007, after a 44% increase from 2005 to 2007. The overall pattern is shown in Graph 5-6.

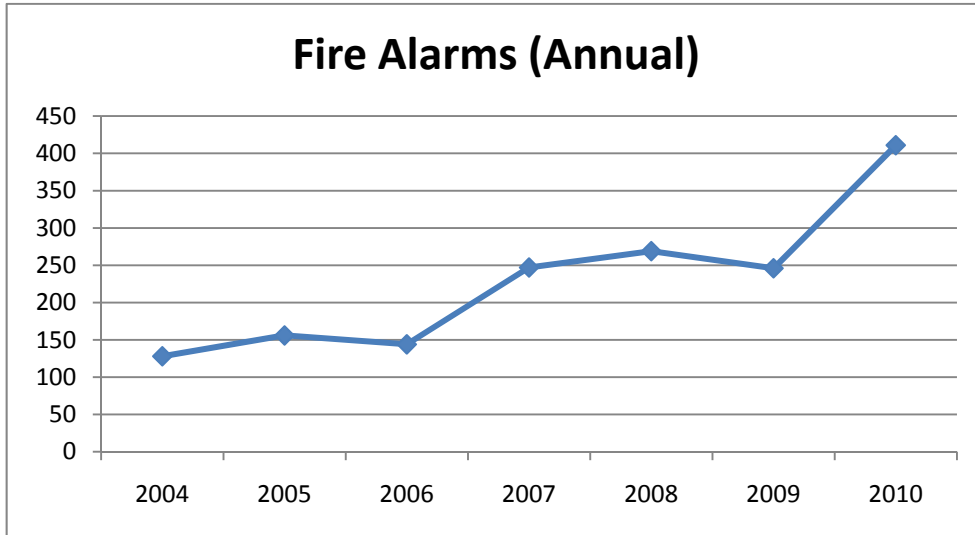
GRAPH 5-6. TOTAL ALARMS FOR TRAVIS COUNTY ESD#6, CALENDAR YEARS 2004-2010



The number of medical and rescue calls is increasing as a long term trend, although there was a sharp drop of nearly 13% in 2010 from 2009. Medical/rescue calls generally have comprised approximately 65% of all alarms. In 2010, that proportion dropped to 60%.

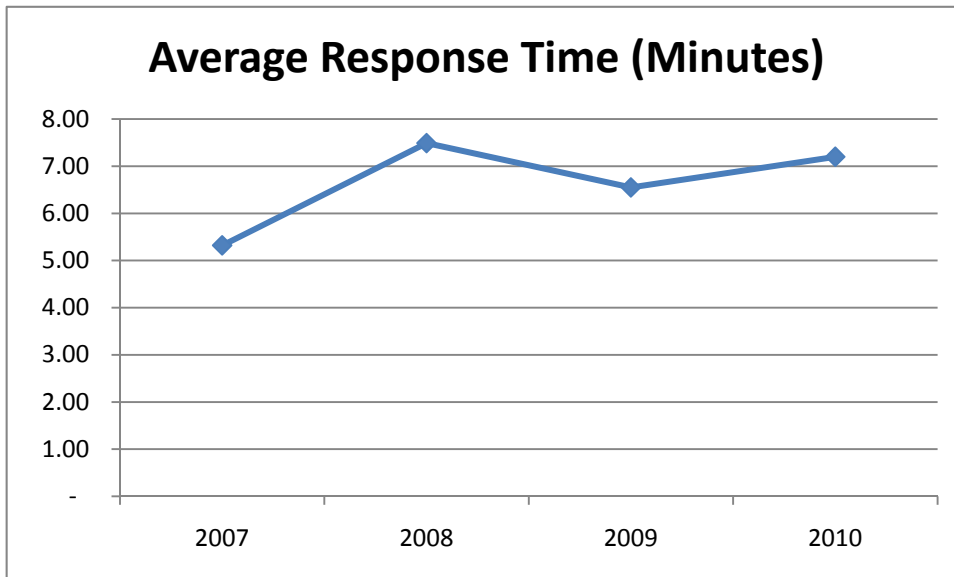
Fire alarms have increased and there was a jump in 2010 as shown in Graph 5-7.

GRAPH 5-7. FIRE ALARMS FOR TRAVIS COUNTY ESD#6, CALENDAR YEARS 2004-2010



On the key performance measure of response time, TCESD#6 has a mixed picture, without an overall clear pattern. (Please see Graph 5-8.) The good response time achieved in 2007 worsened in 2008 and has been approximately constant for the past two years. Just as with TCESD #2, an average response time masks important information within an ESD. Because

GRAPH 5-8. AVERAGE RESPONSE TIMES FOR TRAVIS COUNTY ESD#6, CALENDAR YEARS 2007-2010



ESD#6 has an area of approximately 200 square miles and one portion of the district has an ISO rating of 8B, the average time only provides a general indication of service timeliness.

IMPLICATIONS FOR OTHER ESDs

District officials stated that TCESD#6 has not kept pace with the growth and development that has occurred. (As cited above a 2007 study first documented the district's needs and highlighted its revenue gap.) They hold this perspective even though the district experienced property appraisal increases almost since its creation and is one of most property-rich districts in the state.

Management notes that a district like theirs is fiscally-strained from the on-set because it is required to provide services from "blue print to blue ribbon" in the building/development of residential/commercial property. There is, in their words, a substantial lag between service initiation and revenue collection. The district's problems are further compounded because of its large and diverse geographic service area. The district also inherited the traditions of its previous incarnation, namely a volunteer fire department that presented some hurdles to overcome.

As long as property appraisals continued to grow the district could develop interim and future plans to address its pressing service needs. Once appraisals dropped, however, as they did because of the national economic downturn, a district such as this one has had to significantly modify its operations and planning. The district has indeed paid a price for its assessed valuation dependency.

As a special-purpose district, TCESD#6, as do all ESDs, does not have the revenue-generating latitude accorded general-purpose local governments. As cited in their audit reports, the district is, in fact, "unable to influence potential future revenue streams."²¹ And as with other ESDs, the district's anticipated ad valorem tax revenue is dependent upon how various public entities (i.e. Travis County, City of the Bee Cave, the Village of the Hills and the City of Lakeway) respond to requests for new development within their own jurisdictions.

²¹ Travis County Emergency Services District No. 6, Financial Statements for the Year Ended September 30, 2009 and Independent Auditor's Report, page 9.

VI. COMPARING ESDS WITH MUNICIPAL FIRE DEPARTMENTS

From the prior case studies, it is evident that all are hamstrung, for want of a better term, in one way or another. A skeptic might presuppose that these districts are profligate in their spending and if they only reduced their expenditures, everything would be alright. In this short chapter, despite a multitude of limitations, we examine two aspects of how these Emergency Service Districts compare with Texas municipal fire departments.²²

There is some limited information available which strongly suggests that municipal fire departments require more resources, in some cases, far more resources than the 10 cents cap of ESDs. Several analyses by SAFE-D have estimated the operating costs for specific municipal departments in fast growing areas. For the City of San Marcos, the costs before capital expenditures, and not including any EMS expenses, were estimated at 19 cents per \$100 valuation. With capital expenditures, the equivalent was estimated at 23 cents per \$100 valuation. Both of those estimates were made in 2007, and will have increased by some increment. SAFE-D also noted that the current contract between Sunset Valley and the Austin Fire Department is the equivalent of 30 cents per \$100 valuation.²³ And benchmarking information compiled by the Travis County Emergency Services District #6 estimated that the City of Cedar Park was spending the equivalent of about 40 cents per \$100 valuation for its municipal fire department in 2009.

To investigate further, the authors compiled information for high-growth municipalities in the State of Texas since 2000. Specifically, 10 cities with populations of between 50,000 and 85,000 citizens which grew rapidly were identified. These cities were considered most equivalent to the high-growth ESDs being studied in this report. An additional five cities in the same population range (50,000 – 80,000) but with medium growth in the past decade also were identified, as was one city with minimal growth. And the Austin Fire Department was included as data were

²² An in-depth analysis would require a detailed review of all important dimensions of these organizations: demand for their services, cost of operations, outcomes and performance, while attempting to control for the variations of many factors affecting one or more of the three dimensions. That type of in-depth analysis could not be performed in the time available for this report.

²³ SAFE-D estimated a similar amount, 30 cents per \$100 valuation, for the Austin Fire Department in 2007. This estimate included capital as well as operating costs. Again, the current cost will be higher by some amount.

readily available and provide another point of comparison. The cities are shown in Table 6-1.

TABLE 6-1. TEXAS MUNICIPALITIES 2000-2009

High Growth

Allen
Cedar Park
Conroe
Edinburg
Flower Mound
Missouri City
New Braunfels
North Richland Hills
Pharr
San Marcos

Medium Growth

Bryan
Grapevine
Harlingen
Rowlett
Temple

Minimal Growth

Victoria

Besides population data, information for each of the cities was collected about their annual fire budget (operational costs only), number of fire (civil service) employees, number of fire stations, area (square miles), ISO ratings, and whether EMS service was provided.²⁴ Consistent information was unavailable for call volume and response times, and capital expenditures could not be included because secondary sources such as city budgets were being utilized. A series of statistical tests were performed on these data to detect possible patterns. Those tests and findings are described briefly in an appendix.

One of the most basic comparisons across fire departments is how much is being spent by the municipal departments and the three ESDs which were cases. A second fundamental comparison is the number of firefighters in each department. To make the comparisons more useful and to

²⁴ Edinburg was omitted from the subsequent analysis because it relies predominantly on volunteers.

take into account the different populations of the municipalities, budget and personnel data were developed on a population-adjusted (per capita) basis, that is, on an average cost per 1,000 citizens and on a staffing level per 1,000 citizens. This change minimizes variation across the cities due solely to their different population sizes.

Table 6-2 shows the ranking of the municipal departments and three ESDs on staffing.²⁵ Based on these 2009 data, two of the three departments with the lowest number of uniformed personnel are ESDs. And those ratios may actually be “worse” than they should be. In the case of ESD#6, the population base is the estimated permanent population of the district and does not include the temporary day population in and around Lake Travis. This is also the case for Comal County #3—only their permanent population is included. If the estimated 100,000 people on holiday weekends were used in the computation, their ratio of uniformed firefighters would be the best on the list at 0.39.

TABLE 6-2 POPULATION-ADJUSTED PERSONNEL (UNIFORMED FIREFIGHTERS PER 1,000 RESIDENTS) FOR SELECTED MUNICIPAL AND ESD FIRE DEPARTMENTS, 2009

Missouri City	0.78
<i>TCESD#6</i>	<i>0.90</i>
<i>TCESD#2</i>	<i>0.94</i>
San Marcos	0.95
Flower Mound	1.00
Allen	1.15
Cedar Park *	1.17
Rowlett	1.21
<i>CCESD#3</i>	<i>1.30</i>
North Richland Hills	1.38
Bryan	1.52
2009 Average Nationwide	1.60
Harlingen	1.72
Temple	1.84
Victoria	1.89
Grapevine	1.96
New Braunfels	2.05
Austin	2.15

* Cedar Park is in the process of adding 1 more station and 15 employees, so their ranking will be lower in the future.

²⁵ Two departments, Conroe and Pharr were not included because EMS is the responsibility of a separate department, and no information could be obtained.

Another table, Table 6-3, shows the ranking for operating costs on a per capita or population-adjusted basis. In addition to the Texas cities, five additional cities of similar population size from elsewhere in the country are included.²⁶ As with the previous table, the rankings for TCESD#6 and CCESD#3 would be much better if temporary populations were included.

TABLE 6-3 POPULATION-ADJUSTED BUDGETS FOR SELECTED MUNICIPAL AND ESD FIRE DEPARTMENTS, 2009

	<u>Budget/Per 1,000 Permanent Residents</u>	<u>Population/(1000) Permanent Residents</u>
San Marcos	\$82.54	63
Missouri City	\$85.14	74
<i>TCESD #2</i>	<i>\$107.50</i>	80
Cedar Park *	\$100.00	64
Flower Mound	\$110.00	70
Harlingen	\$115.38	65
<i>TCESD #6</i>	<i>\$123.61</i>	72
Allen	\$121.18	85
Rowlett	\$131.58	57
<i>CCESD#3</i>	<i>\$140.00</i>	30
North Richland Hills	\$140.91	66
Temple	\$140.98	61
Bryan	\$152.00	75
Victoria	\$155.56	63
Grapevine	\$170.59	51
New Braunfels	\$190.91	55
Shawnee, KS	\$108.58	60
Green Township, OH	\$111.37	61
Casper, WY	\$130.77	53
Waukesha, WI	\$167.65	68
Austin	\$218.72	748
Franklin, TN	\$239.38	56

These comparisons have many obvious limitations. We could not compare the quantity or quality of services across these different departments—only the financial and human resources used to provide services. Nonetheless, it would appear that at least for these three ESDs, compared to municipal fire departments in similar high-growth areas, they they certainly cannot be characterized as “big spenders” in any way.

²⁶ These data were drawn from a national survey in 2008 by the International City Management Association. The costs for 2008 were then increased by 5% to provide figures for 2009.

VII. VIEWS ON CURRENT, FUTURE PROBLEMS AND POSSIBLE ALTERNATIVES

High Growth Districts--Current

Several themes emerged from the interviews about, and case studies of, high growth districts:

- These districts have substantial fiscal capacity based on their assessed valuations—they are not distressed areas;
- Each of the districts, with the exception of one, makes a high tax effort. Yet current finances have deteriorated from prior years. Depending on the particular ESD, finances are not only less than ideal but sometimes less than adequate;
- These districts have a backlog of unmet needs from prior growth, which they cannot resolve now because of limited finances;
- The current troubles of unmet needs and limited finances will NOT be fixed when growth begins again—these troubles are not temporary. The sales and use tax has helped to bridge their revenue/expenditure gaps in the past but two of the three districts have no opportunity to raise either their ad valorem or sales tax rates.

There are many indications that current finances for high growth districts have deteriorated:

- Districts have transferred funds from their reserves for the last two years because general fund expenditures cannot be met with incoming annual revenues;
- Districts have uniformly reduced maintenance expenditures and deferred or postponed entirely new equipment purchases and fire station construction;
- Districts have altered the type of purchases and method of financing from cash, pay-as-you-go to lease/purchase, which is more expensive over the purchasing cycle; and
- Districts have had more tax rate increases and elections.

Perhaps the best way of characterizing the current financial conditions is a comment from one financial officer:

“...The district can get along fine financially for probably another five years without having real fiscal stress, as long as the population understands the response times for many areas are not what they should be.”

Every high growth ESD has a variety of unmet needs which detracts from improved performances. One of the large ESDs provided numerous examples:

- *“Need two 2 more stations and 1 more firefighter on every shift—our stations are not properly staffed.*
- *We are two engines short and are unable to handle simultaneous calls--only one large structural fire at a time. If there is more than one large fire, the district will have to rely on its reciprocal arrangements, which means slower responses and more damage..*
- *We are unable to conduct routine-type inspections of commercial and residential buildings and our plan reviews have slowed. That could eventually hurt our ISO ratings. And we do not have the resources to perform public education/awareness campaigns that we should be doing.*
- *We can’t improve our training situation because we have no funds to purchase land.*
- *The revenue condition has placed us in a purely reactive, rather than a planning mode.”*

Another cited its unmet needs:

- *“While the number of stations has increased, the number of firefighters could not be increased because of the budget situation. So we reduced our staff per shift from 4 to 3.*
- *There were no salary increases this year.*
- *We have cut back on non-personnel expenditures to increase our training.*
- *There is a definite need for one new station. We estimate that will cost \$2 million (to be serviced over 20 years), new equipment for that station (\$1 million to be serviced over 10 years) and annual operational costs for that station of \$1 million per year. We do not have the money.”*

And senior officials at the third district:

- *“We are postponing facility maintenance and renovations. A couple stations do not have sprinkler systems, which needs to be changed because crews can be called when they have the stove on—two or three stations each year in the US burn because crews leave so quickly and forget.*
- *Call volumes have gone up, and we have an imbalance currently in the call volumes for our four stations.The commissioners believe there should be a [new] “fill-in” to find relief for station 2 personnel.”*
- *The district is approximately 80 square miles and is densely settled in certain places and sparsely settled elsewhere..... Consequently some parts of the district, those which are*

less densely settled, have subpar response times. The District is examining a variety of options, besides the normal one of adding a new station, to meet these needs. Resources are unavailable to meet the needs of the less densely populated areas.

High Growth Districts In The Next Several Years

The current imbalance of revenues and unmet needs are not temporary or self-fixing. Even if general economic conditions pick up steam, the situations will not resolve themselves. In fact, the near future may become worse for several reasons. First, one knowledgeable individual about many Harris County ESDs is concerned about districts being unable to replenish funds they have withdrawn from their contingency funds to meet current budget requirements. To provide essential emergency services and to protect the public, these ESDs have been forced to reduce their contingency and “rainy day” funds to the point where they have less cushion than in the past. Ironically, their past, prudent fiscal management has created a more precarious financial situation because they chose not to increase revenues in the past.

Second, some ESDs will have equal or greater needs in the next several years, without the ability to finance them as they have in the past. Bonding capability is not as available to ESDs as in the past. Also, for ESDs which primarily provide EMS, there is the potential for reduced reimbursement under the national health care law enacted in 2010.

Third, ESDs in high-growth areas will face increased service demands when new developments, now postponed, are started. In these ESDs, the new population will be expecting services in the form of new stations and personnel. No one indicated that any ESD in a high-growth area has excess capacity or the ability to provide these services BEFORE substantial revenues from these developments are received.²⁷

Fourth, ESDs in high-growth areas still will be faced with the prospect that some development(s) may be annexed, which would deprive them of the revenues. (Annexation is a major fear of some high growth districts and is addressed more fully later in this chapter.) The chances of annexation, in fact, are likely to increase when economic conditions improve.

²⁷ One large ESD plans for an 18 month lag between providing services to new developments and receiving funding.

Fifth, more ESDs are at their maximum ad valorem rates or sales tax rates than previously. Whereas in the past, these ESDs in high growth areas could increase revenues to provide services, now they are limited to whatever expansion occurs in property rate appraisal values and sales tax generation. These ESDs, in effect, are frozen with unmet needs and no real prospect of securing additional revenues to reduce unmet needs or enhance vital citizen services. That is a chilling outlook for an essential public function.

Sixth, there are fundamental staffing issues. One is that volunteers no longer have a significant role in the staffing of fast-growing districts. A second is that younger firefighters, who frequently do not live within their ESD, are more susceptible to the attraction of higher salaries at a larger municipal fire department.²⁸

Finally, these three districts are among the statewide ESD leaders as illustrated by their current and prior positions in the statewide association. Further, they are in the forefront among ESDs in fire fighter professionalism, performance evaluation and financial management, governance training/orientation, and public outreach and education. If these types of “leadership districts” are facing major issues, then other ESDs will soon be facing similar dilemmas.

Statewide Fiscal and Service Delivery Factors Affecting ESDs

Individuals knowledgeable about ESDs statewide or in major regions were asked about the major problems, if any, which ESDs are facing.²⁹ As can be expected, different individuals had somewhat different perspectives, particularly about regional issues, although several common issues emerged.

First, appraisal values have declined nearly everywhere, putting ESDs in the same situation as other governments to do at least as much, if not more, with fewer resources. Foreclosures have added to the problem.

²⁸ Older firefighters are less frequently enticed by higher salaries for a variety of reasons, including non-portability of pension benefits.

²⁹ These individuals were legal experts, noted researchers, and practitioners with extensive ESD experience.

Second, citizens have not altered their fundamental expectation that they should receive a response from fire and EMS first responders that rivals the one they would receive in a city, despite living in a suburban-rural environment. Nor have citizens recognized that revenue limitations for fire and EMS first responders will affect the quantity and quality of fire and EMS services they receive.

Third, demand for fire and EMS is not fundamentally dependent on economic conditions; if anything, demand for these services expands at precisely the time when revenues are less available. Some individuals without health insurance tend to utilize EMS for care they cannot receive elsewhere.

Fourth, municipal annexations of prime developments, both commercial and residential, have reduced revenues for some ESDs. For other ESDs, they believe it is merely a matter of time until the annexations occur and deprive them of revenues for areas which they have been servicing. As one observer noted:

“Annexation creates a “leak in the boat” for ESDs by removing revenue, complicating their planning, and in some counties, creating a patchwork quilt of ESDs in which some districts can no longer provide service because they have been superseded by the local municipal fire department.”

Fifth, there is such diversity among ESDs within a region as well as across the State of Texas, that financial constraints and service delivery problems are hard to discern. Many smaller ESDs statewide are in fact doing just fine—they have sufficient revenues and no significant service delivery deficiencies.³⁰ On the other end of the spectrum, some large ESDs have millions in reserve and contingency funds and have lower tax rates than the maximum allowable caps. For these reasons, there does not appear to be a crisis per se, even though there are pockets of struggling ESDs, a larger number with less than optimal service delivery currently, and a larger

³⁰ Some rural ESDs which are growing, however, do have issues, according to one lawyer with multiple ESD clients. He says they are struggling with the transition to professional staff from volunteer staff. Another group of ESDs have paid staff but inadequate management or oversight. These ESDs tend to spend less than needed on organizational functions such as accountants, auditing, and architects. And their management systems and planning are shortchanged.

number who may be in difficult situations in the next two to four years. One individual with extensive knowledge about ESDs in Harris and Fort Bend Counties said:

“Most ESDs are ok because of buoyant increases in past valuations and prudent fiscal husbanding of resources. But many now are beginning to consider options such as not building a new station, delaying fire truck purchases, and postponing renovations. Personnel will be the last to feel the negative effects.”

Finally, there are issues in some metropolitan areas with the sheer number of ESDs—there are too many districts, which has led to inefficiencies. In place of the current array of ESDs, a smaller number of “Super ESDs” would be a better option.³¹

Possible Financial Alternatives

Deliberations occurred in the 81st Legislature about possible solutions for ESDs’ financial problems. As a prelude to those deliberations, the working group of stakeholders for the Senate Committee on Intergovernmental Relations, in the interim report, recommended legislative review of the following options:

- Authorize an ESD to seek local voter approval to increase the current ad valorem tax cap from 10 cents per \$100 valuation to 20 cents.
- Authorize an ESD, with local voter approval, to impose an additional 5 cents per \$100 valuation for infrastructure or capital acquisitions.
- Authorize ESDs to impose an “Interim Emergency Service Protection Fee” on new construction.³²

While no action was ultimately taken by the 81st Legislature, there was substantial support for the second item, 5 cents per \$100 valuation for infrastructure or capital acquisitions.³³

³¹ Other options would be some type of county-wide fire service, a new type of special district for fire services, or some type of merger or arrangement with the large city or municipal fire department.

³² Senate Committee on Intergovernmental Relations, Interim Report to the 81st Legislature, page 59.

³³ This was noted in a telephone conversation with the executive director of SAFE-D. Other options were creation of a different type of emergency service district under the homeland security title and districts with two boards and overlapping boundaries.

As noted previously at least one-third of all ESDs have ad valorem rates above 7 cents, and nearly all of the ESDs in high growth areas have both ad valorem rates above 7 cents and sales taxes—most, although not all, are at their maximum on both. Without having recourse to additional property or sales taxes, these ESDs must look at alternatives within their purview. Categorically, those alternatives cannot resolve their current financial and service issues.

ESDs may be able to generate incremental revenues from fees (inspections/permits/fines), surplus asset sales, donations, and grants, although the potential is insignificant compared to their total budgets and needs for revenues. Most fees amount to less than 1% of budgets, as do donations. Grants are highly competitive, limited to priorities of external funders, and likely to be less common in the future. Increased use of volunteers, already at reasonable levels for a number of the ESDs, may help somewhat but brings various problems and is not totally without costs.³⁴ In short, these alternatives might provide limited funding to supplement and enhance normal services, but they are insufficient to close funding gaps in any meaningful way.³⁵

Another alternative which might have potential is negotiation or renegotiation of major contracts for EMS. However, it is unclear if this is an issue for many ESDs or only those in certain metropolitan areas of the state. And each case would need to be examined in great detail to determine its potential for revenue increases.

Adoption of best practices from other jurisdictions sometimes can prove beneficial. In this instance unfortunately, there are no financial solutions elsewhere. SAFE-D compiled information about other states' funding limits on emergency and fire districts. There is no clear pattern about the funding limitations as some are more restrictive than in Texas and others have higher limits.

³⁴ Two of the three case studies have shown that they already use volunteers, one for code enforcement support and the other to fill air bottles and lights. The first district also is trying to develop a fire corps program that will consist of 14 to 15 volunteers. No high growth ESD will be able to increase volunteers by a substantial number, however, as the pool of candidates is primarily limited to retirees.

³⁵ A greatly increased fee for ambulance services would have some potential but it extracts revenues from citizens who have suffered and who may be uninsured. Another possibility would be for ESDs to start charging an additional fee for fire services, similar to what some Texas and California jurisdictions do for HazMat and car crash clean-ups. That, however, raises issues about what current taxes support and about the financing of an essential public service.

For example, Kentucky allows 20 cents per \$100 valuation, while Missouri allows 30 cents for ambulance service.³⁶ Besides the lack of a clear pattern, there are questions regarding the functions of other states' districts and how similar they are to Texas Emergency Service Districts.

Perhaps the best potential solution under the current circumstances is overlapping districts. In 2001 the 77th Legislature passed into law H.B. 2746 by Rep. Bill Carter (R), Chair of the House Committee on Urban Affairs and Senate sponsor, Sen. Frank Madla (D), Chair of the Senate Committee on Intergovernmental Relations. This bill, a product of an interim study by the House Committee on Urban Affairs, was passed by both houses without dissenting votes.³⁷ It was signed into law by Governor Rick Perry on June 16, 2001.

This legislation was passed specifically to provide additional revenue opportunities with local option elections. It allows for greater flexibility in structuring districts to provide non-duplicating services such as fire and emergency medical service. Under the provisions of this legislation an overlapping district may be created by petition to Commissioner's Court and an election within the proposed overlapping district, to create a new emergency services district, provided that the services of the overlapping district do not duplicate the existing emergency services district. However a quirk in the law provides that in order to not duplicate services the existing ESD would need to cease providing temporarily the type of service proposed for the overlapping district.³⁸

Clearly a cessation of providing fire or emergency medical services to the public on the date of the creation of the district (the date of the election creating the district) is not a workable solution. Nor is cessation of emergency services in the best interests of the public. Far better would be a solution to provide that the existing emergency services district board of commissioners would adopt a resolution on the services that they would provide and the overlapping district would provide, should the voters approve the election creating the district.

³⁶ Information provided by the executive director of SAFE-D in personal correspondence.

³⁷ House Journal, April 24, 2001, page 1559; Senate Journal May 17, 2001, page 2218

³⁸ Opinions were prepared by The Honorable Thomas R. Phillips, Attorney at Law, Partner, Baker and Botts, for Travis County Emergency Services District #6, July 2010.

Possible Non-Financial Alternatives

In difficult economic conditions, there is always an increased focus on productivity improvements for government agencies. Productivity can mean any number of things, including providing the same amount and quality of services with fewer resources, providing fewer or lower quality services with fewer resources, or providing more and better services with the same resources. Most high growth ESDs have to focus on the last, providing more and better services with the same resources, as their workloads are either constant or greater.

Small operational improvements always will be possible but such improvements will not come close to solving the current problems of ESDs with growing populations. One possibility is to tackle several major problems at once. If there are too many ESDs, and more precisely, too many ESDs which have serious issues of service provision or professionalism, perhaps larger and more professional ESDs should subsume the smaller ESDs or provide services through some type of interlocal agreement, contractual arrangement, or consolidation. If this approach worked, services presumably would be improved, the larger ESDs would have more revenue, and costs might be reduced.

This approach, increased use of interlocal agreements or consolidation of ESDs, might be an alternative for the situation in Travis County where Emergency Service District #4 now exists as four separate, non-adjacent areas because of limited-purpose annexation by the City of Austin. This approach also might prove beneficial in Harris County, where there are also examples of ESDs with, for want of a better term, misaligned boundaries. In the past, some ESD boundaries were established when there were no developments anywhere close to housing. Now, instead of vacant fields, there are houses straddling those boundaries. Some combination of boundary changes, cooperation, interlocal agreements or consolidations would seem obvious candidates to improve services.

Yet there are already examples of what might be termed “partial consolidations” in which there are overlapping boundaries with all service provision by one of the ESDs. The Comal County case study is perhaps the most notable example. As described in the case study, however, having two boards can bring unnecessary conflict, not to mention unnecessary expenses and confusion

for citizens about whom is in charge. Any “partial consolidation” is likely to have these problems and possibly turf and personnel issues. This may be one of the key reasons that the House Select Committee on Special Purpose Districts, chaired by Rep. Harvey Hildebran, recommended the following in its report to the 82nd Legislature, 2011:

3.) The committee proposes that emergency service districts provide for agreed consolidation of such districts under a single board resulting in a more efficient and economical delivery of services to residents of a consolidated district.³⁹

While the potential benefits of cooperation and consolidation may be substantial, it is important to remember that these benefits are not guaranteed in any way—they are **potential** benefits. Moreover, there will not be a significant increase in the number of consolidations anytime soon. As noted earlier, consolidations under existing statutes are hampered by serious legal as well as administrative barriers.

Perhaps the biggest obstacle, however, is the provision which requires the tax rate after consolidation to be no higher than the LOWEST rate of the ESDs being consolidated. If this were a business merger, this would be termed a type of “poison pill” which is implemented explicitly to fend off possible suitors and prevent a merger, or in this instance, a consolidation. One of the two Travis County ESDs profiled has had discussions with two other ESDs about consolidation, and this poison pill arrangement was a major problem.

Could consolidations prove useful? Probably but it is not a certainty. The theory that consolidation will improve performances is just that, a theory which needs to be assessed in practice. In government as in business, there are many philosophies about the critical elements for highly efficient and effective (productive) organizations. There is no single conclusive answer, and there are many variables unique to each situation.⁴⁰ That is why the pendulum swings back and forth – sometimes large organizations are assumed to be the most productive and sometimes the bureaucracy within large organizations (either governmental or private sector)

³⁹ House Select Committee on Special Purpose Districts, Texas House of Representatives, Interim Report 2010.

⁴⁰ One knowledgeable individual believes that a common technology platform greatly facilitates and may be necessary for consolidation, especially when multiple ESDs are involved.

is viewed as a major impediment, and large organizations are separated into smaller ones to improve performances.

Today, it appears that there are too many ESDs in certain regions and consolidations in general would prove beneficial both for service improvements and administrative economies. Current statutory barriers preclude any major wave of consolidations in practice, however.⁴¹ Unless the current statutes are amended or replaced, this approach (an alternative to increased tax revenues by raising the 10 cent valuation cap) cannot be tried.

⁴¹ Some consolidations will occur if county commissioners appoint board members and instruct them to examine consolidation alternatives. That would be a slow process and unlikely to resolve any of the current problems for ESDs in high-growth areas.

VIII. CONCLUSIONS AND RECOMMENDATIONS

Key Findings

Fire and EMS are essential public services. And fire services are one of the most respected governmental services in all jurisdictions. Unlike some governmental outputs which are discretionary, or whose level can be increased or decreased as resources are available, fire and EMS services cannot be diminished or increased easily—the level and quality of these services must be provided in all economic conditions. And as we have seen, the fire and EMS workload does not decrease during contracting economies. In fact, there is evidence that the use of emergency medical services during hard economic times increases because many people lose their insurance or jobs or both and cannot pay for needed medical services.

Quantitative and qualitative data from tax rates, several case studies, and interviews provide a pattern that some Texas ESDs are facing financial constraints in protecting the health and safety of Texas residents, small businesses, and commercial establishments. The situation is not confined to ESDs in high growth areas, although this group has a disproportionate share which are at their maximum ad valorem limit and/or unable to raise funds from sales taxes.

No large or medium-sized ESD in this sub-category is in dire straits currently that we know of, but there are at least two important reasons for serious concern. First, there are sufficient numbers of ESDs in different counties to suggest that the mostly localized problems now, will spread to other ESDs and regions in the next two to four years. Second, the current constraints will become worse unless economic conditions improve and even if that occurs, ESDs in high growth areas are unlikely to have sufficient resources to meet their unmet service needs. As seen from the case studies, there is a backlog of serious gaps in services which cannot be funded even if revenues begin to increase again at a rate of 5-7% per year.

Recommendations

To alleviate the existing strains on some ESDs, policymakers should give serious consideration to a series of steps that will enable ESDs to operate more economically and efficiently and

provide a level of service that the public wants. Clarifying the process for creating overlapping ESDs that provide non-duplicative services, subject to voter approval, would be beneficial and fair to high growth districts such as Travis County ESD #6. Also, permitting ESD commissioners to serve on the board of an overlapping ESD without compensation would provide better coordination and efficiency to deliver emergency services.⁴² And if statewide application of these concepts is not possible perhaps a pilot test could be permitted which would test these concepts for one or two metro areas with the most need. A pilot project could validate the efficacy of consolidating ESDs, creating overlapping districts in some areas and providing an increased level of service and lower response times. Voluntary consolidations which promise more efficient operations should be allowed and encouraged wholeheartedly.

As noted earlier in this report, when the Texas Legislature authorized counties to create Emergency Services Districts with voter approval, these ESDs were created in the Texas Constitution, Sec. III, Article 48 –e. What prompted the legislature to embed in the Texas Constitution the authority for funding ESDs is unknown. However, having to ask the entire population of the State of Texas to vote on this issue seems a less than satisfactory solution. Most residents in Texas live in areas which have their own professional fire departments and will be uninformed and relatively unconcerned with the needs in the suburban and unincorporated areas served by the ESDs. In future sessions, the Texas Legislature should examine the issue of removing the authority for ESDs in Sec. III, Article 48 -e and placing it in Chapter 775 of the Health and Safety Code. This would allow decisions to be altered by the legislature itself and by the members whose populations are directly affected, rather than by large populations in areas unserved by ESDs.

The Opportunity for Voters to Decide

One knowledgeable observer believes that ESDs statewide succeed in more than 60% of their elections. (The cases described earlier have almost a 100% success record.) Those that succeed are straightforward with their citizens. They provide information to the voters about their

⁴² While we did not have time to evaluate the need for board member training, some knowledgeable individuals believe there is a need for mandatory training to educate board members.

district's current situation in terms of quality and quantity of services, what needs to be improved, what additional monies would be raised and what they would be used for, and how performance and services would improve.⁴³ Two other knowledgeable individuals asserted similar points:

“We used fact-based information which involved months of meetings with local leaders and numerous citizens’ meetings. We said: (1) here’s what the national standards are; (2) here’s what we think is appropriate for this community; (3) here’s what our performance is now; (4) here’s how the performance will be if these changes are made; (5) here’s the estimated cost of these changes.”

“The only way to succeed and make a convincing case is to be honest and accurate with the data.”

According to knowledgeable individuals, the current statutes effectively foreclose operational consolidations, which may lead to improved efficiencies, services, and performances. Also, there is unpredictability in the timing municipal annexations, which may affect an ESD's current revenues. And ESDs, as all governments in Texas, are subject to the unpredictability of their local economies in the next two years. All of these reasons suggest that the above proposed changes may prove beneficial for those ESDs who are currently in difficult situations.

Delaying for another two years to effect statutory changes poses a risk and adds no potential benefits. ESDs, through their boards appointed by elected local officials, should be given the opportunity to go to their voters in the next two years, should they decide that conditions require such action. ESD board members are taxpayers and are quite aware of voters' skepticism in general about government expenditures. And all agree that fire and EMS services must be scrutinized, held to strict standards, streamlined, and be made more productive. Changing the current laws to provide ESDs with more fiscal flexibility would provide an opportunity, and only an opportunity, to convince voters, the ultimate decision-makers, that their services and taxes are properly balanced.

⁴³ In the authors' views, more ESDs should follow the lead of the Comal County ESD #3 in communicating regularly with their citizens. That ESD sends an annual newsletter (18,000 copies) to inform residents about recent events, current operations, and future plans.

APPENDICES

Bibliography/References

Interview Questions—Districts

Interview Questions—Knowledgeable Individuals

Statistical Information on Municipal Fire Departments

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ESD Interview Questions--Districts

General and Major Budget

Has the economic downturn affected your district?

If so, to what degree?

Have you had to impose budget cuts?

Have you had to take any interim budget reductions, i.e, not filling vacant positions?

Have you had to postpone equipment purchases as a result of the economic downturn?

Do you need to replace some aging equipment?

What is the average age of your vehicle inventory?

What are the top factors affecting the financial condition of your district?

- (1) employee health benefits—
- (2) public safety needs
- (3) capital spending
- (4) other

Are there major construction/other development projects planned in your district that will affect maintaining the current service level?

Have you had to use any of your reserve funds?

Has your district received any significant grants or gifts?

Do you anticipate receiving any major grants or gifts in the next year?

What are the district's projected revenue trends?

- Property taxes
- Sales taxes
- Other

What percentage of budget is spent on administration?

Does the district plan to issue any general obligation bonds?

Have you suffered any significant risk losses in the last five years?

What is the 5-year trend for appraised values?

Fees:

Do you monitor charges on a year-to-year basis to determine how often charges should change?

What are your top service billings for your district? What are the amounts and budget percentages of these billings?

Are your fees-for-service self-sustaining?

Operations

Do you plan on building any new facilities?

How do you integrate volunteers with your career fire personnel?

Do you have any extraordinary barriers/characteristics that affect your response rate?

Have you established cost benchmarks for complying with operational objectives?

Have any public service functions shifted to your district as a result of staff shortages in other public safety agencies in the area?

Future

Would a potential consolidation make delivery of services more effective and efficient?

What other actions, either financial or non-financial, are you examining as potential productivity improvements or enhancements?

Other Issues

Does your district experience periods during the year where your population peaks? What are the factors/causes of these latter peaks?

Do your district commissioners receive initial and periodic training? If so who trains them?

Do you use performance analysis in your budget process?

Interview Questions--Knowledgeable Individuals

What are the biggest concerns/problems you see for ESDs now and in the next two years?

In general how are the ESDs in {area of state} doing financially?

Are there categories/sub-categories that are doing less well?

Are there any medium/large ESDs that are in dire situations?

Any of these at their taxing limits?

What would indicate either poor performance because of severe revenue constraints or be an indicator of organizational distress/severe fiscal constraints for an ESD?

What is the financial outlook for most ESDs {in area of state} moving forward in the next two years? Will the situation improve? Remain the same? Or worsen?

What should be done, if anything, to improve the performance of ESDs AND/OR lessen the financial constraints on these entities in coming years?

Will consolidations prove useful?

What are the pros and cons of using improvements in ISO ratings for educating the public and justifying part of the new expenditures for improving response time performance?

Are there legislative remedies or are the problems/solutions mostly in the hands of these organizations (ESDs)?

Other possible solutions?

Statistical Information on Municipal Fire Departments

A series of basic statistical tests were performed. The first test was a correlation matrix for all 15 municipal fire departments with the following data elements:

Population
 Budget
 Employees
 Stations
 Area
 ISO rating
 EMS/No Ems

As would be expected, there is a high association (0.81) between a municipal fire department's annual budget and the number of its employees. (Table A-1-below.) That is a trivial finding. The highest association (0.87) however, is between a department's area (square miles) and the number of stations.

TABLE A-1- CORRELATION MATRIX OF KEY DATA ELEMENTS FOR 15 MUNICIPAL FIRE DEPARTMENTS IN TEXAS, 2009

	Population	Annual Budget	# of Fire (civil service employees)	# of stations	Sq. Miles	ISO Rating(s)	EMS Services Yes/No
	<i>Column 1</i>	<i>Column 2</i>	<i>Column 3</i>	<i>Column 4</i>	<i>Column 5</i>	<i>Column 6</i>	<i>Column 7</i>
Population	1						
Budget	0.14	1.00					
Employees	-0.09	0.81	1.00				
Stations	-0.24	0.22	0.59	1.00			
Area	-0.05	0.16	0.50	0.87	1.00		
ISO rating	0.03	0.16	0.41	0.45	0.44	1.00	
EMS/No Ems	0.13	0.31	0.29	0.30	0.04	0.15	1

A second correlation matrix was developed solely for the high-growth municipalities as shown in Table A-2. There is an extremely strong association once again between the total budget and number of employees: 0.93. For these high growth cities, the association between a department's

area (square miles) and the number of stations is still strong (0.60), but less so than in the previous test. Most other associations are relatively weak.

TABLE A-2- CORRELATION MATRIX OF KEY DATA ELEMENTS FOR 9 MUNICIPAL FIRE DEPARTMENTS IN HIGH GROWTH TEXAS CITIES, 2009

	Pop. (000)	Annual Budget (Mil)	# of Fire (civil service employees)	# of stations	Sq. Miles	ISO Rating(s)	EMS Services Yes/No
	<i>Column 1</i>	<i>Column 2</i>	<i>Column 3</i>	<i>Column 4</i>	<i>Column 5</i>	<i>Column 6</i>	<i>Column 7</i>
Population	1.00						
Budget	0.09	1.00					
Employees	-0.14	0.93	1.00				
Stations	-0.40	0.28	0.23	1.00			
Area	-0.10	0.29	0.11	0.60	1.00		
ISO	0.28	-0.01	-0.23	0.00	0.24	1.00	
EMS/No Ems	0.30	0.26	0.17	0.27	-0.27	0.00	1.00

Several multiple regressions were performed. For the most part, because of the weak correlations shown above in both tables, and because of the small number of municipalities, the majority of these tests did not show any statistically significant relationships. Several did, and the most interesting one mirrors the finding above in the correlation matrix. If one attempts to predict the number of fire stations for high growth municipal fire departments, the best predictor is the area of the departments—larger areas will require more stations, independent of population size or any of the other data elements shown immediately above.