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Corporate Profile  
of Rural/Metro  
Corporation

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# RURAL/METRO CORPORATION

## Introduction

Rural/Metro Corporation is a leading provider of health and safety services, which includes 911 emergency ambulance and general transport services, fire protection services, and other safety and health care related services to municipal, residential, commercial and industrial customers. The company is the #1 private fire service in the United States; and the #2 private ambulance provider (the latter behind American Medical Response).

Rural/Metro is also one of the largest private-sector providers of ambulance and fire protection services in the world. The company currently serves over 450 communities in 26 states, the District of Columbia, Canada, Mexico, and South America. It operates under the names Rural/Metro, Southwest Ambulance, Emergencias Cardio Coronarias (ECCO), and other names, depending on statutes or other contractual agreements.

In certain service areas, the company is the only provider of both emergency ambulance and general transport services. In other service areas, the company competes for general transport services. In all service areas, the company responds to 911 emergency calls if requested by a municipality or fire district, even in the absence of a contract.

Rural/Metro is headquartered in Scottsdale, Arizona.

## Canadian Operations

Rural/Metro expanded into Canada in 1997, when it acquired seven ambulance firms in Ontario. The company now operates in Casselman, Cobourg, Finch, East Hawkesbury, Hawkesbury, Longueil, L'Orignal, Morrisburg, Nepean, Osgoode, Owen Sound, Port Colborne, Port Hope, Prescott, Vanleek Hill, West Hawkesbury, and Winchester. All of these are located in Eastern Ontario.

When Rural/Metro first began operating in the province, the *Globe and Mail* noted that 69 of Ontario's 172 licensed ambulance services were privately-owned; 64 were managed by hospitals; 16 were operated by municipalities; 13 were volunteer organizations; and 10 were managed by the province.

## History

According to company documents, Rural/Metro was founded in 1948 when its founder, Lou Witzeman, watched his neighbour's house go up in flames because there was no fire protection in his small, unincorporated community. Witzeman pooled together some money, bought a fire truck, and began operating a four-person fire department. The fire department grew, and in 1951, his company signed a contract with the newly incorporated city of Scottsdale, Arizona. In 1969, Rural/Metro began operating ambulance services independent of its fire operations; and in 1977, the company began servicing areas outside Scottsdale.

Since that time, the company has continued to expand both through internal growth, as well as through acquiring other firms. As an example of the latter, the company completed 18 acquisitions in its 1996 fiscal year, 19 in 1997, and 11 in 1998. Rural/Metro has also entered into a joint venture in the Baltimore, Maryland and DC areas, and a public/private alliance in San Diego.

In 1978, Rural/Metro was sold to its employees through an employee stock ownership plan. In 1993, Rural/Metro began trading on the NASDAQ exchange, under the symbol RURL.

As noted later on in this research study, Rural/Metro has had serious problems over the past year as a result of certain financial issues; and allegations that management was less than honest in disclosing them. One of the outcomes of this situation was the resignation of Rural/Metro's CEO, and the launching of a class action lawsuit against the company.

## A "Pioneer" in Privatization

Rural/Metro calls itself "a pioneer" in privatization. Material distributed by the company alleges that Rural/Metro has proven that emergency services—such as fire suppression and emergency ambulance—can be more efficiently delivered with higher standards of service and quality through a private company.

Rural/Metro says that communities can realize "ample rewards" when they contract with companies like itself for emergency services. According to Rural/Metro, some of these benefits are guaranteed performance standards through strict contractual requirements; significant cost savings, which can free up tax dollars for other important community services, such as police protection; increasing service levels through innovative resource management; greater control over services; greater depth/breadth of resources; eliminating the risk of cost/budget overruns through fixed fee contracts; and eliminating management

and personnel headaches. Communities are also able to transfer the burden of liability for operating emergency services to the contractor.

Rural/Metro stresses the importance of public/private partnerships, which it says combine the “fiduciary integrity of the public sector with the innovation and business acumen of the private sector”.

## Operations

Rural/Metro provides several main types of services.

### Ambulance Transport Services and Urgent Home Medical Care

- **Emergency Medical Services:** Rural/Metro generally provides emergency medical ambulance services pursuant to contracts with counties, fire districts, and municipalities. The contract typically appoints the company as the exclusive provider of 911 emergency ambulance services in designated service areas and requires the company to respond to virtually all 911 calls with advanced life support (ALS) ambulance units. ALS ambulance units are staffed with two paramedics or one paramedic and one EMT; and are equipped with ALS equipment (such as cardiac monitors, defibrillators, and oxygen delivery systems), as well as pharmaceuticals and medical supplies.
- **General Transport Services:** Rural/Metro provides ambulance services to patients requiring either advanced or basic levels of medical supervision during transfer to and from residences and health care facilities. These services may be provided when a housebound patient requires examination or treatment at a health care facility or when a hospital inpatient requires tests or treatment. The company also provides critical care transport services to medically unstable patients, such as cardiac patients. In addition to ambulance services, Rural/Metro provides non-medical transportation for the handicapped and certain non-ambulatory persons in some nursing homes, hospitals, or other health care facilities. According to the company, by providing a variety of transportation options, it can “add value” to the operations of HMOs, hospitals, and other managed care providers as a “gatekeeper” of ambulance services.
- **Urgent Home Medical Care:** In Argentina, Rural/Metro has approximately 800,000 individual and business customers who prepay monthly for urgent home medical care and ambulance services under a capitated service arrangement.

- **Medical Personnel and Quality Assurance:** Paramedics and EMTs must be certified in order to transport patients and perform emergency care services. Several of Rural/Metro's employee-owners took part in a committee to establish standards of care in the industry. As a result, the Commission on Accreditation of Ambulance Services (CAAS) was formed. The CAAS establishes benchmarks for service quality, and sanctions the companies who meet them.

## **Fire Protection Services**

Rural/Metro's fire protection services consist primarily of fire prevention and fire suppression. Other fire protection related activities include hazardous material containment, underwater search and recovery, mountain and confined space rescue, and public education. The company provides various levels of fire protection services, ranging from fire stations that are fully staffed 24 hours per day to reserve stations.

Rural/Metro generally provides its services to municipalities and other governmental bodies pursuant to master contracts and to residences, commercial establishments, and industrial complexes pursuant to subscription fee and other fee-for-service arrangements.

Federal and state governments in the U.S. contract with the company from time to time to suppress forest fires or wildfires on government lands. Rural/Metro boasts that with as little as 24 hours notice, it can dispatch trained personnel to anywhere in the Western Hemisphere. Rural/Metro also provides on-site structural fire and emergency services, as well as runway services, at several airports.

## **Other Services**

In addition to the above, Rural/Metro has expanded beyond its core services, and now provides a wide range of health and safety services. These include:

- Alarm installation and monitoring for home and business owners;
- Personal emergency response systems, through which individuals can access police, fire and medical assistance through touching a mobile medallion;
- Global positioning and cellular security systems for automobiles;

- Medical call centres that provide patients with around-the-clock medical consultations and advice; and
- Firefighting, hazardous materials response, confined space rescue and emergency medical training for industrial emergency response teams.

## **Growth Strategy**

### **The EMS Environment**

Rural/Metro estimates that the ambulance service industry in the U.S. includes more than 10,000 providers of service, 2,000 or more of which are owned by the private sector and 1,000 of which are hospital-owned. Expenditures for emergency medical services and general ambulance services in the U.S. are now between \$4 and \$7 billion. Most commercial providers are small companies serving one or a limited number of markets. Several multi-state companies, including Rural/Metro, have emerged through the acquisition and consolidation of smaller ambulance service providers in recent years

Various factors are contributing to the increase in the demand for services:

- The growth and aging of the population;
- Fiscal austerity and competitive cost cuts, blended with new technologies, which have reshaped (and continue to reshape) the health care delivery system;
- A shift from fee-for-service providers to larger integrated managed care providers such as HMOs, which provide a web of health services on a capitated basis;
- A greater reliance on outpatient care facilities and home care services;
- An increase in patient travel between specialized treatment facilities; and
- The creation of “opportunities” for further privatization in ambulance and fire protection services (in one of its documents, Rural/Metro specifically cites Ontario and Argentina as places where it intends to capitalize from privatization initiatives).

The rise of managed care providers has contributed greatly to Rural/Metro's growth. Managed care providers (HMOs) focus on cost containment measures while seeking to provide what they consider to be the most appropriate level of service at the most appropriate treatment facility. They need large and flexible ambulance service providers with a broad geographical presence to ensure transport of patients to affiliated facilities, avoid costly inter-facility transports and provide a seamless delivery of service.

Moreover, while standards of pre-hospital emergency care have increased, patients who have been previously treated on an outpatient basis tend to be admitted to hospitals in a far more serious condition and require faster ambulance response time. These factors increase the costs of capital and technological resources necessary to provide higher levels of service, which only larger service providers can afford.

Rural/Metro considers service providers who do not meet these requirements as candidates for acquisition.

Rural/Metro sees these change in the EMS marketplace as growth opportunities. The company is positioned to grow through acquisitions, while operating profitably in both large and small communities.

### **Specific Elements of Rural/Metro's Growth Strategy**

Rural/Metro's filing to the Securities and Exchange Commission (SEC) in the United States outlines the specific elements in its growth strategy. Generally, it is based on using its experience in communications and logistics management to enhance its position as a leading provider of health and safety services in the United States and elsewhere. Key elements of this strategy include the acquisition of ambulance service providers and strategic alliances.

Having established a regional presence in many geographic locations, Rural/Metro is currently focusing on increasing its marketing efforts to serve the health and safety needs of the public and private sectors, including services for health care providers; expansion and fire protection and community safety services; integration of health and safety operations; public/private partnering; and outsourcing of other health and safety related services.

According to its SEC filing, Rural/Metro seeks to improve productivity, expand service offerings to customers, and attract new customers through key business alliances, joint ventures, or other co-operative business arrangements.

An important element of its strategy is directed at the public sector. Rural/Metro plans to expand its general transport services through increased marketing to

hospitals, health maintenance organizations, and other health care providers and emergency ambulance services through the pursuit of new contracts and alliances with municipalities and fire districts. It also intends to expand its fire protection and other safety-related services.

According to Rural/Metro, the company is responding to economic pressures on the public sector to reduce taxes and expenditures for emergency services, including fire protection and other safety-related services, by establishing public/private alliances with fire districts and municipalities. Rural/Metro also intends to offer billings and collections services to fire districts and municipalities.

The company utilizes sophisticated management systems, which permit achieving economies of scale. These economies of scale are obtained at the local operational level and at the corporate level through centralized systems for billings collections, centralized purchasing, accounting, cash management, human resources, risk management and third party reimbursement.

## **Core Values**

Rural/Metro's public relations material strongly emphasizes that the company operates according to a series of "core values". These are reproduced in this section, in the company's words:

### **Community Trust**

As guardians of our communities' health, safety and property, we believe in maintaining high principles and ethical standards and in leading by example. Caring and respect for every individual is at the centre of all we do. We will work to build healthier communities, and improve quality of life by promoting active involvement in civic, charitable, and political affairs<sup>1</sup>.

### **Free Enterprise**

We believe that competition and free enterprise result in the most effective provision of health and safety services, and that the profit motive is a positive influence on delivery of service and business conduct.

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<sup>1</sup> According to Rural/Metro, as a result of the company's commitment to communities, it has instituted a variety of public-service programs, including CPR training, wildfire safety programs, flu shots, exit drills in the home, and first-aid programs.

## **Innovation**

Our focus on innovative health and safety solutions will ensure that our clients receive high quality, cost-effective service. We will take a leading role in transforming practices in our industry by challenging current assumptions and bureaucracies and exploring creative alternatives that bring greater quality and value to the people we serve.

## **Responsiveness**

We strive to be constantly aware and responsive to the changing needs of the people we serve so that we may anticipate and meet their expectations. We will approach *every* job task with the same degree of care and sensitivity.

## **Leadership and Teamwork**

We value strong leadership, and clearly communicate our guiding vision and objectives. It is every employee's responsibility to pursue that vision with passion and pride, and to work toward the accomplishment of our purpose through teamwork and collaboration. Our work environment is one which recognizes and rewards outstanding performance.

## **Resilience**

Every employee must have the ability to embrace and absorb change and, at the same time, remain positive, focused, organized and proactive. To maintain our leadership position, we must be flexible in the manner that we respond to change, for the dynamic nature of a global marketplace requires that we do so.

## **Learning and Knowledge**

We believe that the source of our success lies within the intellectual, social, physical, and spiritual development of each of us. We are committed to the professional development of our employees, and to providing them with the proper motivation, tools and opportunities to best serve our clients and communities.

## **Anti-Union Bias?**

A search of Internet news groups turned up some 600 items on Rural/Metro. The National Union surveyed about 20% of these items. We determined that many were either criticisms of the company's operations; or rebuttals of those criticisms. The vast majority related to the company's firefighting operations.

Some of these news items were evidently from workers who felt that Rural/Metro opposed unions. However, there were also items from union members—some of whom identified themselves as employees of Rural/Metro—who disputed those claims.

One news report contained material related to a Rural/Metro Vice-President. The news item said that Rural/Metro hates the firefighter unions almost as much as the unions hate Rural/Metro. In support of this claim, the news item cited the Vice-President's letter to a newspaper in the Lake Havasu newspaper, where the Vice-President suggested that the majority of Rural/Metro's critics were motivated by a union agenda which has more to do with power than public interest. "It is quite apparent", said the letter, "that the firefighter's union has waged a 'misinformation campaign' against Rural/Metro intended to cloud the truth and maintain the status quo."

It is evident that many of Rural/Metro's operations across the United States are unionized. The IAFF was identified on a number of occasions in news reports as the union representing Rural/Metro workers.

## **Financial Results**

For the fiscal year-end June 1998, Rural/Metro's revenues were \$475.6 million, representing an increase of some 48% from the previous year. Ambulance services and fire protection services accounted for approximately 81% and 10% respectively of Rural/Metro's revenues.

For 1998, Rural/Metro's net income was \$7.5 million, up 40.9% from 1997. However, as noted below, the fourth quarter produced a loss, as a result of allowances for doubtful accounts (bad accounts receivable) and severance pay.

Another way of looking at Rural/Metro's revenues is through who pays for its services. In 1998, 29% of its revenues were collected from Medicare (U.S.); 11% from Medicaid; 39% from private insurers (including prepaid health plans and other non-government sources); and 21% directly from patients.

At the end of its 1998 fiscal year, the total value of all of Rural/Metro's assets was \$535.5 million.

## **Employees**

At the end of its 1998 fiscal year, Rural/Metro employed approximately 8,000 full-time and 4,250 part-time employees (the total number of employees increased by 33.2% from 1997). Of these employees, approximately 9,100 were involved in ambulance services, 600 in fire protection services, 550 in integrated ambulance and fire protection services, and 2,000 in management, administrative, clerical, and billing activities.

Of Rural/Metro's employees, 3,050 are paramedics and 4,900 are emergency medical technicians (EMTs).

## **Ownership**

Rural/Metro is a publicly traded company. However, the company's directors, executive officers, and their affiliates own approximately 13% of the company's shares, and the company's Employee Stock Ownership Plan (ESOP) holds approximately 6%. The company has acknowledged that if these people act as a group, they will likely be able to significantly influence the election of Rural/Metro's directors and the outcome of other matters requiring shareholder approval.

## **Recent Media Reports**

### **Fraud Lawsuit**

A securities fraud class action suit was filed in Arizona in August 1998 on behalf of purchasers of Rural/Metro common stock between April 28, 1997, and June 11, 1998. The lawsuit alleges that during this period, the price of Rural/Metro traded at artificially inflated prices (as high as \$37.50) because the defendants issued a series of false and misleading statements regarding Rural/Metro.

For example, on April 22, 1998, the defendants stated that Rural/Metro had “a solid third quarter” and “made substantial progress in improving (its) receivables through increased leadership and additional technology in the collections areas”. However, less than two months later, Rural/Metro’s stock price collapsed nearly 50% of its then-current value in one day (to \$10.75) when the company announced that it would incur a number of special charges, including a \$17 million write-off of uncollectible accounts receivable.

According to the class action suit, before Rural/Metro collapsed in price, certain of Rural/Metro’s officers and directors sold \$9.7 million of Rural/Metro common stock at prices as high as \$35 per share. Specifically, its President, James H. Bolin and Robert J. Ramsay Jr., its Vice-President, sold 304,475 shares of their Rural/Metro stock, for \$9.7 million in proceeds.

The company was also able to sell \$150 million in corporate notes at favourable interest rates to raise badly needed new capital, repay its bank debt, and buffer its business against the downturn its investors knew was already underway.

The lawsuit was filed by Milberg Weiss, a law firm with substantial experience in representing investors in securities fraud class action lawsuits such as this.

## **Resignation of CEO**

In August, 1998, Rural/Metro’s Chairman and CEO Warren Rustad abruptly resigned from the company. Rural/Metro shares plunged 28%, to a record low of \$6-1/8, in response. The resignation came shortly after the company had reported a loss for the fourth quarter, as a result of charges for doubtful accounts and severance.

According to a report in *Bloomberg News*, Rural/Metro shares had plunged 80% since late April, as the company began having trouble with accounts receivable and integrating ambulance systems it had acquired as part of its growth strategy. The article also reported that the company was in the midst of cutting about 2% of its jobs.

## **New CEO, New Officers, and Reconstituted Board**

In December 1998, Rural/Metro announced that John B. Furman, who had served as President and CEO of the company since August, had been officially named President and CEO. The company also announced that Cor J. Clement, who had served as a Member of the Board of Directors since 1992 and as Vice-Chairman since 1994, had been elected Chairman of the Board. Louis J. Jekel,

Secretary of the company and a Board Member since 1968, was elected Vice-Chairman of the Board; and John Furman was also elected to the Board. Bob Ramsay, senior Vice-President and a Member of the Board of Directors, had been named Executive Vice-President in August.

Rural/Metro subsequently announced that Catherine Eden had been named Vice-President of Public Affairs and Marketing.

### **Expansion in Buffalo, New York**

An August 1998 report noted that Rural/Metro would be hiring 90 new paramedics, dispatchers, and other employees over the next three years as part of a plan to consolidate and expand its local ambulance operations at a local site. Included in the \$1.5 million project will be the creation of a state-of-the-art computer-aided dispatch centre in an existing building.

### **Ambulance Response Time**

In November 1998, the *Ottawa Citizen* reported that Ottawa-Carleton's ambulance response time was dramatically slower than the law allows; and that this was costing lives. The report was based on a regional government report on ambulances that had been obtained by the newspaper.

According to the report, Ontario's performance standard, as indicated in the *Ambulance Act*, says ambulances must respond to life-threatening emergencies in less than nine minutes at least 90% of the time. In other words, this "90th percentile" benchmark dictates that only 10% of high-priority calls should take longer than nine minutes. But in Ottawa-Carleton, the best response time—using the 90th-percentile standard—was found to be 13.58 minutes in Nepean. The slowest was 30.42 minutes in West Carleton, which means the best that can be said about ambulance service in that township is that help will arrive, nine times out of 10, within half an hour.

The report went on to say that only three square kilometres of the entire region had response times under 11 minutes at the 90th percentile, and even in the best-served area (Nepean), only 56% of calls had response times of nine minutes or less.

The report said that the dispatch service was a big part of the local problem. The province's standard for dispatching an ambulance is two minutes, 90% of the time. In Ottawa-Carleton, it was taking almost twice that long.

Rural/Metro responded to these concerns by noting that it had been made aware of the concerns on ambulance response times; and that it had been trying to deal with them within the resource limitations that exist. The company agreed that one of the biggest problems facing the current operations and future improvements was that of the dispatching function for ambulance services. Rural/Metro pointed out that dispatch was currently *not* controlled by those responsible for delivering the service. Rural/Metro concluded its press release by saying that the company is looking forward to working closely with the Regional Municipality of Ottawa-Carleton to develop a system that would provide a better service. As part of this, dispatch would have to be an integral part of the delivery service and not run by a third party.

### **Stressed Out Paramedics**

A December 18, 1998, article in the *Ottawa Citizen* reported that Ottawa-area paramedics are so overwhelmed by their heavy load of medical emergencies that they sometimes take their vehicles out of service for unofficial breathers.

Paul Morneau, the public information officer for Rural/Metro Ontario Medical Services and a paramedic, was quoted as saying that sometimes Code 9 was used by paramedics to get a break from a particularly stressful day.

### **Debates**

As discussed earlier, a search of newsgroups on the Internet found several debates about Rural/Metro. Many of these debates related to whether privatization of services actually saved money, and whether Rural/Metro—which had obtained contracts to operate in particular areas or regions—was actually operating as efficiently as it stated. There were also several discussions about whether Rural/Metro had acted appropriately in certain emergency situations. Many of the commentators, pro and con, were firefighters.

A typical exchange related to a situation in Rye Brook, New York, where Rural/Metro had obtained a contract to provide firefighting services and had then failed. While some commentators blamed this development on lobbying by unions and volunteer firefighters, others said that Rural/Metro had made promises it could not keep; and had not paid its workers enough to attract qualified people.