



September 4, 2025

TO: LOCSD Board of Directors

FROM: Ron Munds, General Manager

**SUBJECT: Agenda Item 8A – 09/04/2025 Board Meeting
Fund 301 Budget and Options Discussion**

STAFF RECOMMENDATION

The staff recommends that by motion the Board take the following action:

Motion: I move that the Board:

- 1. Receive and file the report; and**
- 2. Direct the General Manager to draft and send a letter of interest to the City of Morro Bay regarding a future partnership to provide Los Osos with fire protection and emergency medical services.**

DISCUSSION

Background

On May 14, 2025, the Board called a special Board meeting to discuss the County/Cal Fire contract and the options available to fill the Fund 301 funding gap that was identified as part of the fiscal year 2025-26 budget process. As noted at that meeting, the District has been contracting with County/Cal Fire for fire and emergency medical services since 2004. The District’s Cooperative Fire Protection Agreement (Agreement) is with County Fire and has provided excellent service to the community even with the contract challenges we have had over the past few years.

Each year, County/Cal Fire provides the District a schedule of charges for services referred to as “Schedules A through E” which summarizes the cost for the various services in the agreement. Since 2004, there have been relatively small increases in the contract amount in the range of 2% to 4% range. There were significant increases in costs as indicated in the table below:

Year	Percent Increase
2019-20	27%
2023-24	17%
2025-26	25%

These increases have outpaced the revenue sources with the projections for the fiscal year 2025-26 running a deficit of approximately \$278,000. The following is the budget summary the Fund 301 2025-26 budget.

President

Christine M. Womack

Vice President

Matthew D. Fourcroy

Directors

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Tom Cross
Richard Hubbard

General Manager

Ron Munds

District Accountant

Robert Stilts, CPA

Unit Chief

John Owens

Battalion Chief

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301 - Fire			
Fund 301 Budget Category	2024-2025 Budget	2025-2026 Budget	Increase/ (Decrease)
Revenue	\$3,811,184.04	\$3,994,910.58	\$183,726.54
Expenditures			
Total Personnel	\$304,625.00	\$304,225.00	-\$400.00
Services & Supplies	\$3,155,907.00	\$3,644,217.00	\$488,310.00
Capital Outlay	\$51,493.85	\$2,000.00	-\$49,493.85
Reserves	\$220,000.00	\$226,500.00	\$6,500.00
Transfers	\$79,158.19	\$96,004.73	\$16,846.54
Total Expenditure	\$3,811,184.04	\$4,272,946.73	\$461,762.69
Total Revenue	\$3,811,184.04	\$3,994,910.58	\$183,726.54
Net Revenue/Expenses		-\$278,036.15	

County/Cal Fire have indicated they want to amend the terms of the contract to include additional charges for service, equipment maintenance and personnel. This means that further increases are looming as soon as the 2026-27 fiscal year.

Additionally, the District has been contesting the countywide overhead charge that went from a relatively small, fixed rate to a variable rate starting fiscal year 2024-25. To date, no progress has been made on negotiating a new agreement which has placed the District under a period of financial uncertainty as it relates to the future costs for emergency services.

Revenues vs. Expenses Evaluation

As previously noted, the County contract amount has been fairly consistent with minor fluctuations from year to year. Similarly, revenues have increased at a steady rate and have provided adequate revenues to support both the County contract charges, the operation of the fire station and consistently fund the reserves. The current projected deficit is the first time since the District has contracted with the County/Cal Fire that there has been a shortfall.

It is important to note that this budget does not include the higher staffing level that was identified in the Standard of Cover Study or fire station building improvements identified in the Fire Station Building Assessment Study.

Increases in the Special Fire Tax

The current fiscal year 2025-26 property tax rate for a single-family dwelling is \$109.00 per year. Staff are currently working on expense projections based on the FY 2025-26 fiscal year budget numbers to forecast future expenses. Preliminary results show that it will take a significant increase in the tax to balance the budget over time given the escalation in costs the District has experienced.

District Options for Continued Emergency Services

From the discussions on May 4th, the four options were identified for consideration. Keep in mind that a special fire tax increase will be needed for options 1, 2 and 3 presented below. Any increase in the tax will require a Proposition 218 vote. Options 3 and 4 will be discussed at a future meeting and dependent on further action by the Board. The options are:

- 1. Continue Contracting with County/Cal Fire:** As stated earlier, the District has long standing relationship with County/Cal Fire. There are many challenges associated with continuing the current contractual relationship, but this option would represent the status quo in terms of service.

There are some unknowns at this time since County/Cal Fire have indicated they want to change the terms of the contract to include additional charges for services and personnel.

2. **Consider a District staffed Fire Department:** The District could consider moving away from County/Cal Fire contract and reestablishing the Fire Department completely under District control. This would be a great undertaking but possible.
3. **Investigate partnering with another agency:** The Board could consider finding another local partnering agency. The closest public agency is the City of Morro Bay. This option would take time and effort to find a willing partner and then determine the scope of work and negotiate terms, costs and conditions for service but could provide upgraded services. Before moving forward with an evaluation of this option, staff will be seeking direction from the Board.
4. **Divesture of the District’s fire service responsibilities:** The District could move to divest its fire service authority and turn the station and equipment over to the County to own and operate. This would be a drastic move but needs to be mentioned as an option in the ongoing discussion.

Preliminary Financial Analysis for Options 1 & 2

Staff are refining and verifying the estimated budget numbers for comparison purposes of comparing costs for Option 1, continuing to contract with County/Cal Fire, and Option 2, the District establishing its own fire department. There are some unknowns with the County/Cal Fire contract, so some assumptions have been made based on discussion with the County’s Administrative Office and Cal Fire.

County/Cal Fire Analysis vs. District Staffed Fire Department

To compare these two options, staff utilized the City of Morro Bay’s fiscal year 2025-26 fire Department budget since they are a similar size community with a full-service fire department so comparable to what the District would expect for fully staffed fire department. Staff did look at other agencies but determined that Morro Bay’s salaries scales and organizational structure would provide a long-term sustainable model for the District. This said, there are some fundamental differences in service levels between County/Cal Fire and Morro Bay that make it difficult to make an exact side-by-side comparison.

The table below shows the County/Cal Fire three-year budget projection. The budget is based on the status quo for services and personnel. The current staffing level is three regular positions plus one reserve firefighter. When the Standard of Cover Study was discussed in 2023, the recommendation was to have four regular positions since the Reserve Program was struggling to consistently fill the fourth needed to meet the minimum requirements when responding to a fire and support for a medical emergency. As discussed, there will be additional expenses in the future but unknown at this time.

Included in the budget projections are the estimated cost for dispatch services since this is a significant cost that needs to be included to make the comparison more accurate. Also, the contribution to the Fund 301 financial reserves per the District’s reserve policy are included in the Morro Bay projections to try to make a fairer comparison.

County/Cal Fire Cost Estimations			
Year	2025-26	2026-27	2027-28
Expenses			
Schedule A - Personnel*	\$ 3,278,321.00	\$ 3,442,237.00	\$ 3,614,348.85
O&E - estimate**	\$ 79,740.00	\$ 83,727.00	\$ 87,913.35
Dispatch - estimate	\$ 150,000.00	\$ 157,500.00	\$ 165,375.00
Financial Reserves Contributions	\$ 226,500.00	\$ 237,825.00	\$ 249,716.00
Operating Costs + Reserves	\$ 688,385.00	\$ 712,478.48	\$ 737,415.22
Annual Total	\$ 4,422,946.00	\$ 4,633,767.48	\$ 4,854,768.42

The following table is the published fiscal year 2025-26 budget for the City of Morro Bay Fire Department. Added is the District's financial reserve contribution. Dispatch services are part of the operating cost line item on the table. It is important to note that the staffing costs include four positions, which meet the standard the District is striving to achieve. It also includes the full cost for a Fire Chief, Assistant Fire Chief and Administrative Technician positions.

As stated previously, the costs in the table are representative of what it would cost for the District to establish its own fire department.

District Fire Department (City of Morro Bay Example)			
Year	2025-26	2026-27	2027-28
Expenses			
Staffing Costs*	\$ 3,875,167.00	\$ 4,068,925.35	\$ 4,272,371.62
Dispatch - included in operating costs		\$ -	\$ -
Financial Reserves Contributions	\$ 237,825.00	\$ 249,716.25	\$ 262,202.06
Operating Costs**	\$ 631,631.00	\$ 653,738.09	\$ 676,618.92
Annual Total	\$ 4,744,623.00	\$ 4,972,379.69	\$ 5,211,192.60

Summary

When comparing the two options, County/Cal Fire is the least cost option under the current contract terms. As stated, the terms of the contract could increase based on conversations with County/Cal Fire. Even if the contract increases, setting up a District staffed fire department will be a challenge and expensive. The magnitude of expense will need to be determined if and when the County/Cal Fire contract is amended.

SUMMARY TABLE			
County/Cal Fire Cost Estimations			
Year	2025-26	2026-27	2027-28
Annual Total	\$ 4,422,946.00	\$ 4,633,767.48	\$ 4,854,768.42
District Fire Department (City of Morro Bay Example)			
Year	2025-26	2026-27	2027-28
Annual Total	\$ 4,744,623.00	\$ 4,972,379.69	\$ 5,211,192.60

Attachments

County/Cal Fire 3-year cost projects
 City of Morro Bay Fire Department Fiscal Year 2025-26 Budget



John Owens, Unit Chief

LOS OSOS SERVICE AGREEMENT

Schedule A

Cost for Providing Fire Protection Services

Fiscal Year 25/26 – 27/28 (July 1, 2025, through June 30, 2028)

Fiscal Year 25/26	
PS	\$2,772,955
PS State Admin Fee 10.77%	\$298,647
OE	\$67,448
OE State Admin Fee 10.77%	\$7,264
State Total	\$3,146,315
CWOH @6.73%	\$211,747
Total	\$3,358,062
Fiscal Year 26/27	
Total State Contract Increase 5%	\$3,303,631
CWOH @6.73%	\$222,334
Total	\$3,525,965
Fiscal Year 27/28	
Total State Contract Increase 5%	\$3,468,813
CWOH @6.73%	\$233,451
Total	\$3,702,264

		Morro Bay
		FY 25-26
Department - 4210 - Fire Department		
4110	Regular Pay	2,001,849.36
4120	Overtime Pay	285,611.00
4310	Part Time Pay	125,070.00
4599	Other Pay	97,729.52
4910	Employer Paid Benefits	386,109.77
4911	Pension Normal Cost	340,958.40
4912	PERS Unfunded Accrued Liability	555,808.50
4914	Workers ' Compensation	82,031.00
	Total Labor	3,875,167.55
5101	Janitorial Supplies	1,000.00
5108	Communication Supplies	4,000.00
5109	Uniforms/Safety Equipment	24,200.00
5110	Fuel Oil & Lubricants	42,000.00
5121	Safety Equipment	20,250.00
5130	Advanced Life Support Equ	30,000.00
5199	Miscellaneous Operating Supplies	24,000.00
5301	General Office Supplies	2,000.00
5303	Books & Manuals	800.00
5305	Forms Printing	3,700.00
5502	Building Maint. Supplies	1,500.00
5503	Rolling Stock Supplies	25,000.00
5504	Machinery/Equip/Supplies	2,000.00
5530	Small Tools	3,500.00
6104	Engineering Services	4,000.00
6125	Professional Development	24,700.00
6129	Digital Services	17,240.00
6201	Telephone	17,500.00
6220	Postage	150.00
6301	Electricity	45,000.00
6302	Natural Gas	3,000.00
6303	Water	7,000.00
6305	Disposal	3,325.00
6308	Internet/Cable TV	4,200.00
6401	General Liability Insurance	59,110.00
6421	Boiler/ Mechanical Breakdown	1,014.00
6473	Vehicle Insurance	4,586.00
6514	Meeting and Travel Expense	12,000.00
6519	Association Membership	1,625.00
6604	Outside Vehicle Repair/Maint	35,000.00
6640	Maintenance Contracts	12,650.00
6710	Notices & Publications	1,000.00
6720	Medical Examinations	13,000.00
8721	Payment To Other Agency	181,581.00
6101	Legal	0.00
6106	Contractual Services Consultant	0.00
	Total O&M	631,631.00
	Budget Total	4,506,798.55