ORCAS ISLAND FIRE & RESCUE

2023 FISCAL SUSTAINABILITY STUDY

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Emergency Services Consulting International
Providing Expertise and Guidance that Enhances Community Safety

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Executive Summary

Orcas Island Fire and Rescue (OIFR) is a fire protection district that has served Orcas Island, which is a portion of unincorporated San Juan County, since 1948. OIFR's service area includes San Juan County tax code areas 373 and 374, as shown in the map below. OIFR provides fire prevention and suppression, emergency medical service (advanced life support), and public education and training services to a permanent population of about 5,000 residents and a summer population of about 12,000 people.

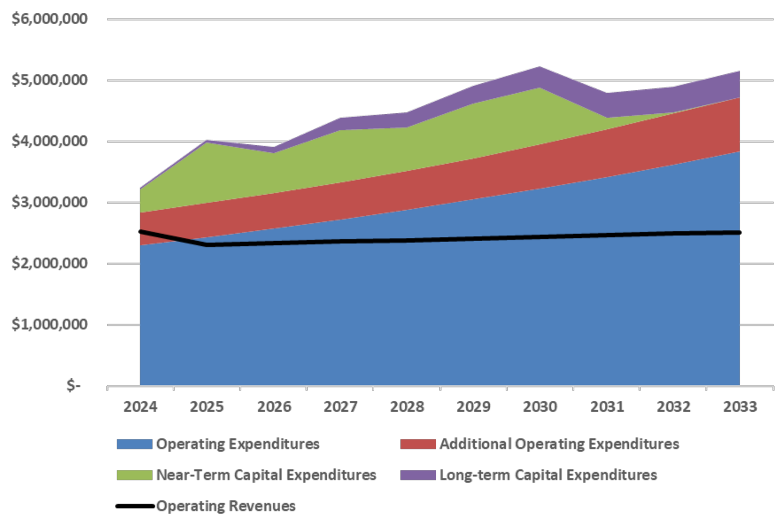
OIFR is overwhelmingly funded by property tax revenue, with property tax proceeds making up over 91% of the district's budgeted revenues in 2022. Property tax revenues have not kept up with inflation, as, in Washington State, property tax revenue growth is strictly limited to 1% annually, plus proceeds from any new construction. This tax limitation is often known as the "101% Levy Limit" passed in 2001 as part of Initiative 747. OIFR's perpetual levy rate of $0.47070 per $1,000 of assessed value (which is less than its statutorily authorized levy rate of $0.50 per $1,000 of assessed value) has long been insufficient for funding its operations. As a result, the district has, for decades, relied on an excess levy rate established through a special election every ten years, most recently in April 2014.

Recognizing that OIFR is facing a revenue deficit once the levy lid lift expires, OIFR engaged Emergency Services Consulting International (ESCI) to complete this fiscal sustainability study to understand the agency's projected future funding and financing needs to achieve long-term financial sustainability and identify a preferred option for OIFR to pursue to achieve fiscal sustainability.

ESCI found that the current levy lid lift underestimated OIFR's needs and has led the agency to defer capital replacement costs over the last ten years, while still facing continual fiscal imbalance where agency expenditures outpace revenues. This fiscal imbalance will worsen significantly when and if OIFR's property tax levy lid lift expires, and the agency falls off the "levy lid lift cliff." Further, OIFR has additional operating expenditures and significant deferred capital investment needed to ensure its long-term financial sustainability.

As Figure ES- 1Figure 16 shows, OIFR's current revenues are projected to be insufficient to fund just the agency's regular operating expenditures.

Figure ES- 1. 10-year Projected Revenues versus Operating and Near- and Long-term Expenditures, 2024 to 2033 (YOE$)



Source: OIFR and ESCI, 2023.

OIFR has many strategies to address its revenue deficit, some of which are focused on reducing costs (i.e., divesting responsibility for delivering services; increasing the efficiency of service delivery; or reducing level-of-service) and others of which include increasing revenues. At present, OIFR has identified a desire to maintain its current responsibilities and level of service, and while the agency is always considering opportunities to make its costs more efficient, ESCI does not see substantial opportunities to reduce costs.

Instead ESCI worked with OIFR to outline options for achieving fiscal sustainability, as shown in Figure ES- 2. These options included a "no action alternative" which was provided for illustrative (comparison to the other options) purposes only. Of these options, OIFR identified Option 1 as its preferred option for achieving financial sustainability.

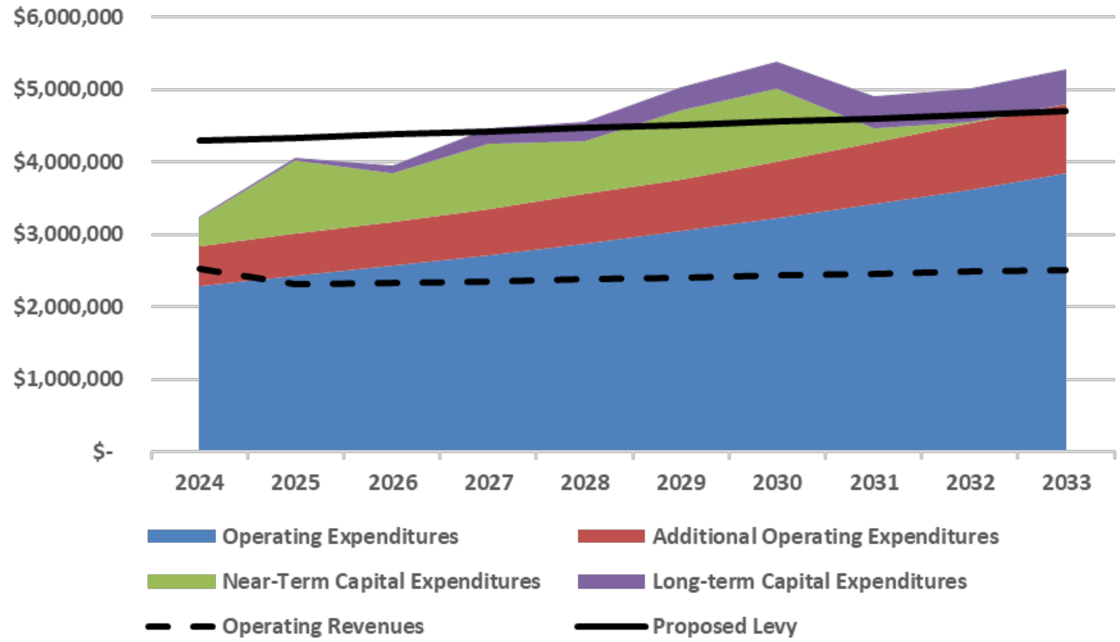
Figure ES- 2. Options for Achieving Funding Sustainability

<table>
<tr><th></th><th>No Action Alternative (illustrative only)</th><th>Option 1</th><th>Option 2</th><th>Option 3</th></tr>
<tr><td>Regular Operating Expenditures</td><td rowspan="4">Insufficient Revenues (will require reduction in level of service and future action)</td><td rowspan="4">Levy Lid Lift</td><td rowspan="2">Levy Lid Lift*</td><td rowspan="3">Levy Lid Lift</td></tr>
<tr><td>Additional Operating Expenditures</td></tr>
<tr><td>Near-term Apparatus Replacement (10-year)</td><td>UTGO/LTGO Bond</td></tr>
<tr><td>Long-term Apparatus Replacement (Beyond 10-years)</td><td>Levy Lid Lift*</td><td>Insufficient Revenues (to be address in future)</td></tr>
</table>

Source: ESCI, 2023.

Given that the projected expenditure growth and additional expenditures needed in the next ten years are perpetual needs, ESCI recommends a permanent levy lid lift. Either a single or multiyear levy could work to meet these needs but given they don't escalate substantially over time (increasing modestly based on inflation and demand drivers), a single-year levy seemed more appropriate. As shown in Figure ES- 3, a single year, permanent levy lid lift with a tax rate of $1.06 per $1,000 of assessed value (based on OIFR's 2023 assessed value of $4,052,840,468) would be sufficient to address OIFR's additional revenue needs through 2033.

Figure ES- 3. Proposed Levy Lid Lift, 2024 to 2033 (YOE$)



Additional planning would be needed to rebalance spending across the 10-year planning horizon, and an added contingency of approximately $400,000 would be collected in the period, based on these planning-level estimates.

Acknowledgements

Jim Biddick
Commissioner

Tim Fuller
Commissioner

Nick Negulescu
Commissioner

Alan Stameisen
Commissioner

Leith Templin
Commissioner

Holly VanShaick
Fire Chief

Kathryn Barnard, PhD
District Secretary

Scott Williams
Former Fire Chief

Micki Nichols
Former Financial Manager

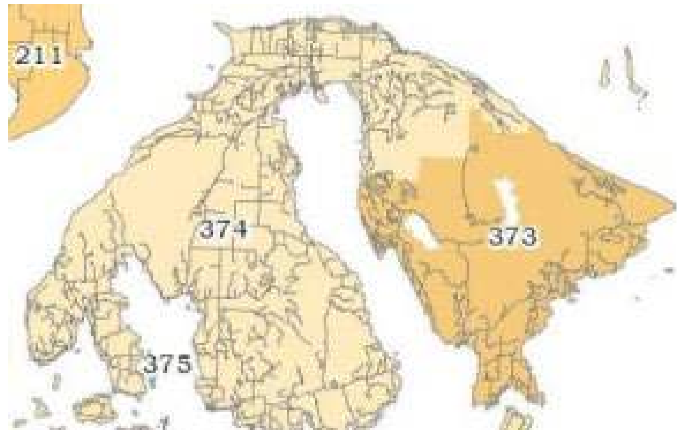
…and the rest of the Orcas Island Fire and Rescue employees and volunteers who selflessly serve their citizens and visitors with compassion and professionalism.

Introduction

Background and Context

Orcas Island Fire and Rescue (OIFR) is a fire protection district that has served Orcas Island, which is a portion of unincorporated San Juan County, since 1948. OIFR's service area includes San Juan County tax code areas 373 and 374, as shown in the map below. OIFR provides fire prevention and suppression, emergency medical service (advanced life support), and public education and training services to a permanent population of about 5,000 residents and a summer population of about 12,000 people.

Figure 1. Orcas Island, San Juan County Tax Code Areas, 2023



Source: San Juan County Assessor's Office, 2023.

OIFR is overwhelmingly funded by property tax revenue, with property tax proceeds making up over 91% of the district's budgeted revenues in 2022 (based on the 2022 amended budget). Cost-recovery nets approximately $150,000 from ambulance and emergency aid services with a nominal amount of additional funding from leasehold and timber harvest taxes, fire permits, investment income, donations, and other sources.

These property tax revenues have not kept up with inflation, as, in Washington State, property tax revenue growth is strictly limited to 1% annually, plus proceeds from any new construction. This tax limit is often known as the "101% Levy Limit"; it was passed in 2001 as part of Initiative 747.

OIFR's perpetual levy rate of just over $0.47 per $1,000 of assessed value (which is less than its statutorily authorized levy rate of $0.50 per $1,000 of assessed value), has long been insufficient for funding its operations. Instead, the district has, for decades, relied on an excess levy rate established through a special election every ten years, most recently in April 2014. In April 2014, Orcas Island voters passed Proposition 1, a single-year levy lid lift that authorized the district to increase its regular property tax levy to $1.05 per $1,000 of assessed valuation for ten years beginning in 2015. Proposition 1 passed with 62.22% of the vote.

Purpose

Although the levy lid lift passed by Proposition 1 is still in place, the state of Washington's 101% Levy Limit and increases in assessed value have caused the levy rate to decline to just under $ 0.59 per $1,000 for tax year 2023. Further, the expenditure projections that precipitated the setting the levy lid lift at the present rate underestimated OIFR's actual needs. Combined with the current economic climate, with a high rate of inflation and rapidly increasing costs for personnel, largely attributed to the "Great Resignation," OIFR needs a plan to address its current and future funding that also addresses financing needs to achieve long-term financial sustainability.

It is anticipated that this will include pursuing renewal or replacement of the current levy lid lift but may also include other funding and financing strategies (like an EMS levy or increased cost-recovery and charges for services and/or a capital bond). As a first step to identifying a long-term financial strategy, OIFR engaged Emergency Services Consulting International (ESCI) to complete this Fiscal Sustainability Study. This Study considers OIFR's historical revenues and expenditures, and current financial position while utilizing models that project expected future revenues and expenditures. This is done in an effort to understand the agency's projected future funding and financing needs with the goal of achieving long-term financial sustainability. The study outlines several options for replacing the current levy lid lift and identifies a preferred option for OIFR to pursue to achieve fiscal sustainability.

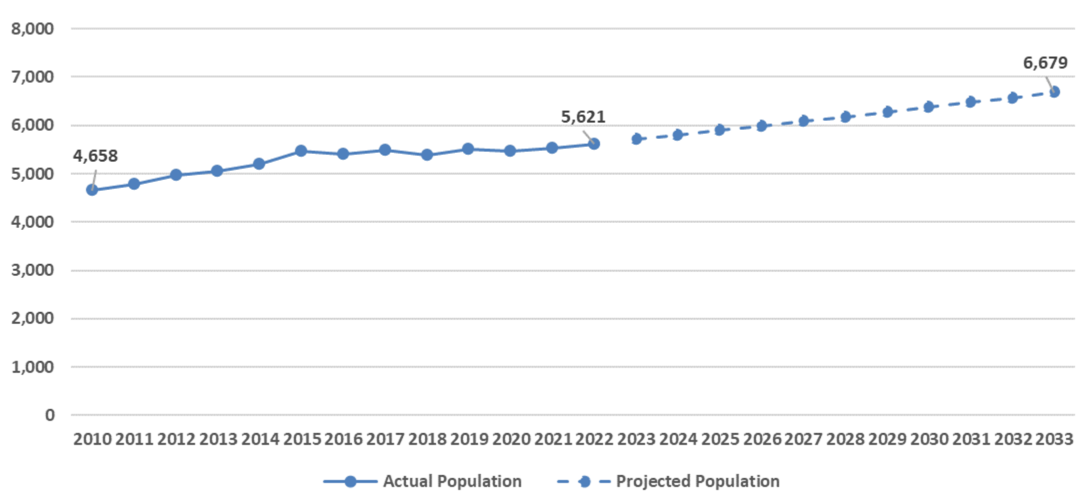
Methodology

In order to establish a long-term fiscal sustainability strategy for OIFR, ESCI first had to understand the district's current financial position. This was accomplished by developing a baseline financial analysis based on its historical revenues and expenditures, using financial data provided by the State Auditor's Office Financial Intelligence Tool (SAO FIT) for 2008 to 2022. The data for OIFR extracted from FIT was provided directly by OIFR itself and corresponds directly to the agency's own internal financial data. More information about SAO FIT data is documented in the limitations section.

ESCI analyzed these historical revenues and expenditures in both nominal (year-of-estimate dollars) and real (2022 dollars [$2022]) dollars to establish trends which could then be used to project expected future revenues and expenditures. Results were normalized to real dollars using the Federal Reserve Economic Data (FRED) Implicit Price Deflator inflation index.

Revenue and expenditure projections were made based on their key drivers; for example, property tax projections were made based on the 101% Levy Limit, assuming new construction continues at the same pace as it has historically. Service costs were projected based on "demand", with the current population used as a proxy.

Figure 2. Historical Population, 2010 to 2022, and Projected Population, 2023



Source: WA Office of Financial Management and ESCI, 2023.

The population projections assumed that Orcas Islands' population will continue to increase at the same rate as it has historically, which had a compound average growth rate of 1.58%.

Once revenues and expenditures were projected, additional, new expenditures were added. These total projected and additional expenditures were then subtracted from the projected revenues to show OIFR's expected revenue deficit.

Limitations

As discussed previously, this Fiscal Sustainability Study was informed by data from SAO FIT. The financial information shown in FIT is unaudited. Any and all financial information presented by FIT is provided directly by local governments to the State Auditor's Office, as directed by state law. Neither the State of Washington nor any of its agencies, officers or employees warrants the accuracy, reliability or timeliness of this information and shall not be liable for any losses caused by reliance on the accuracy, reliability or timeliness of such information.

Data presented in FIT is subject to change as local governments submit or update their financial data. Snapshots of annual filing data are published periodically by the State Auditor's Office, based on annual report information submitted by all local governments as of a particular date. The data on OIFR extracted to support the historical analysis was current and complete as of March 31, 2023.

ESCI analyzed OIFR's historical revenues and expenditures for the fifteen-year period 2008 to 2022. It is important to note that this historical period was exceptional for three main reasons: 1.) the first five years of the period was a time of economic downturn and then recovery, as the US experienced the "Great Recession;" 2.) the latter half of the period has been a time of unprecedented economic growth during which the US, experienced an especially robust economy; given that the U.S. has, historically, seen an economic correction every seven to ten years, a correction is likely over the life of this plan; and 3.) Orcas Island, like the rest of the world has been impacted by the COVID-19 pandemic, which has created financial irregularities for all governments, such as increased non-recurring revenues from the federal American Rescue Plan, Coronavirus Aid, Relief, and Economic Security (CARES) act, and other COVID-relief grants created to meet increases in service demands and cost of service. The COVID-19 pandemic impacted several of the fiscal years (2020, 2021, and 2022) included in the historical revenues and expenditures analyzed as part of this study.

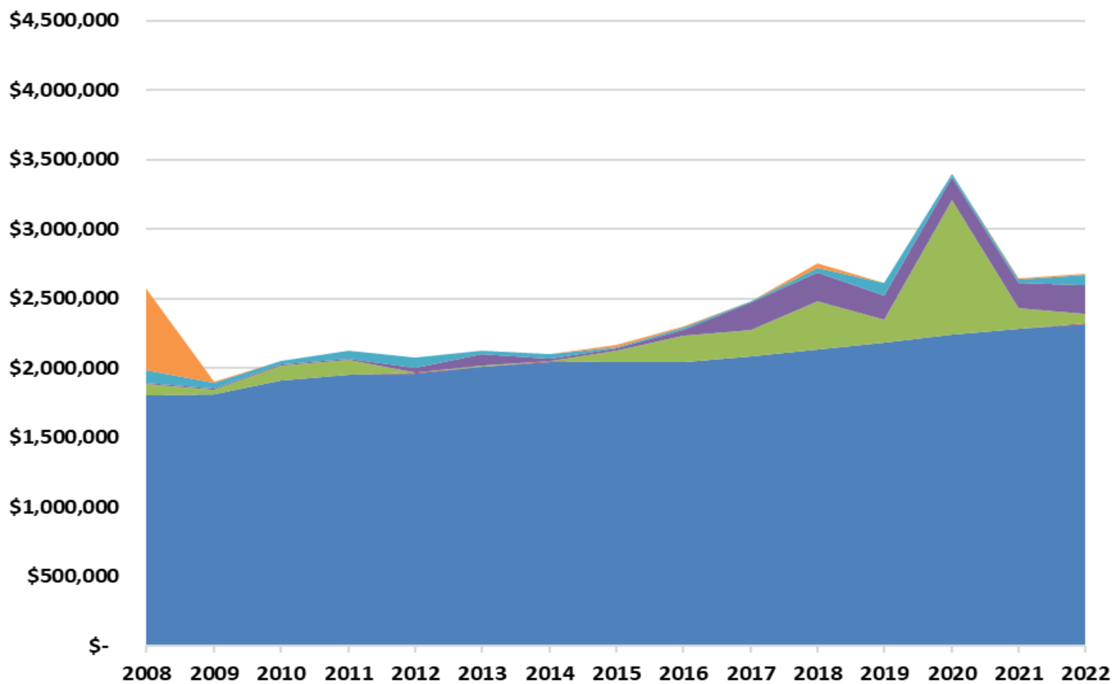
It is important to recognize that the forward-looking 10-year period of this fiscal sustainability study may vary significantly from the historical period due to inflation, labor economics issues, and the potential for economic correction. As such, the assumptions used to inform this plan were as conservative as possible. Furthermore, the results of this Study represent planning level estimates.

Baseline Financial Analysis

Historical Revenues

OIFR is primarily funded through property taxes, as shown in Figure 3.

Figure 3. Historical Revenues, 2008 to 2022 (YOE$)



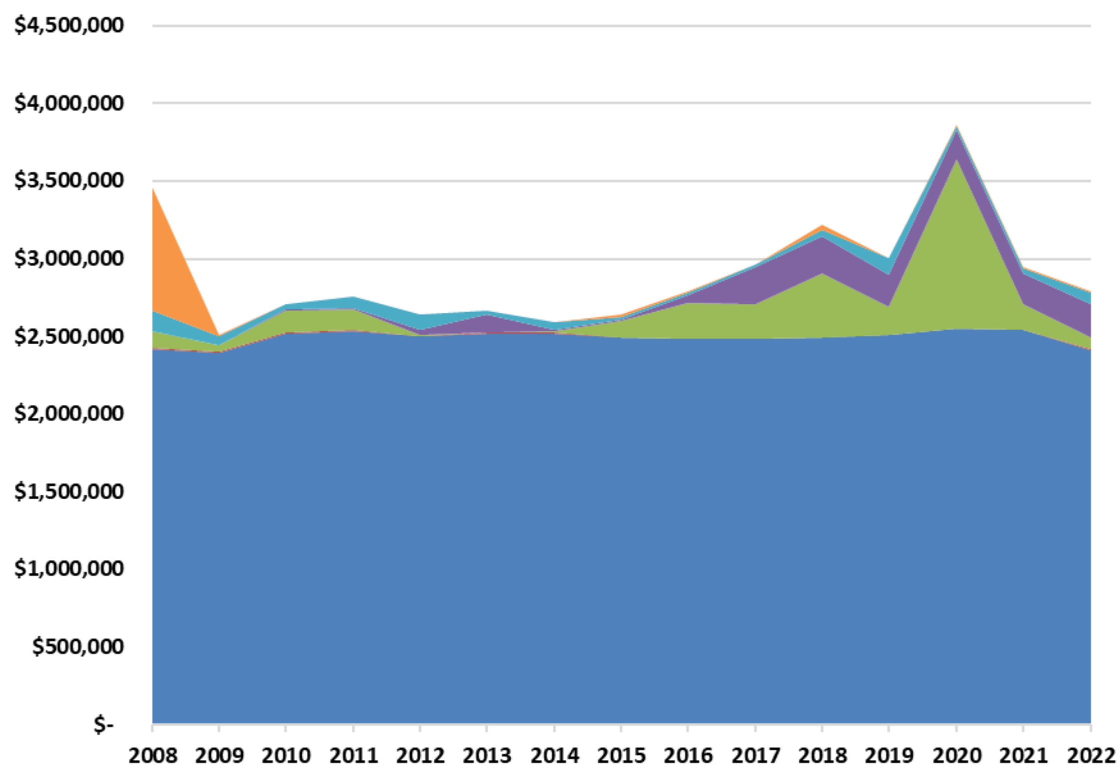
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Property Tax	$ 1,800,071	$1,810,835	$ 1,907,979	$ 1,952,234	$ 1,962,335	$ 2,007,427	$ 2,044,898	$ 2,039,526	$ 2,044,777	$ 2,085,536	$ 2,130,464	$ 2,185,559	$ 2,244,399	$ 2,282,709	$ 2,317,848
Other Taxes	$ 5,475	$ 3,403	$ 2,310	$ 3,417	$ 3,114	$ 3,729	$ 4,366	$ 3,641	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,863
Intergovernmental Revenues	$ 82,855	$ 31,994	$ 105,943	$ 101,099	$ 2,419	$ 3,894	$ 4,222	$ 83,040	$ 187,006	$ 188,283	$ 351,448	$ 160,121	$ 960,773	$ 149,281	$ 69,999
Charges for Goods and Services	$ 2,729	$ 3,549	$ 7,423	$ 8,172	$ 29,905	$ 88,370	$ 10,180	$ 12,358	$ 45,681	$ 196,721	$ 207,946	$ 174,992	$ 168,406	$ 181,129	$ 206,195
Miscellaneous Revenues	$ 93,819	$ 44,388	$ 25,563	$ 59,061	$ 74,752	$ 20,437	$ 39,405	$ 11,861	$ 13,648	$ 13,134	$ 34,317	$ 93,794	$ 22,514	$ 23,324	$ 76,351
Other Financing Sources	$ 589,600	$ 4,758	$ 33	$ -	$ -	$ -	$ -	$ 13,849	$ 4,549	$ -	$ 31,870	$ 2,147	$ 2,248	$ 13,428	$ 4,149
TOTAL	**$ 2,574,549**	**$1,898,927**	**$ 2,049,251**	**$ 2,123,983**	**$ 2,072,525**	**$ 2,123,857**	**$ 2,103,071**	**$ 2,164,275**	**$ 2,295,662**	**$ 2,483,674**	**$ 2,756,044**	**$ 2,616,613**	**$ 3,398,340**	**$ 2,649,871**	**$ 2,677,405**

Source: SAO FIT and ESCI, 2023.

Beyond property taxes, OIFR receives modest funding from intergovernmental sources, particularly, state grants and shared revenues (like the Department of Natural Resources Timber and Other Trusts) and charges for goods and services (primarily emergency medical services, but also including fire inspection services). OIFR's 2008 revenues are skewed by a substantial one-time "transfer-in". During the COVID-19 pandemic, OIFR received one-time federal grants and non-grant federal COVID-19 assistance.

Figure 3 shows a modest increase in revenues between 2008 and 2022. However, it is important to put these costs into real dollars ($2022), in order to understand whether resources actually increased over the historical period or whether the nominal increase seen is due to inflation. Figure 4 shows OIFR's historical revenues normalized to $2022.

Figure 4. Historical Revenues, 2008 to 2022 (2023$)

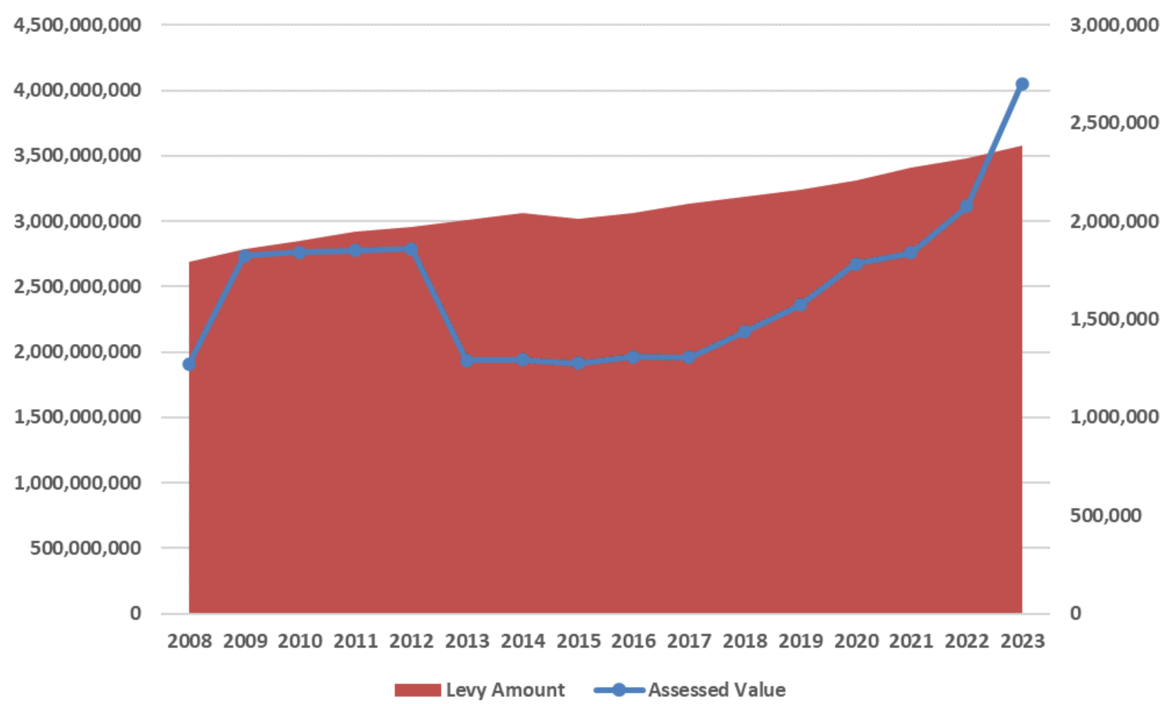


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Property Tax	$ 2,415,231	$2,394,457	$ 2,519,382	$ 2,535,692	$ 2,500,379	$ 2,518,799	$ 2,520,845	$ 2,491,262	$ 2,484,342	$ 2,485,159	$ 2,491,280	$ 2,509,326	$ 2,548,852	$ 2,540,598	$ 2,413,386
Other Taxes	$ 7,346	$ 4,500	$ 3,050	$ 4,438	$ 3,968	$ 4,679	$ 5,382	$ 4,447	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,981
Intergovernmental Revenues	$ 111,170	$ 42,305	$ 139,892	$ 131,314	$ 3,082	$ 4,886	$ 5,205	$ 101,433	$ 227,207	$ 224,362	$ 410,969	$ 183,841	$ 1,091,102	$ 166,146	$ 72,884
Charges for Goods and Services	$ 3,662	$ 4,693	$ 9,802	$ 10,614	$ 38,105	$ 110,881	$ 12,549	$ 15,095	$ 55,502	$ 234,416	$ 243,163	$ 200,915	$ 191,250	$ 201,592	$ 214,694
Miscellaneous Revenues	$ 125,881	$ 58,694	$ 33,755	$ 76,713	$ 95,248	$ 25,643	$ 48,576	$ 14,488	$ 16,582	$ 15,650	$ 40,128	$ 107,689	$ 25,568	$ 25,959	$ 79,498
Other Financing Sources	$ 791,091	$ 6,291	$ 44	$ -	$ -	$ -	$ -	$ 16,916	$ 5,526	$ -	$ 37,268	$ 2,465	$ 2,553	$ 14,945	$ 4,320
TOTAL	$ 3,454,381	$2,510,941	$ 2,705,924	$ 2,758,771	$ 2,640,781	$ 2,664,888	$ 2,592,558	$ 2,643,642	$ 2,789,159	$ 2,959,587	$ 3,222,809	$ 3,004,237	$ 3,859,325	$ 2,949,240	$ 2,787,763

Source: SAO FIT, FRED IPD, and ESCI, 2023.

As Figure 4 shows, OIFR's revenues have modestly decreased over the historical period, even when excluding periods affected by one-time revenues (namely, 2008 and 2020). This is largely because most of OIFR's revenue sources, including its largest source, property tax, do not keep up with inflation. Given that it is OIFR's largest revenue source, it is helpful to look at property tax revenues in more detail, as shown in Figure 5.

Figure 5. Assessed Value and Levy Amount, 2008 to 2023 (YOE$)

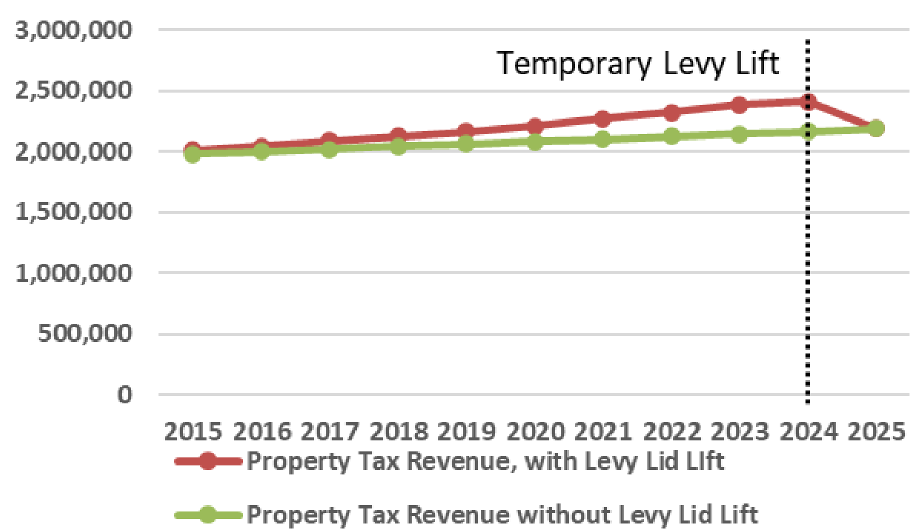


Source: San Juan County Assessor's Office and ESCI, 2023.

As discussed previously, fire protection districts like OIFR are authorized by RCW 52.16 to levy property taxes at a rate of $0.50 per $1,000 of assessed value. This levy rate has long been insufficient for funding OIFR's operations; so, for decades, the OIFR has relied on an excess levy rate established through a special election every ten years. The most recent excess levy rate was established through a one-time, temporary levy lid lift that passed (with 62% voter approval) as Proposition 1 in April 2014 and allowed OIFR to raise its regular property tax levy to $1.05 per 1,000 of assessed valuation for ten years beginning in 2015.

Unfortunately, the expenditure projections that informed Proposition 1 greatly underestimated OIFR's actual needs. Although the projections guiding levy development weren't available, it is evident that they did not sufficiently consider increases in demand for services or rapidly increasing inflation and costs, nor did it account for capital replacement needs. In total, the temporary levy lid lift passed in April 2014 only generated total additional revenues of approximately $1,328,000 ($1,404,147 in $2023) compared to what OIFR might have generated without it, as shown in Figure 6.

Figure 6. Impact of Proposition 1 on OIFR Property Tax Collections, 2023



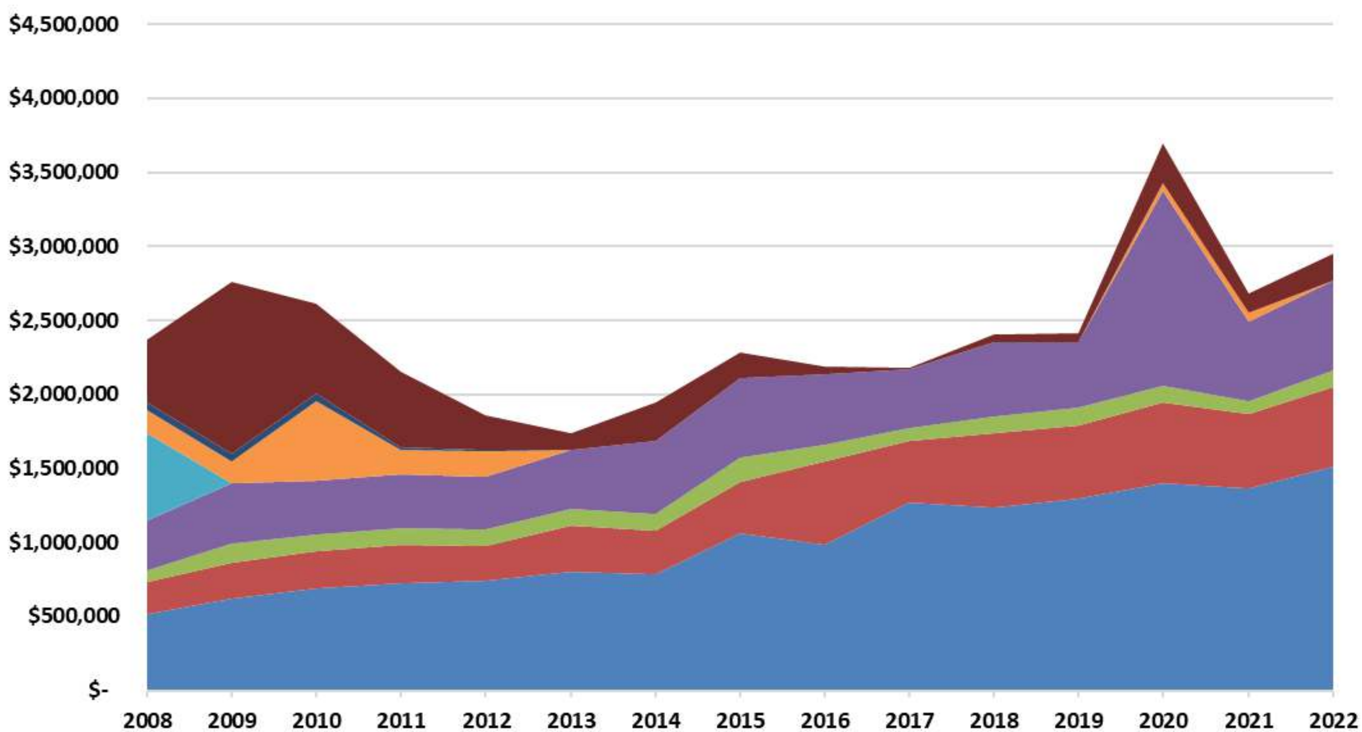
Source: San Juan County Assessor's Office and ESCI, 2023.

Although the levy lid lift passed by Proposition 1 is still in place, the state of Washington's 101% Levy Limit and increases in assessed value have caused the levy rate to decline to $0.5883604965 per $1,000 for tax year 2023. Because Proposition 1 was a temporary, rather than permanent lift, if a new levy lid lift is not enacted in 2024, OIFR's levy will revert to what it would have been without the lid lift, its perpetual levy rate of $0.47070 per $1,000 of assessed value.

Historical Expenditures

While OIFR's actual revenues, in $2023, have decreased over time, the agency's expenditures have increased in both nominal and real dollars, as shown in Figure 7 and Figure 8.

Figure 7. Historical Expenditures, 2008 to 2022 (YOE$)

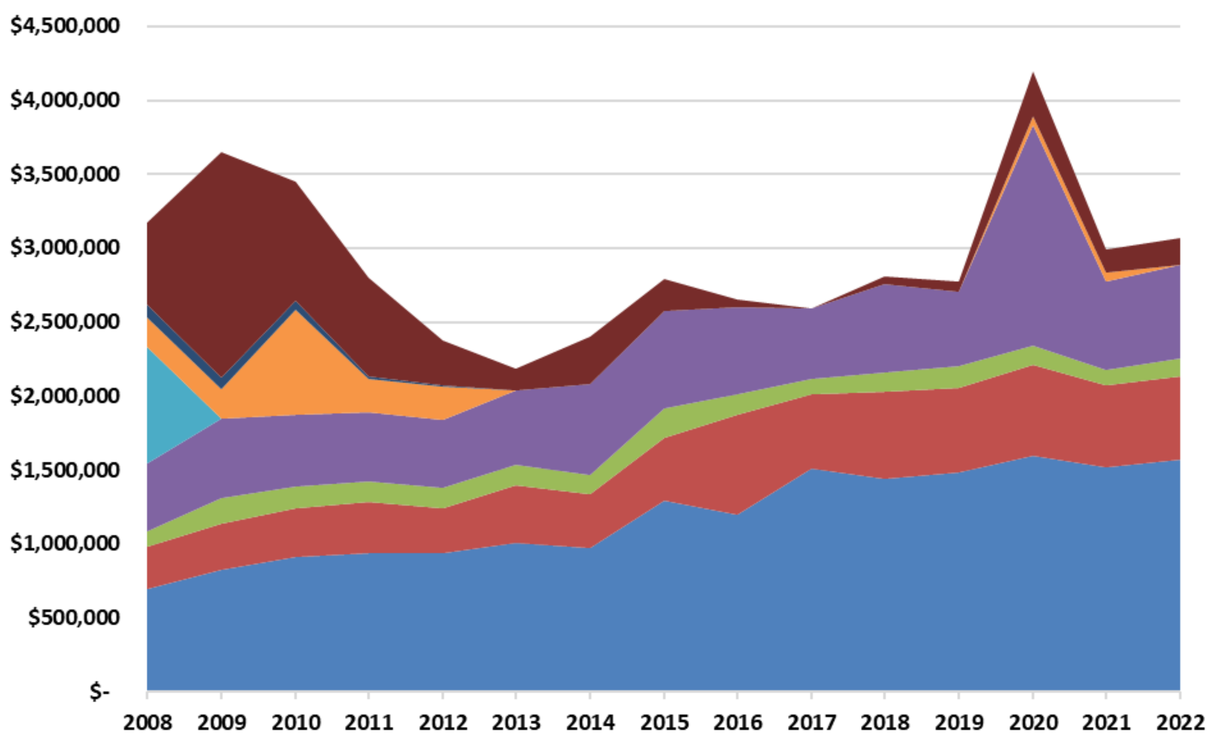


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Salaries & Wages	$ 515,882	$ 622,758	$ 692,078	$ 722,894	738359	802657	785247	1061148	986421.71	1268053.79	1234016.59	1292781	1403433	1366997	$1,508,125.73
Personnel Benefits	$ 216,714	$ 239,872	$ 245,988	$ 264,167	236212	312189	295458	344091	556612.14	419374.22	502628.8	500130	540493	498363	$ 539,542.92
Supplies	$ 74,656	$ 127,157	$ 115,241	$ 106,188	110587	111515	111571	166446	112320.53	87422.49	109779.59	121686	116328	88882	$ 117,744.21
Services	$ 340,089	$ 409,160	$ 363,401	$ 363,506	356291	394423	497182	535337	481981.32	397463.9	510611.39	440514	1315875	540900	$ 606,204.26
Depreciation & Other Decreases	$ 589,600	$ -	$ -	$ -	0	0	0	0	0	0	0	649	0	0	$ -
Debt Service Principal	$ 152,479	$ 151,133	$ 540,000	$ 170,000	175000	0	0	0	0	0	0	0	53851	53851	$ -
Debt Service Interest	$ 60,078	$ 53,118	$ 45,540	$ 18,242	9705	0	0	0	0	0	0	0	0	0	$ -
Capital Outlay	$ 416,569	$ 1,159,332	$ 613,277	$ 508,777	236074	118399	256364	175702	48221.68	5532.24	45737.71	60273	263446	136485	$ 177,763.56
TOTAL	**$ 2,366,067**	**$ 2,762,530**	**$ 2,615,525**	**$ 2,153,774**	**$1,862,228**	**$1,739,183**	**$1,945,822**	**$2,282,724**	**$2,185,557**	**$2,177,847**	**$2,402,774**	**$2,416,033**	**$3,693,426**	**$2,685,478**	**$ 2,949,381**

Source: SAO FIT and ESCI, 2023.

Even when adjusted for inflation, OIFR's expenditures have gone up considerably between 2008 and 2022. In fact, OIFR's largest expenditure, salaries and wages, has gone up by a compound annual growth rate (CAGR) of 6.25% in the historical period, as shown in Figure 8.

Figure 8. Historical Expenditures, 2008 to 2022 ($2023)



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Salaries & Wages	$ 692,181	$ 823,469	$ 913,851	$ 938,942	940806.398	1007125.84	968012.029	1296182.41	1198472.31	1511033.94	1443010.35	1484292.82	1593808.85	1521433.31	$1,570,287.95
Personnel Benefits	$ 290,774	$ 317,181	$ 324,814	$ 343,118	300977.927	391716.024	364225.394	420303.956	676266.781	499733.281	587754.304	574218.963	613810.937	554665.495	$ 561,781.91
Supplies	$ 100,169	$ 168,139	$ 152,169	$ 137,925	140908.362	139922.33	137538.978	203312.241	136466.02	104174.09	128371.925	139712.492	132107.906	98923.4324	$ 122,597.41
Services	$ 456,312	$ 541,030	$ 479,851	$ 472,146	453980.858	494898.313	612900.344	653909.166	585592.61	473624.58	597088.83	505771.484	1494373.59	602008.107	$ 631,190.91
Depreciation & Other Decreases	$ 791,091	$ -	$ -	$ -	0	0	0	0	0	0	0	745.142477	0	0	$ -
Debt Service Principal	$ 204,588	$ 199,842	$ 713,041	$ 220,807	222982.478	0	0	0	0	0	0	0	61155.8943	59934.8097	$ -
Debt Service Interest	$ 80,609	$ 70,238	$ 60,133	$ 23,694	12365.9711	0	0	0	0	0	0	0	0	0	$ -
Capital Outlay	$ 558,928	$ 1,532,978	$ 809,799	$ 660,833	300802.089	148559.961	316032.326	214618.359	58587.8711	6592.309	53483.875	69201.8067	299182.48	151904.375	$ 185,090.65
TOTAL	**$ 3,174,652**	**$ 3,652,878**	**$ 3,453,658**	**$ 2,797,466**	**$2,372,824**	**$2,182,222**	**$2,398,709**	**$2,788,326**	**$2,655,386**	**$2,595,158**	**$2,809,709**	**$2,773,943**	**$4,194,440**	**$2,988,870**	**$ 3,070,949**

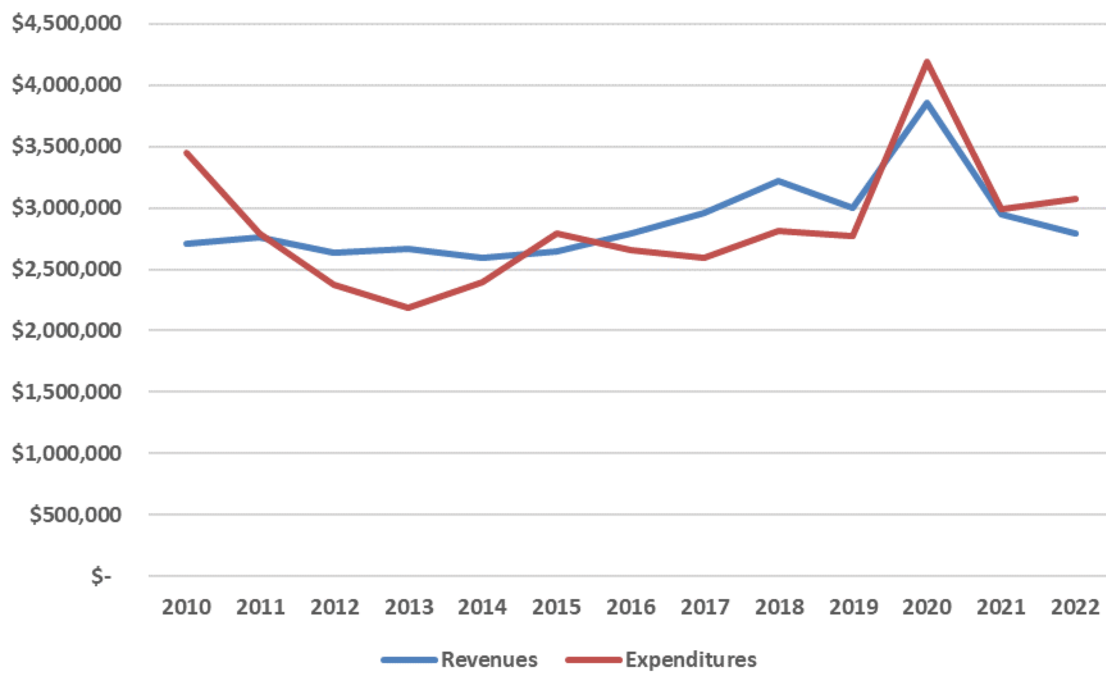
Source: SAO FIT, FRED IPD, and ESCI, 2023.

OIFR’s capital expenditures have gone down considerably in the period, but this is not due to a reduction in those costs, but rather a deferral of capital investment during the historical period. Deferral of these expenditures between 2008 and 2022 means that there is a significant amount of capital replacement and investment accrued that is needed to maintain OIFR’s equipment and fleet.

Historical Revenue Sufficiency

Despite OIFR's excess property tax collections and deferment of capital replacement costs, the agency has still faced a historical fiscal imbalance, with several years where agency expenditures outpaced revenues, as shown in Figure 9.

Figure 9. Historical Revenues versus Expenditures, Total and Per Capita, 2010 to 2022 ($2023)



Source: SAO FIT and ESCI, 2023.

This fiscal imbalance will worsen if OIFR's property tax levy lid lift is not replaced, and the agency falls off the "levy lid lift cliff."

Long Term Financial Sustainability Plan

ESCI's analysis of OIFR's historical revenues and expenditures uncovered a significant fiscal imbalance that is expected to become critical when the agency's current levy lid lift expires in 2025. To address this, OIFR needs to understand its expected future revenue deficit and establish a plan for eliminating that deficit, which may include increasing revenues, accessing financing (debt), and/or reducing costs. To understand OIFR's options for addressing this deficit, we must first project its future revenues and operating expenditures, as well as any new and/or capital expenditures. Given that many of OIFR's strategies may involve a levy lid lift, which can be enacted for 6 to ten years, we have chosen to project future revenues and expenditures for a ten-year period, 2024 to 2033.

Projected Revenues

For the purposes of projecting revenues, ESCI first categorized OIFR's revenues as either recurring or non-recurring. Recurring revenues are those sources expected to continue into the future (like property taxes, other taxes, intergovernmental revenues, charges for goods and services, miscellaneous revenues, and other financing sources) while non-recurring revenues are those that are one-time or irregular in nature (like grants, interest and insurance proceeds, and proceeds from the sale of capital assets). In some cases, revenues may be non-recurring because the revenue is no longer collected or there is not a basis from which to collect the revenue.

While recurring revenues are considered more "predictable," they may be subject to policy changes or changes in the market, so the likelihood of recurrence (and potential changes in magnitude) of such revenue sources must be considered over time. Similarly, there are some revenue categories that are made up of non-recurring revenues, but from which can be expected to have a recurring contribution; for example, the specific grants OIFR is eligible for may change over time, but OIFR may always expect some share of its revenues to come from grants.

Figure 10. 10-year Projected Revenues, 2024 to 2033 (YOE$)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Property Tax	2,408,000	2,187,000	2,209,000	2,231,000	2,253,000	2,276,000	2,299,000	2,322,000	2,345,000	2,368,000
Other Taxes	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Intergovernmental Revenues	4,000	4,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Charges for Goods and Services	110,000	112,000	114,000	117,000	119,000	121,000	124,000	126,000	129,000	131,000
Miscellaneous Revenues	4,000	5,000	5,000	6,000	6,000	7,000	7,000	8,000	9,000	10,000
Other Financing Sources	120,000	122,000	125,000	128,000	130,000	133,000	136,000	139,000	143,000	146,000
TOTAL	2,648,000	2,432,000	2,458,000	2,487,000	2,513,000	2,542,000	2,571,000	2,600,000	2,631,000	2,660,000

Source: ESCI, 2023.

Expected Operating and Capital Expenditures

Similarly, ESCI projected its operating expenditures related to salaries and wages, personnel benefits, supplies, and services.

Figure 11. 10-year Projected Operating Expenditures, 2024 to 2033 (YOE$)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Salaries & Wages	1,161,000	1,239,000	1,322,000	1,411,000	1,505,000	1,606,000	1,714,000	1,829,000	1,951,000	2,082,000
Personnel Benefits	440,000	470,000	501,000	535,000	571,000	610,000	651,000	695,000	742,000	793,000
Supplies	125,000	125,000	126,000	126,000	126,000	126,000	127,000	127,000	127,000	127,000
Services	571,000	596,000	622,000	649,000	678,000	707,000	738,000	770,000	804,000	839,000
TOTAL	2,297,000	2,430,000	2,571,000	2,721,000	2,880,000	3,049,000	3,230,000	3,421,000	3,624,000	3,841,000

Source: ESCI, 2023.

In addition to its existing operating expenditures, OIFR has additional operating and long-term capital needs that must be considered as part of its future costs. Over the last year, OIFR has worked to identify these future costs, which fall into three categories 1.) additional operating expenditures; 2.) near-term capital expenditures, and 3.) long-term capital expenditures. Following, ESCI describes the rationale for these expenditures and their projected costs over the next 10-years.

Additional Operating Expenditures

While OIFR's projected operating expenditures are a useful starting place for estimating the cost of OIFR's operations moving forward, they assume OIFR will continue to operate as it has historically. While this may seem appropriate, it does not consider that fire protection district operations change incrementally over time due to economic and labor conditions as well as policy and regulatory environments. It is not reasonable to expect that OIFR, nor any Fire Protection District, will continue to operate in a competitive economic and labor market without addressing these changes.

OIFR has identified four key operating needs to address over the next ten years, which are:

- **Recruitment and retention.** Recruitment and retention of qualified staff is an ongoing challenge for OIFR, as the labor market for these positions is very competitive and constrained by Orcas Island's isolated location. These additional resources will support **advertising** and flyers to support recruitment; awards, media, and ceremonies to support retention; and a small budget for volunteer support.
- **Training.** OIFR has identified the need for additional training for staff and volunteers; these expenditures will include hiring a new Division Chief of Training as well as resources for additional fire, emergency medical service, and rescue or other training.
- **Volunteer Health Insurance**. Currently, OIFR does not offer health insurance for its volunteer labor force, however current volunteers have indicated that it is critical to their continued volunteerism with OIFR; replacing OIFR's current volunteers with paid staff would be even more costly than offering health insurance to volunteers.
- **Equipment.** OIFR expects to need resources for rolling maintenance and replacement of its small equipment including radios, computers, monitors, automated external defibrillators (AEDs), ventilators, hoses, exhaust fans, chainsaws, bunker gear, masks, self-contained breathing apparatus (SCBAs), and wildland firefighting personal protective equipment (PPE).

These costs are estimated in Figure 12, following.

Figure 12. 10-year Projected Additional Operating Expenditures, 2024 to 2033 (YOE$)

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Recruitment-Retention	$ 8,000	$ 8,000	$ 8,000	$ 9,000	$ 10,000	$ 10,000	$ 10,000	$ 11,000	$ 12,000	$ 12,000
Training, Including Division Chief of Training	$ 227,000	$ 225,000	$ 242,000	$ 245,000	$ 263,000	$ 265,000	$ 283,000	$ 283,000	$ 303,000	$ 303,000
Equipment	$ 60,000	$ 79,000	$ 67,000	$ 76,000	$ 72,000	$ 82,000	$ 103,000	$ 136,000	$ 159,000	$ 169,000
Volunteer Health Insurance	$ 244,000	$ 264,000	$ 286,000	$ 309,000	$ 333,000	$ 359,000	$ 386,000	$ 414,000	$ 445,000	$ 477,000
TOTAL	**$ 539,000**	**$ 576,000**	**$ 603,000**	**$ 639,000**	**$ 678,000**	**$ 716,000**	**$ 782,000**	**$ 844,000**	**$ 919,000**	**$ 961,000**

Source: OIFR and ESCI, 2023.

Capital Expenditures

As discussed previously, OIFR has deferred a significant amount of capital investment over the last fifteen years. This means that a large number of OIFR's apparatus are due or past due for investment. This inventory is shown in Figure 13, following.

Figure 13. Apparatus Inventory and Age, 2023

Apparatus	Vehicle Make/Model	Purchase Year	Lifespan	Replacement
2019 ALS Ambulance	Ford F550	2019	15	2034
2007 ALS Ambulance	Ford F450	2007	15	2022
2001 BLS Ambulance	Ford E450	2001	15	2016
1997 BLS Ambulance	Ford E450	1997	15	2012
1997 Fire Engine	Spartan H&W	1997	20	2017
1997 Fire Engine	International	1997	20	2017
2005 Fire Engine	Seagrave	2005	20	2025
2005 Fire Engine	Seagrave	2005	20	2025
2008 WASP Engine	Ford 550/Darley	2008	20	2028
2008 WASP Engine	Ford 550/Darley	2008	20	2028
2008 WASP Engine	Ford 550/Darley	2008	20	2028
2008 WASP Engine	Ford 550/Darley	2008	20	2028
2003 Wildland Brush Truck	Ford F550	2003	15	2018
2008 RESCUE Truck	Ford F550	2008	15	2023
2007 Water Tender	FiroVac	2007	15	2022
2007 Water Tender	FiroVac	2007	15	2022
2012 Response/Command	Tahoe	2012	15	2027
2015 Response/Command	Tahoe	2015	15	2030
2015 Response/Command	Tahoe	2015	15	2030

Source: OIFR and ESCI, 2023.

As shown above, eight of OIFR's 19 apparatus are past their expected lifespan and due for replacement. An additional vehicle will meet its lifespan in 2023, and an additional 17 vehicles will be due for replacement in the next ten years. In all, due to deferred replacement, all but one of OIFR's fleet vehicles will need to be replaced between 2023 and 2033.

Replacing apparatus at the end of its lifecycle is essential to maintaining OIFR's current insurance rating and rates.

Figure 14. Facility Inventory and Age, 2023

Station	Address	Year Built	Facility Age
21 Eastsound	45 Lavender Lane, Eastsound, Washingto	2001	22
22 Westsound	78 Deer Harbor Road	1988	35
23 Roario	53 Firehouse Lane	1972	51
24 Deer Harbor/Spring Point	59 Channel Road	2012	11
25 Olga/Obstruction Pass	267 Obstruction Pass Road	1994	29
26 Orcas	1163 Killebrew Lake Road	1982	41
27 Doe Bay	3634 Pt. Lawrence Road	1969	54

Source: OIFR and ESCI, 2023.

Luckily, while OIFR has a large number of facilities, these facilities are not projected to need to be replaced between 2023 to 2033. However, some capital investment is needed to maintain these facilities. Beyond regular maintenance, these costs include completing some larger projects such as:

- Replacing the roofs on stations 22, 23, and 26,
- Completing station painting of Stations 23 and 25
- Completing concrete work to resurface sidewalks and the patio area, and replacing curbs at Station 21
- Sealing the asphalt parking lot and repainting parking lines at Station 21
- Replacing carpet and linoleum at Station 21

The replacement of such a large number of vehicles will be a costly process. While OIFR has no choice but to address these costs in the next ten years, had the agency created a dedicated reserve for vehicle replacement, it could spread the costs across the vehicles' full lifespans, 15 or 20 years, depending on the vehicle. Figure 15 shows the near-term apparatus and facility needs and the long-term apparatus needs, based on reserving the replacement cost of apparatus amortized over its lifecycle.

Figure 15. 10-year Projected Near and Long-term Capital Expenditures, 2024 to 2033 (YOE$)

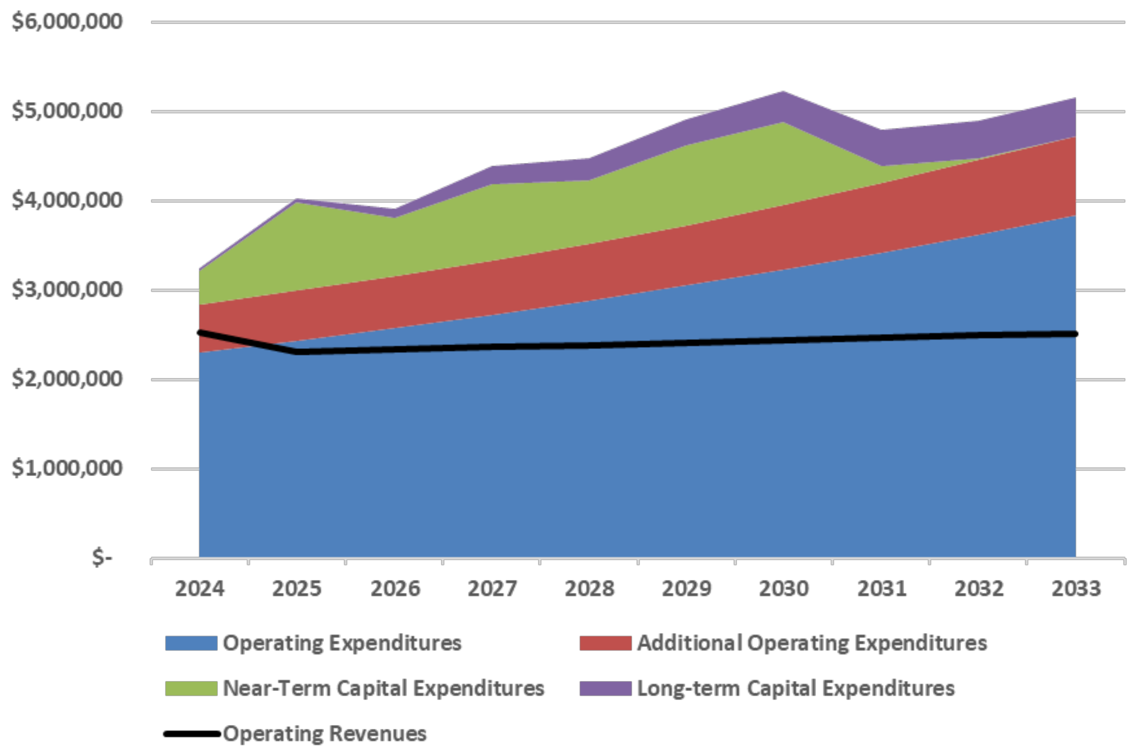
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Apparatus	$ 304,000	$ 953,000	$ 695,000	$ 1,009,000	$ 936,000	$ 1,255,000	$ 1,352,000	$ 637,000	$ 463,000	$ 478,000
Near-term	$ 282,000	$ 902,000	$ 599,000	$ 798,000	$ 675,000	$ 951,000	$ 984,000	$ 202,000	$ -	$ -
Long-term	$ 22,000	$ 51,000	$ 96,000	$ 211,000	$ 261,000	$ 304,000	$ 368,000	$ 435,000	$ 463,000	$ 478,000
Facilities	$ 111,000	$ 108,000	$ 79,000	$ 95,000	$ 65,000	$ 8,000	$ 17,000	$ 7,000	$ 7,000	$ 3,000
TOTAL	**$ 415,000**	**$ 1,061,000**	**$ 774,000**	**$ 1,104,000**	**$ 1,001,000**	**$ 1,263,000**	**$ 1,369,000**	**$ 644,000**	**$ 470,000**	**$ 481,000**

Source: OIFR and ESCI, 2023.

Expected Revenue Deficit

ESCI then subtracted the expected operating and capital expenditures from OIFR's projected revenues to estimate the potential revenue deficit OIFR is facing between 2024 and 2033, as shown in Figure 16.

Figure 16. 10-year Projected Revenues versus Operating and Near- and Long-term Expenditures, 2024 to 2033 (YOE$)



Source: OIFR and ESCI, 2023.

As Figure 16 shows, OIFR's current revenues are projected to be insufficient to fund even the agency's regular operating expenditures. Given that additional operating expenditures and near-term capital expenditures are also needed to support OIFR's ongoing activities, not increasing revenues to address these expenditures would lead to OIFR having to cut services to reduce its costs. This would lead to the agency providing a much lower level of service for fire protection and emergency medical services than Orcas Island residents have come to expect. Considering the Island's isolation and therefore lack of alternative or cooperative services, this could lead to increased loss of property and life.

Achieving Fiscal Sustainability

OIFR has many strategies to address its revenue deficit, some of which are focused on reducing costs (i.e., divesting responsibility for delivering services; increasing the efficiency of service delivery; or reducing level-of-service) and others of which include increasing revenues. At this time, OIFR has identified a desire to maintain its current responsibilities and level of service, and while the agency is always considering opportunities to make its costs more efficient, ESCI does not see substantial opportunities to reduce costs.

Instead, OIFR is considering opportunities to increase revenues. This may include:

- Maximizing intergovernmental revenues and grants
- Increasing cost-recovery
- Increasing existing tax collections
- Implementing new funding tools
- Implementing financing tools

Given the magnitude of OIFR's revenue needs, the most relevant opportunities to increase its revenues involve a voted initiative/ballot measure. The majority of these options generate increased and/or new revenue; however, some options may only or also satisfy fiscal demands through the use of debt. Of the options that generate increased and/or new revenues, almost all of them generate revenue in the form of property taxes.

To narrow down the funding strategies most relevant to increasing OIFR's revenues and addressing its deficit, ESCI considered the how the deficit could be addressed most simply, the likelihood of initiative passage, and the appropriateness of the funding source to the expenditure.

To understand the likelihood of initiative passage, ESCI analyzed all Fire Protection District ballot measures in Washington put to a vote between the November 2011 and November 2022 Elections.

OPTIONS FOR INCREASING FIRE PROTECTION DISTRICT REVENUES

Augmented Funding Tools:

- Excess O&M Levy (RCW 84.52.052, RCW 84.52.054)
- Fire District Excess Levy (RCW 84.52.130)
- Levy Lid Lift (RCW 84.55.050)

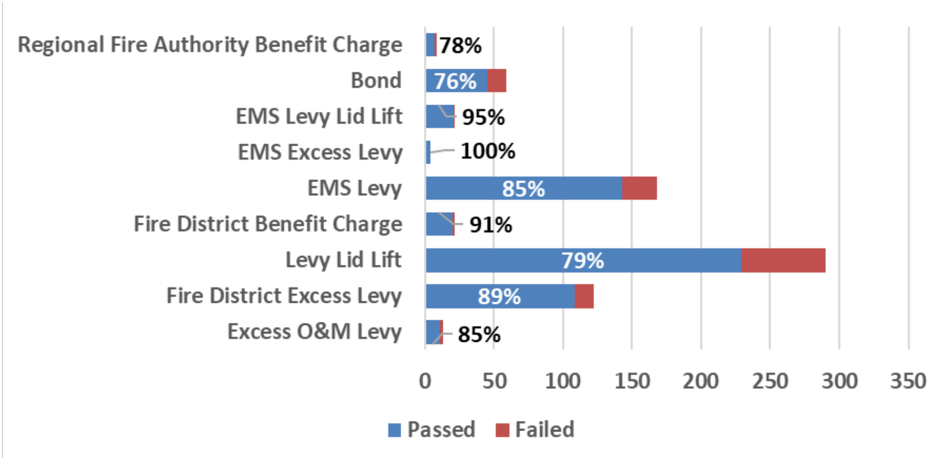
New Funding Tools:

- Fire District Benefit Charge (RCW 52.18.010)
- EMS Levy (RCW 84.52.069)
- EMS Excess Levy (RCW 84.52.052, RCW 84.52.054)
- EMS Levy (RCW 84.52.069), Levy Lid Lift (RCW 84.55.050)

Financing Tools:

- Limited Tax General Obligation (LTGO) Bonds (RCW 84.52.056)
- Unlimited Tax General Obligation UTGO Bonds (RCW 84.52.056)

Figure 17. Ballot Measure Passage Rate, Elections November 2011 to 2022



Source: MRSC Local Ballot Measure Database and ESCI, 2023.

ESCI found that most of the funding and financing measures measures put to vote over this period passed and that passage was influenced by factors other than the type of measure, including:

- Tax burden/impact
- Need for a super-majority (60% and validation) for passage
- Election timing (February or April Special Election, August Primary Election, or November General Election)

Key Options for Achieving Fiscal Sustainability

Based on the ESCI worked with OIFR to outline options for achieving fiscal sustainability, as shown in Figure 18. These options included a "no action alternative" which was provided for illustrative (comparison to the other options) purposes only.

Figure 18. Options for Achieving Funding Sustainability

<table>
<tr><th></th><th>No Action Alternative (illustrative only)</th><th>Option 1</th><th>Option 2</th><th>Option 3</th></tr>
<tr><td>Regular Operating Expenditures</td><td rowspan="4">Insufficient Revenues (will require reduction in level of service and future action)</td><td rowspan="4">Levy Lid Lift</td><td rowspan="2">Levy Lid Lift*</td><td rowspan="3">Levy Lid Lift</td></tr>
<tr><td>Additional Operating Expenditures</td></tr>
<tr><td>Near-term Apparatus Replacement (10-year)</td><td>UTGO/LTGO Bond</td></tr>
<tr><td>Long-term Apparatus Replacement (Beyond 10-years)</td><td>Levy Lid Lift*</td><td>Insufficient Revenues (to be address in future)</td></tr>
</table>

Source: ESCI, 2023.

The four options include:

- **No Action Alternative (illustrative purposes, only):** Do not implement any new funding and/or financing tools and reduce level of service/defer capital maintenance and apparatus replacement as revenues are unable to keep pace with expenditures.
- **Option 1:** Implement voted levy(ies) to address operating and both near- and long-term capital needs. Continue to cash flow apparatus and equipment purchases needed within the 10-year Master Funding Plan horizon and create a reserve/sinking fund for future apparatus and equipment purchases that amortizes the cost of those investments over their lifecycles.
- **Option 2:** Implement a voted levy to address operating and long-term capital needs, by creating a reserve sinking fund for future apparatus and equipment purchases that amortizes the cost of those investments over their lifecycles. Implement a voted bond to address near-term capital needs.
- **Option 3:** Implement a voted levy to address operating and near-term capital needs. In this option, long-term capital needs would be addressed as part of the following levy/bond, outside of the 10-year Master Funding Plan.

Given OIFR's desire to include long-term apparatus replacement, Option 4 was excluded. Both Options 1 and 2 were considered; however, given that Option 1 requires only one voted initiative to Option 2's two votes, it was selected as the preferred option.

Preferred Option

Option 1 involves a levy lid lift to fund OIFR's full revenue deficit. However, before ESCI could establish a levy rate to address this revenue deficit, it had to establish its levy type. Washington state allows for several variations of Levy Lid Lifts, based on:

- Whether the levy lid lift is single-year or multiyear
- Whether the levy lid lift will be temporary or permanent
- If temporary, the duration of the temporary levy lid lift

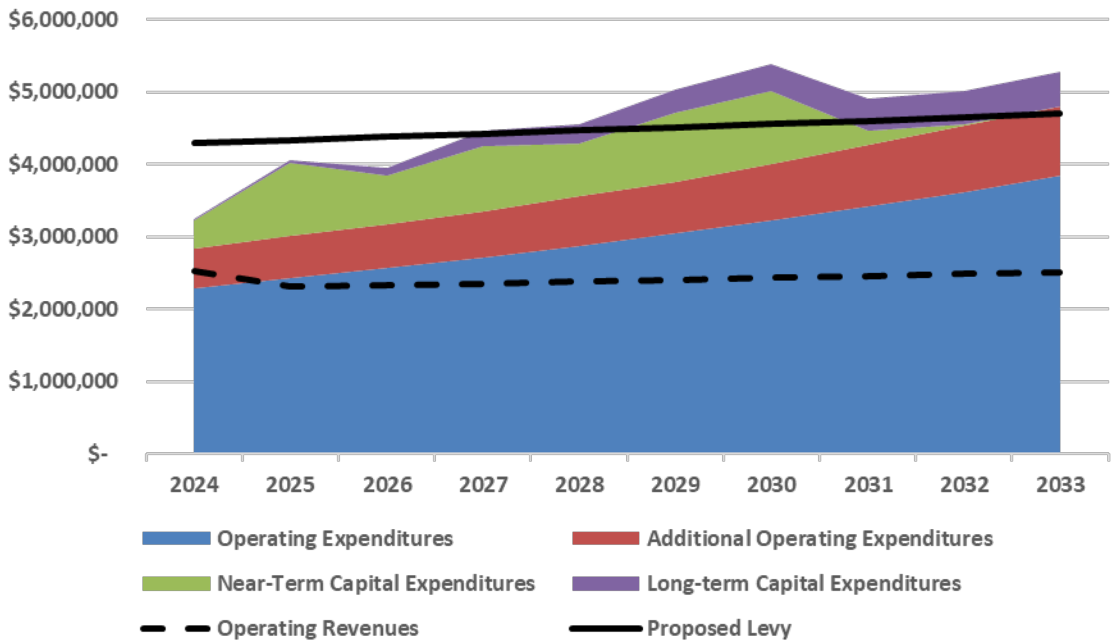
These Levy Lid Lift types are compared in Figure 19.

Figure 19. Washington Levy Lid Lift Comparisons

Source: MRSC, 2023.

Given that the projected expenditure growth and additional expenditures needed in the next ten years are perpetual needs, ESCI recommends a permanent levy lid lift. Either a single or multiyear levy could work to meet these needs, but given they don't escalate substantially over time (increasing modestly based on inflation and demand drivers) a single-year levy seemed more appropriate, as shown in Figure 20.

Figure 20. Proposed Levy Lid Lift, 2024 to 2033 (YOE$)



A single year, permanent levy lid lift with a tax rate of $1.06 per $1,000 of assessed value (based on OIFR's 2023 assessed value of $4,052,840,468) would be sufficient to address OIFR's additional revenue needs through 2033.

Additional planning would be needed to rebalance spending across the 10-year planning horizon, and an additional contingency of approximately $400,000 would be collected in the period, based on these planning-level estimates.

Conclusion

To achieve fiscal sustainability, OIFR must pursue additional, voted revenue streams. The most straightforward approach to meeting the agency's funding needs is to bring a single year, permanent levy lid lift with a tax rate of $1.06 per $1,000 of assessed value (based on OIFR's 2023 assessed value of $4,052,840,468) to the voters before the end of 2024. If this levy is brought to the voters in 2024, the levy rate should be retabulated based on the agency's 2024 assessed value.

Once voters pass the levy lid lift, OIFR will need to establish a plan for balancing its spending across the 10-year planning horizon to ensure sufficient revenues are available on an annual basis. If voters do not pass the levy lid lift, OIFR will need to consider reducing its level of service to match what voters are willing to pay.