

April 3, 2012, 7:00 p.m.

City Council Chambers, 333 Civic Center Plaza

Web Site: www.ci.tracy.ca.us

Mayor Ives called the meeting to order at 7:16 p.m. and led the Pledge of Allegiance.

The invocation was given by Pastor Jim Bush, Market Place Chaplains USA.

Roll call found Council Members Abercrombie, Elliott, Rickman, Mayor Pro Tem Maciel and Mayor Ives present.

Leon Churchill, Jr., City Manager, presented the Employee of the Month award for April 2012, to David Carter, Public Works Department.

Mayor Ives presented a proclamation to Abhilasha Natarajan, Ann Langley, Debby Ortega, Mike McLelland and Susan Richardson, Tracy Arts League, recognizing April 15-21, 2012 as National Volunteer Week.

Mayor Ives presented a proclamation to Candy Kebe, Law Enforcement Coordinator, City of Stockton, recognizing April 2012 as Sexual Assault Awareness Month.

Mayor Ives presented a proclamation to Valda Van Gelderen and Zona Zaragoza, Donate Life Ambassadors, recognizing April 2012 as Donate Life Month.

1. CONSENT CALENDAR - Following the removal of item 1-D by a member of the audience, it was moved by Council Member Abercrombie and seconded by Council Member Rickman to adopt the Consent Calendar. Roll call vote found all in favor; passed and so ordered. Council Member Rickman abstained from voting on item 1-B.
 - A. Minutes Approval – Regular meeting minutes of December 6, 2011, and January 3, 2012, and closed session minutes of March 20, 2012, were approved.
 - B. Approval of a Deferred Improvement Agreement (DIA), for Pony Up Tracy, LLC., for Removal of the On-Site Temporary Storm Drainage Retention Basin Located Within the California Highway Patrol (CHP) Facility Site, and Authorization for the Mayor to Execute the DIA, and Authorization for the City Clerk to File the DIA With the San Joaquin County Recorder – Resolution 2012-054 approved the agreement. Council Member Rickman abstained from voting.
 - C. Approval of the Final Subdivision Map, Subdivision Improvement Agreement, and Deferred Improvement Agreement for Yosemite Vista Unit 2, Tract 3495, Authorization for the Mayor to Execute the Agreements, and Authorization for the City Clerk to File the Deferred Improvement Agreement With the San Joaquin County Recorder – Resolution 2012-055 approved the map.
 - E. Authorize Amendment of the City's Position Control Roster by Replacing One Vacant Recreation Supervisor Position in the Parks and Community Services Department with One Management Analyst II Position in the Public Works Department – Resolution 2012-056 approved the amendment.

- F. Approve a Roadway Easement and Maintenance Agreement Within the Prime Shine Car Wash Site for Fire Station 1 on Eleventh Street, Authorize the Mayor to Execute the Agreement, and Further Authorize the City Clerk to File the Agreement With the San Joaquin County Recorder – Resolution 2012-057 approved the easement and maintenance agreement.
- G. Approval of Resolution of Intention to Form a Community Facilities District for the Tracy 580 Business Park – Resolution 2012-058 approved the formation of the Community Facilities District.
- D. Authorization to Amend the City's Conflict of Interest Code - Maria Hurtado, Assistant City Manager, presented the staff report. Ms. Hurtado stated that pursuant to the State Political Reform Act, the City's Conflict of Interest Code is required to be amended on a regular basis, and whenever changes to the Code are made. The Code was last updated by Resolution 2011-041, adopted on March 1, 2011.

The proposed amendments include deletion of some positions and the addition and/or title changes to other positions. Appendix 1 includes an explanation of the disclosure category. Appendix II, the Conflict of Interest Code, lists designated positions and the required category of disclosure. Each designated position included in Appendix II is required by Government Code 87200 to file the Fair Political Practices Statement of Economic Interests, Form 700, annually.

Staff recommended that the City Council approve the amendments to the City's Conflict of Interest Code.

Mr. Paul Miles, 1397 Mansfield Street, asked why the Council was not required to fill out Form 700. Mr. Dan Sodergren explained that by statute, elected officials belong to a separate category and are required to fill out the Form 700, Statement of Economic Interests. The proposed amendments are being made to the City's Conflict of Interest Code.

It was moved by Council Member Abercrombie and seconded by Council Member Elliott to adopt Resolution 2012-059 amending the City's Conflict of Interest Code. Voice vote found all in favor; passed and so ordered.

2. ITEMS FROM THE AUDIENCE – Mike Palomino invited Council and residents to the 37th Annual Pancake Breakfast to be held at the Tracy Community Center on Sunday, April 8. The event is being held in memory of Dan Palomino. Mr. Palomino indicated previous breakfasts have raised over \$3,500 for scholarships.

Anne Marie Fuller addressed Council regarding Relay for Life 2012, which will take place in May. Ms. Fuller stated the location has been changed to Kimball High School and that additional information was available from the website www.relayforlife.org/tracy.ca and from the "Datebook" section of the Tracy Press.

Josh Cordero, 1325 Franklin Avenue, addressed Council regarding issues in his neighborhood with high school students speeding, littering, and making rude hand gestures. Mr. Cordero stated he had met with school officials who indicated it was a City issue. Mr. Cordero wanted Council to be aware of his concerns. Mayor Ives referred Mr. Cordero to the Police Chief.

3. PUBLIC HEARING TO AUTHORIZE, BY IMPLEMENTING RESOLUTION, THE ADOPTION OF THE UPDATED DEVELOPMENT IMPACT FEES FOR THE INFILL DEVELOPMENT AREA AND ADOPTING THE APRIL 2012 UPDATE TO THE INFILL FINANCE AND IMPLEMENTATION PLAN - Kuldeep Sharma, City Engineer, presented the staff report. Mr. Sharma stated that the Infill development area includes approximately 312 acres total of land of which 63 acres has already developed, leaving 249 acres. The remainder includes 101 acres of residential, 35 acres of commercial, 97 acres of industrial, and 16 acres of office space.

In October 2001, the Council adopted the original development impact fees for the Infill Development Area. These fees were updated on July 18, 2006. Since that time, several land use changes have occurred. In addition, certain Infill projects funded by development impact fees have been completed with lower than estimated construction costs due to prevailing competitive bidding environment. These changes have resulted in the need for an update of the infrastructure studies serving the Infill area. The update of the infrastructure studies has further resulted in an update of the development impact fees and the Finance and Implementation Plan.

The updated infrastructure studies and development impact fees are for Water, Wastewater, Storm Drainage, Streets and Traffic, Public Buildings and Parks. The development impact fees have been updated in accordance with State law as set forth in Government Code Sections 66000, et. seq., also known as "AB 1600" or the "Mitigation Fee Act". The following table summarizes the proposed updated development impact fees and its comparison with the existing fees:

Infill Development Impact Fees Summary Table for Residential

Fee Category		2006	2012	2006	2012	2006	2012
		LDR		MDR		HDR	
				per DU			
Group 71	Public Buildings	\$2,628	\$3,268	\$1,958	\$2,435	\$1,958	\$2,435
				per DU			
Groups 72 & 73	Streets & Traffic	\$7,005	\$2,700	\$7,005	\$2,700	\$3,362	\$1,296
Group 74¹	Wastewater						
	Corral Hollow	\$9,355	\$9,394	\$7,780	\$7,609	\$6,251	\$6,294
	East Side	\$10,095	\$9,293	\$8,396	\$7,527	\$6,744	\$6,226
	City Core	\$9,051	\$10,125	\$7,527	\$8,201	\$6,048	\$6,784
	MacArthur	\$10,095	\$9,816	\$8,396	\$7,951	\$6,744	\$6,577
Group 75²	Water	\$5,494	\$5,850	\$4,560	\$4,212	\$3,680	\$2,984
Group 76³	Storm Drain	\$4,063	\$1,429	\$2,489	\$949	\$2,054	\$850
Group 78	Parks	\$5,429	\$5,429	\$4,524	\$4,524	\$3,619	\$3,619

Infill Development Impact Fees Summary Table for Non-Residential

Fee Category		2006	2012	2006	2012	2006	2012
		Retail		Industrial		Office	
					per 1000 SF		
Group 71	Public Buildings	\$321	\$469	\$107	\$156	\$534	\$781
					<i>per acre</i>		
Groups 72 & 73	Streets & Traffic	\$147,175	\$50,834	\$43,711	\$25,781	\$90,714	\$35,230
Group 74¹	Wastewater						
	Corral Hollow	\$29,991	\$48,849	\$29,991	\$37,576	\$29,991	\$40,394
	East Side	\$33,934	\$48,324	\$33,934	\$37,172	\$33,934	\$39,960
	City Core	\$28,370	\$52,650	\$28,370	\$40,500	\$28,370	\$43,538
	MacArthur	\$33,934	\$51,043	\$33,934	\$39,264	\$33,934	\$42,209
Group 75²	Water	\$21,811	\$24,334	\$21,811	\$18,251	\$21,811	\$18,251
Group 76³	Storm Drain	\$51,194	\$22,141	\$51,194	\$22,141	\$51,194	\$22,141
Group 78	Parks	NA	NA	NA	NA	NA	NA

The update of these fees was coordinated with representatives of the Infill development community. The updated infrastructure analysis and development impact fee back up information is available for review at the City Engineers office in the Development and Engineering Services Department.

There is no fiscal impact to the General Fund. The developers pay the Development Impact Fees for the construction of infrastructure required to serve the new developments.

Staff recommended Council adopt a resolution authorizing the updated technical studies, the updated development impact fees, and the "2012 Update to the Infill Finance and Implementation Plan."

Mr. Malik indicated this was also part of the City's economic strategy.

Council Member Elliott asked if the primary reductions were a result of applying previous assumptions to actual construction costs. Mr. Sharma stated they were also due to the availability of federal funding. Council Member Elliott asked if the lower fees take into consideration the one time grant funding. Mr. Sharma stated most of the projects have been completed and the majority of the infrastructure completed and paid for, thereby reducing the remaining fees.

Mayor Ives opened the public hearing.

Dale Cose, 17 E. Sixth Street, addressed Council regarding the impact fees. Mr. Cose indicated staff had worked with him to explain the fees. Mr. Cose commended staff for their efforts in explaining it to him and encouraged Council to approve the fees.

As there was no one else wishing to address the Council, the public hearing was closed.

Mayor Ives asked if Council would be considering reductions in other areas. Andrew Malik, Director of Development Services answered yes.

It was moved by Council Member Abercrombie and seconded by Council Member Elliott to adopt Resolution 2012-060 authorizing updated development impact fees for the infill development area and adopting the April 2012 update to the Infill Finance and Implementation Plan. Voice vote found all in favor; passed and so ordered.

4. ACCEPT A REPORT ON THE CITY'S FIVE-YEAR FINANCIAL PROJECTION - Zane Johnston, Finance & Administrative Services Director, presented the staff report. Mr. Johnston stated that at the February 21, 2012 City Council meeting, the assumptions (both revenue and expenditures) to be included in a 5-year general fund budget forecast were presented to the Council. The five-year General Fund budget forecast includes Fiscal Year (FY) 12-13 through FY 16-17. These assumptions are based on empirical data, established policy, or trend analysis. The Council accepted the report and directed Staff to prepare the subsequent 5-year General Fund forecast based upon these assumptions. It was also decided to prepare a second scenario for the General Fund 5-year forecast to take into account possible changes to the CalPERS employer rate as a result of possible changes to actuarial assumptions being considered by the CalPERS Board of Directors. Following are the assumptions that were used to prepare the 5-year General Fund forecast.

Based on the (1) continued decline in property taxes, as confirmed in the actual decline in property tax revenue in the current fiscal year, (2) remaining foreclosure activity, and (3) typical 2-year lag in property tax revenue as compared to current economic conditions, it is expected that property taxes will decline by 3% in FY 12-13. Because of an anticipated stabilization in home prices the year after, no growth in property taxes is projected for FY 13-14; an increase of 1% is included in FY 14-15 followed by a 2% increase projected in FY 15-16 and another 2% increase projected in FY 16-17.

The City uses MuniServices as its sales tax consulting and auditing firm. MuniServices has provided a 5-year sales forecast for the City's regular sales tax (1 cent) based upon recent trends. This forecast reflects increases of 4.9% in FY 12-13, 4.5% in FY 13-14, 5.9% in FY 14-15, 6.1% in FY 15-16 and 5.7% in FY 16-17.

MuniServices also audits Measure E sales tax data and has prepared a 5-year forecast for this temporary half-cent sales tax. Not all sales transactions subject to the standard 1 cent sales tax are applicable to the City's half-cent temporary sales tax. The most notable exceptions are auto sales in Tracy where the auto is not registered to an owner with a City of Tracy address and internet catalog sales to customers outside of the City of Tracy. MuniServices 5-year forecast for the temporary half-cent sales tax Measure E estimates include a 7.8% increase in FY 12-13, 5% increase in FY 13-14, 5.6% increase in FY 14-15 and a decline of 20.8% in FY 15-16, due to Measure E's sunset period, which ends on March 31, 2016. As such, only $\frac{3}{4}$ of one year's worth of taxes is included

in FY 15/16. Because the temporary sales tax Measure E ends in the later part of FY 15/16, no Measure E revenue is included in FY 16-17. The estimates however, have only been derived from only 2 quarters of actual data from Measure E (quarter ending 6/30/12 and quarter ending 9/30/12).

These three revenue sources (*property taxes, sales taxes and temporary half-cent sales tax Measure E*) are the major General Fund revenue sources. All other revenue sources are assumed to have modest growth ranging in the 2% to 3% range. Some of these other revenue sources are reflective of population and it is not anticipated the City's population will increase substantially during this 5-year forecast.

General Fund expenses are primarily associated with labor cost. For example, Police personnel expenses make up 87% of the Police Department's budget and Fire personnel expenses about 90% of the total Fire Department budget. Given the current status of labor costs, the assumptions that will be included in the five year general fund budget forecast are as follows:

Labor related expenses: It is assumed that:

- No cost of living adjustments will be included during this 5-year period thru FY 16-17;
- 100% of the costs associated with the increase to the City's PERS employer rate will be included as an expense absorbed by the City for each of the five years;
- City continues to pay cost of employee's share of PERS
- The costs associated with increases to the employees' health insurance will reflect the current respective labor contract agreements;
- The costs associated with step increases for employees not currently at Step E will be included in this 5-year forecast;
- The expenses associated with any certifications (i.e. POST), Master Patrol Officer, educational achievements, and others will be included in this 5-year forecast;
- The savings associated with the current unpaid furloughs for non-safety employees as of 6/30/12 will be eliminated and that costs will be reinstated in each of the 5-year budget forecast;

This 5-year general fund budget forecast reflects the organizational changes taken to date (both before and since Measure E). The forecast also includes the most recent steps of (1) a reduction in staff due to the early retirement incentive program, and (2) the compaction of nine City departments into six with the resulting reduction in three department director positions. No additional staff reductions are included in this 5-year general fund budget forecast.

Considering the above, Police and Fire as well as other General Fund expenses would average an increase of about 3% per year during the forecast period.

The analysis indicates that without additional steps to reign in expenses, the City will continue to operate with a deficit of about \$3 million per year even with the temporary sales tax generated by Measure E. When this revenue ends on 3/31/16 the City will be faced with even higher deficits. The current City Council policy concerning budgets (Resolution 2011-094) states as follows:

- Through FY 15/16 the City shall maintain a General Fund reserve of at least 20% of the City's General Fund Operating Budget.

- Reserves may be used to balance the General Fund Operating Budget through FY 13/14. The General Fund Operating Budget to be adopted by City Council for FY 14/15 must be balanced without the use of reserves.

From the analysis, the City would be able to just meet the first budget policy to maintain a General Fund reserve of at least 20% through FY 15/16. The City would have 21% in reserves at the end of FY 15/16. However, the City would not be able to meet the second budget objective which is that reserves can be used through FY 13/14, but beginning with the adoption of FY 14/15 budget the budget must be balanced without reserves. At this point the 5-year projection is that the FY 14/15 budget would not be balanced, instead needing \$3,125,740 in reserves.

The 5-year forecast indicates the City has twin challenges. The first is to meet the Council’s budget goal to have a balanced budget with the adoption of the FY 14/15 budget. Given that the revenue assumptions are aggressive (particularly on the property tax side); in order to meet this goal, \$3 million of expenses would need to be further reduced. The second challenge is to ease the City off the need for the temporary taxes generated by Measure E. With the current expense and revenue assumptions, this may not be possible dollar for dollar without affecting essential services. If the goal continues to be to get off Measure E prior to or by the expiration date of the April, 2016, expenses would need to be reduced significantly or additional revenue would need to be identified.

Prior to the passage of Measure E, the City took substantial steps to cut expenses. The City reduced its workforce by 90 full-time positions and began contracting out janitorial and street tree maintenance. This enabled the City to reduce General Fund cash expenditures by \$5 million. In addition, the City also instituted second tier retirement formulas that will reduce expenditures in the long term (10 years or more). After these steps, the City was still left with a structural budget deficit of approximately \$5 million per year – one which could only be addressed through additional cuts to services including those the community might deem as essential or through additional revenues (which Measure E provided).

The City Manager has previously identified a potential course or action to follow over the next few years which could get the City to a position of substantially being able to not rely upon Measure E revenue. This plan was discussed in detail in the City Manager’s transmittal letter to the FY 11/12 budget. The following is a chart in this regard, the amounts associated with each step, and a narrative explanation of current status of each of the eight part plan.

	Projected Fiscal Impact	Fiscal Impact as Implemented to Date
1 New labor contracts	\$3,000,000	\$ 0
2 Contracting services	\$ 500,000	\$ 0
3 Changes to organizational structure	\$2,000,000	\$1,600,000
4 Reduce number of departments	\$ 600,000	\$ 600,000
5 Reprioritize existing expenditures	\$0	\$ 0
6 Reduction in non-essential services	\$0	\$ 0
7 Technology	\$ 500,000	\$ 0
8 Improved Economy	<u>\$1,000,000</u>	<u>\$1,000,000</u>
Total	\$7,600,000	\$3,000,000

The City seeks to transition all employees to paying the full share of the employee paid portion of PERS. Currently the City pays this on behalf of the employee as an additional paid benefit. Public Safety Members (sworn Police and Fire) employee share is 9% and Miscellaneous Members (all other members) employee share is 8% (7% for the newest employees hired in Tier 2). If all employees paid their own 9%, 8% or 7%, the City would save \$3,050,000 per year. Currently no City contracts have been negotiated to implement this transition. The Fire, Teamsters and Mid-Manager's MOUs all expired 6/30/11, unrepresented groups have been in limbo. The current Police MOU expires 6/30/12.

Although contracting services were pursued prior to the development of the 8 part plan with the contracting out of janitorial and tree trimming services, additional contracting services have not been pursued as the City has concentrated on labor negotiations for new contracts.

It was anticipated that offering an early retirement incentive would save the City approximately \$2 million per year. Full savings would begin in FY 13-14 as the final retirement date for employees exiting City service under this program will be January 31, 2013. It is expected the City will realize savings of \$2 million per year once all employees have retired; however this \$2 million also includes \$400,000 in savings from two retiring department heads who are part of the following item to reduce the number of City departments. As such, this savings cannot be double counted both here and in the following item. The savings is less than anticipated because not as many employees (working in areas where the request could be granted) opted for the early retirement incentive. There remains a small amount of employee reduction which could occur in specific areas where service levels would not be dramatically affected. However, such action would need to be not voluntary.

A savings of \$600,000 is expected with the reduction of the number of City departments from nine to six. The departments of Economic Development and Development and Engineering Services were merged in FY 11/12 with the departure of the former Economic Development Director. In FY 12/13 two additional director positions will be eliminated as two Department Directors will leave under the early retirement incentive. A new Administrative Services Director will replace the previous directors in Finance and Human Resources as these functions will come under one department. The Parks and Community Services Department (and related Director Position) will be eliminated with its recreation functions going under the direction of the Assistant City Manager and its other functions (transit, airport, facilities) going under the direction of the Public Works Department.

There are three major contributors to the annual growth in City expenses each year, even with no new employees added and no cost of living raises. The first is the increase in prices for commodities the City uses (i.e. fuel, electricity, etc.). These go up with inflation over time. Secondly, the cost of employee benefits increase with time even without adding any additional FTE's (Health benefit cost increases, PERS costs increase, etc.). Lastly, it may be necessary in the future that prior to allocating additional resources to an emerging need or priority service, a reduction on another non-essential service be considered. A concrete example is that when an approval of an expense, like the approval of the expenditures of \$125,000 to the Police Department for their efforts to combat gangs is approved, a reduction in a less essential service, i.e. traffic enforcement or another less priority program could be considered. Given these three contributing factors, no savings can be reported under this category as of yet.

Ultimately to supply City services in a post Measure E Environment may require a discussion related to priority services or an evaluation of the potential for eliminating the most recently added services (which may be considered non-essential). For example, some of the programs listed below were added within the last five years with a significant general fund allocation, prior to the economic downturn and the ongoing structural budget deficit began. One approach could be to re-examine the essentialness of these programs in comparison to "critical" priority services.

Program: General Fund Subsidy

Grand Theatre	\$800,000
Low Income Rate Assistance (LIRA)	\$300,000
Planning Services (Advance & Current Planning)	\$751,000
Mayor's Community Youth Support Network	\$368,000
Addition of Engine 91	\$980,000

Total: \$3,199,000 million

It was anticipated that technology investments might provide as much as \$500,000 per year in savings. The City continues to invest in the use of technology. However, sometimes it is difficult to track a direct dollar savings, instead the City receiving the benefits in greater productivity. Street light upgrades (more efficient bulb types) would fall under this category, but the annual savings may not be enough to justify the large up front capital costs.

Some of the ability for the City to be fiscally sustainable without the need of temporary taxes (Measure E), may come in the form of additional revenue as the economy improves over time. The standard one-cent share of sales tax the City receives peaked in FY 07-08 at \$13.6 million. During the recession this fell to a low of \$9.2 million in FY 09-10. The five-year forecast pegs sales tax once again at approximately \$13.6 million in FY 13-14. This increases to \$14.4 in FY 15-16 and \$15.2 in FY 16-17. As such, the forecast is indicating that an improved economy will provide an additional \$1 million toward the ability to provide for City services without Measure E. But this is just a forecast at this time. Revenues in excess of the City's \$13.6 million peak year (FY 07-08) must actually be received before providing a portion of the Measure E solution in reality. Note also, that property tax will continue to be stagnant during the five year period. If housing prices remain low (as economist predict) but consumer spending returns with an improved economy and jobs market, the City could easily find its standard once-cent sales tax revenue eclipsing its property tax revenue by FY 15-16.

At the February 21, 2012 City Council meeting it was noted that possible action by the CalPERS Board regarding actuarial assumptions could have a significant effect on the cost of providing City services in the future. As a result, Staff suggested the preparation of a second scenario in the preparation of a five-year forecast to include these possible actions. On March 14, 2012, the CalPERS Board of administration approved some of the previous proposals. The Board approved the lowering of the discount rate from 7.75% to 7.50%. The discount rate is calculated based on expected price inflation and real rate of return. It is possible that the rate could further be reduced in future years if actuaries continue to recommend such action. The CalPERS Board also directed its Chief Actuary to analyze and bring back an option for consideration to phase in the increased cost to employers over a two year period.

This discount rate reduction is expected to result in an increase to the CalPERS employer rate of public agency members (such as the City of Tracy) of 2 to 3 percent for Public Safety Plans (Police and Fire) and 1 to 2 percent for Miscellaneous Plans (all other City employees qualifying for PERS retirement – all full time employees and some part-time employees). As such, a second scenario of the five-year forecast has been developed which adds a 3 percent increase to public safety rate broken down into two increases of 1.5 percent in FY 13-14 and 1.5 percent in FY 14-15, and a 1 percent increase in the Miscellaneous plan in both FY 13-14 and 14-15.

This five year projection illustrates that the City still faces a twin challenge during the coming years to meet the Council's budget principal to reach a balanced budget with the adoption of FY 14/15 budget and to wean off Measure E Revenue prior to its expiration date. The previous 8 point plan to address this challenge did not envision the additional significant PERS costs associated with a change to actuarial assumptions. The above scenario could also end up being more challenging if PERS discount rates are lowered again in the future.

There is no fiscal impact associated with acceptance of this report. However, the 5-year Forecast is critical in establishing financial policy.

Staff recommended that the City Council accept the five-year General Fund forecast.

Council Member Abercrombie asked for clarification regarding labor negotiations and the employees' PERS portion. Mr. Churchill indicated some of the items mentioned were probably part of the negotiations.

Council Member Abercrombie referred to page 6 of staff report indicating an addition of Engine 91 is not a non-essential service.

Council Member Elliott referred to the eight point plan asked if there was anything in the future could provide relief. Mr. Churchill indicated additional possibilities exist in contracting out services and that staff will take advantage of any savings that can be made. Mr. Churchill added that part of this was a balancing act and that he was also responsible to taking fear out of the organization. Mr. Churchill stated regarding technology, there have been good efforts, but the ability to quantify savings was difficult.

Council Member Elliott asked if a small reduction in staffing could still occur but would not be voluntary. Mr. Churchill stated that was always an option. Mr. Johnston added it is estimated the City could save approximately \$2 million through early retirements.

Mayor Pro Tem Maciel asked if the City was anticipating any increases in property tax as some of the vacant properties build up. Mr. Johnston stated no and explained that new development provided a slow response on property tax and new development included long lead times.

Mayor Ives asked how much savings could be realized with the PERS action. Mr. Johnston stated approximately \$600,000 per year.

Council Member Rickman stated the Council certainly had its work cut out for them, indicating that economic development should be the main focus.

Mayor Ives invited members of the public to address Council on the item.

Mark Connolly, 121 E. Eleventh Street, provided a handout to Council showing his analysis of the structural deficit.

Robert Tanner, 1371 Rusher, stated he found it disappointing that labor negotiations have been going on for over one year and still there are no contracts. Mr. Tanner stated there were 11 lawsuits against the City that it may or may not win and asked if those losses had been projected. Mr. Tanner stated the City still needs to have a balanced budget which would require cutting to the bone.

Dave Helm asked that Council make sure the City didn't incur any additional expenses, especially when considering capital improvement projects.

Paul Miles stated he did not see how PERS was going to make 7.2. Mr. Miles encouraged the Council to be conservative.

Ryan Gall, Tracy Firefighters Association, addressed Council regarding labor contracts. Mr. Gall state the FFA has all but finalized the fire contract with the transition of the firefighters paying the 9% PERS.

Mayor Ives asked staff if losses from lawsuits were factored into the budget. Mr. Johnston stated there were two types of expenses in the arena of insurance and those are liability claims and workers compensation claims. Mr. Johnston added that the City of Tracy was part of a risk management authority with 50 other cities. Mr. Johnston stated the claims have been manageable while the workers compensation side has gone up. Mr. Johnston indicated the City has to catch up with the charges that are brought into the compensation funds.

Council Member Elliott asked for clarification from Mr. Gall.

Mr. Gall stated that with the uncontrollable costs (PERS, health insurance, etc.) and if step increases were given, they show a .68% increase vs. the 4.2% provided in the budget. Mr. Johnston indicated one of the assumptions of the 12/13 budget is the base budget plus augmentations which the Fire Chief has asked for.

Council Member Elliott indicated there is no change in his resolve to balance the budget.

Mayor Pro Tem Maciel thanked staff for the presentation and stated the Council needs to not lose sight of the goal and to use this as a roadmap to where the City is headed if things are not done now.

Mayor Ives thanked staff and those who provided comments. Mayor Ives indicated the point of this activity is to see where the City is financially. Mayor Ives stated he maintains that the City is in good shape and that the necessary steps will be taken.

The report was accepted.

5. SECOND READING AND ADOPTION OF ORDINANCE 1165 AN ORDINANCE OF THE CITY OF TRACY AMENDING THE ZONE DISTRICT OF PROPERTY ON THE NORTH SIDE OF W. SIXTH STREET, BETWEEN N. "B" AND "C" STREETS, FROM LIGHT INDUSTRIAL (M-1) TO PLANNED UNIT DEVELOPMENT (PUD)

The Clerk read the title of proposed Ordinance 1165.

It was moved by Council Member Abercrombie and seconded by Council Member Elliott to waive the reading of the text. Voice vote found all in favor; passed and so ordered.

It was moved by Council Member Abercrombie and seconded by Council Member Elliott to adopt Ordinance 1165. Roll call vote found all in favor; passed and so ordered.

6. ITEMS FROM THE AUDIENCE – None.

7. COUNCIL ITEMS

A. Request Discussion of Issues Related to Charging Development Impact Fees on a Proportional Use Basis Instead of Charging a Per Acre Fee Based on Allowable Uses by City Zoning - Andrew Malik, Development Services Director, presented the staff report. California Government Code requires cities to adopt General Plans as a means to comprehensively plan for future development. The City of Tracy's current General Plan, adopted February 1, 2011, is the principal policy and planning document guiding future development. It provides a vision for the future and establishes a framework for how Tracy should grow and change over the next two decades and beyond. At a policy level, it addresses all aspects of development including land use, transportation, housing, economic development, public facilities, infrastructure, and open spaces, among other topics.

As the City conducted workshops relative to adopting the most recent General Plan, land owners and developers were particularly interested in the land use element. More specifically, the property owners and developers desired to have a wide range of allowable uses within their General Plan designations¹. They wanted to be able to market their property to a number of different clients to enhance their chances for successful development. In fact, this issue was also recently discussed as part of the Downtown Specific Plan in that property owners did not want to have their range of allowable uses restricted. In order to accommodate these requests, a comprehensive strategy and coordinated effort needs to occur linking land use, public facilities (police and fire), infrastructure (wastewater, water, storm drainage and roadways) and, correspondingly, the financing of these improvements.

The City currently coordinates and organizes these efforts through Infrastructure Master Plans and then through a combination of project area Finance and Implementation Plans (FIPs), and ultimately the City's Capital Improvement Program. It is important to note that funding for infrastructure to meet these development demands comes primarily from the development community. There are also instances where federal stimulus or other grants have been secured to cover some infrastructure items (such as a freeway interchange, or a bridge, for example).

Up-Front and Phased Infrastructure Funding

For most development areas of the City, (Northeast Industrial Area (NEI), Industrial Areas Specific Plan (ISP), Tracy Gateway, etc.) there are requirements to advance or front funding for certain infrastructure in order to make sure the necessary infrastructure is in place when building begins. For example, before a new industrial or commercial building is built, the City requires water lines, sewer lines, and roads in place prior to the start of construction. In other instances, certain infrastructure may need to be funded early due to long lead times for construction completion. Wastewater treatment typically falls into this category. Because of the regulatory and construction complexity of expanding the wastewater treatment plant, the expansions are typically phased in over time. Since these phases are funded by the development community, funding is typically required from the developers in advance of developments to complete the construction projects. Assessment Districts and Community Facility Districts (CFD) are the typical financing vehicles used by the City to cover these costs. Keep in mind that the amount of wastewater expansion and phasing is linked back to land use and zoning.

The issue for discussion is whether the City should charge impact fees based on the immediate use of the property, proportional use, instead of charging fees based on allowable uses with the zoning.

The primary concern for both the City and the property owner relative to charging on a proportional use basis is the potential of not being able to fund and provide adequate infrastructure for the property should the initial use of the property be expanded or changed in the future.

There are a number of warehouse industrial buildings that were developed along MacArthur Boulevard in the late 1980's. Most of those property owners paid into Assessment District 84-1 and 87-3 for wastewater and water infrastructure respectively. They paid for wastewater capacity and water supply for a wide range of industrial uses. Over the past 10 years, there have been a number of new tenants (food processors, manufacturers) to this industrial area that now requires more wastewater capacity than the initial warehouse distribution tenant. Because the property owners paid for and the City constructed the capacity to accommodate these uses, they were able to locate the new tenants and the City didn't lose the tenant to another jurisdiction. In other words, if the wastewater impact fees were paid based on a warehouse distribution use 10 years ago and, as such, the wastewater treatment plant or wastewater conveyance facilities were not expanded to accommodate the increased demand, the City may have had to turn away the new industrial tenant.

The same concern applies to commercially zoned property and residentially zoned property. Commercial zoning districts allow for consumer services (e.g. nail salon) as well as restaurants, which have dramatically differing water/wastewater use profiles.

1. *The City Pays for Infrastructure Upfront*

The City could pay for the expansion to the wastewater treatment plant and get reimbursed from property owners as new tenants pay for additional wastewater and water capacity as needed.

Pro:

- Development would pay for only the capacity they use at the time.

Con:

- The City does not have funds to construct the improvement and would need to apply for a State loan, with certain loan guarantees. There could be an impact to the Enterprise and or General Fund should development not occur as predicted.
- The complexity of managing the fee programs on a parcel / use basis throughout the City would be high. Staffing level is a concern.
- The City would still have to plan for a wide range of land uses and conservatively build in room to match development intensity transitions over time.

2. The City Downzones Parcels

The City could downzone parcels to match certain tenants, i.e., warehouse vs. manufacturing or food processing.

Pro:

- Future areas would be specifically zoned and designed for specific uses, which would drive Infrastructure Master Plans to be designed very narrowly, which could reduce the amount of required infrastructure (e.g fewer water tanks, or smaller pump stations.), which in turn could reduce costs of that infrastructure.

Con:

- The City would not be able to attract higher employment tenants if we have reduced capacity and or zoning to the lowest capacity users.
- The property owner may lose out on being able to attract tenants because the range of potential uses would have to be reduced.
- Creates “winners” and “losers” in infrastructure planning.
- Runs contrary to recent efforts to specifically widen the range of various allowed land uses in development areas (City Council approved I-205 Corridor Specific Plan amendment to increase range of allowable uses, and recent discussion with Cordes Ranch Specific Plan owners).
- Creates very expensive future “retrofits” to the infrastructure should high density/intensity opportunities present themselves. For example, a new, high employee user may have to improve a long length of wastewater lines just to be able to operate in an otherwise ideal location. Such improvements have to be done up-front, and are likely prohibitively expensive.

City staff and the development community share a concern for appropriately sized infrastructure. From the City’s perspective, operating under the parameter of maintaining and improving upon the City’s competitive position in the marketplace, staff has been pursuing the dual goals of sizing infrastructure in order to be nimble with development options, and also competitive on Development Impact Fees. This process began at the incipient stages of the Infrastructure Master planning process, where prospective consultants were charged with demonstrating in their interviews how the City could meet these goals in addition to addressing ever-expanding State regulations.

A second, and important method of “staying on top” of these issues has been to have a rigorous dialogue and review by the development community throughout

the entire Master Planning process, from initial discussion on land use intensity, through water and wastewater generation rates, and finally through discussions on phasing and unit costs per given segments of infrastructure. To date, that process has been effective in reducing the definition of what is required for any given infrastructure system.

In addition to the issue of paying impact fees on a proportional use basis, staff has included some information relative to the City's impact fees as they compare to other jurisdictions in the region. In 2008 the San Joaquin Partnership completed a regional impact fee comparison for residential, industrial, office and retail uses. The fee comparison analysis included tri-valley cities as well as a few cities in the Sacramento area.

As evident from the analysis, Tracy's impact fees are near the average for all use categories with the exception of Office and Manufacturing. With regard to these two use categories, there are some nuances to the analysis that would explain the higher numbers. For example, the office fee calculation was based on a commercial / retail parcel near the I-205 area. Our Phase I Gateway office project has much lower impact fees and would score well below the average for this study. As for the manufacturing example, the study assumes a 125,000 s.f. facility with 60% site coverage on 12 acres. Since Tracy's impact fees are based on an acre basis, the fees are overstated by approximately 7 acres. In fact, for this example, the building can be expanded by over 180,000 s.f. and they would not have to pay for any additional impact fees in Tracy. After accounting for these nuances, both categories fall near the average.

In addition to Impact Fees for wastewater, water, roadways and storm drainage, development pays building permit processing fees for new or renovated projects. Both of these fees together form a total building permit fee for development. A regional comparison of these fees is attached to the staff report as Attachment B. There are several examples ranging from a simple water heater replacement to a more extensive building tenant improvement. For all examples listed, Tracy's fees are below the regional average; in most cases, well below.

Staff will continue to work with the development community to monitor and evaluate impact and building permit fee competitiveness in the region. For example, Council recently approved impact fee reductions for roadways in several of our development areas. Staff is also working on additional impact fee reductions for our Infill area, which is tentatively scheduled for Council in April.

Staff is also working on promoting the Statewide Community Infrastructure Program (SCIP) to our development community as a means to help finance the cost of improvements. The SCIP program is an economic development tool for developers to finance their improvements through the sale of tax exempt bonds without the high cost of setting up the assessment district as an individual project themselves. This program was very helpful for the Gateway developers to finance their project improvements currently underway at Eleventh Street and Lammers Road.

Staff recommended that the City continue to administer impact fees based on the underlying zoning of the property and the potential uses available to the property owners.

Council Member Rickman thanked staff for the report and added it was important to be as competitive as possible and business friendly.

Council Member Rickman stated that in order to be competitive in this area Tracy needs to be lower than Manteca. Council Member Rickman referred to impact fees and added small businesses pay the same amount for 1 toilet as does a business with 25 toilets and they cannot compete. Council Member Rickman was concerned that the City rolls out the red carpet for large businesses at the expense of the small business person.

Council Member Abercrombie asked when the comparison was supposed to occur. Mr. Malik stated late this summer. Council Member Abercrombie stated he agreed Tracy needs to focus on our neighbors and be competitive.

Council Member Elliott added that the comparison needs to be against our local neighbors. Council Member Elliott thanked staff for their efforts to ensure that the City is business friendly. Council Member Elliott commented on the fee structure and how it allows some of the costs to be deferred until the buildings are sold or occupied. Council Member Elliott asked why the City can't charge a set fee or a lower mark up which would lower the fees.

Mayor Pro Tem Maciel indicated the City has worked hard to achieve the perception of being easy to work with which has been realized through open dialogue with the business community. Mayor Pro Tem Maciel added his expectation is that staff will continue to work with the community and improve where possible. Mayor Pro Tem Maciel reminded everyone that these fees are part of the City's revenues and that needs to be taken into consideration.

Mayor Ives stated it was important for Council to understand the components of economic development, the role they play, how Tracy compares to other communities, what the partnership is telling us and to continue the collaborative approach. Mayor Ives stated the City doesn't want to lose sight of the "mom" and "pops." Mayor Ives added that in the broad spectrum, if you have the right location, with the right labor and education, and can build at reasonable fees, development will come. Mayor Ives stated he suspects that it will take off in the next few years and added he had received a lot of compliments on the City's fee structure.

Mayor Ives invited members of the public to address Council on the item.

Mike Souza, 105 E. Tenth Street, stated the fees the City charges does make or break a small business. Mr. Souza commended staff for their efforts in the master plan process. Mr. Souza stated further stated that the master plans are based on very conservative assumptions and they need to be kept as realistic as possible and need to get the assumptions right on the front side so they get the benefit instead of just the last developers. Mr. Souza suggested staff continue to work with the development community to get the fees right.

Dave Babcock, project planner for Cordes Ranch, introduced Chuck McCallum of Kier & Wright, who have been working with staff on the master plans which is very encouraging. Mr. McCallum stated he has worked with the development community to try to minimize those fees. Mr. McCallum further stated they have

been looking at effective ways to develop fees and working to bring jobs to Tracy. Mr. McCallum stated he appreciated staff and Council's efforts.

Mr. Malik discussed other mechanisms available for small businesses such as the SCIP program which Gateway has used.

Council Member Rickman indicated he struggles with the small business person who cannot afford the fees for services they will not use. Council Member Rickman suggested staff also work with the small business community.

Mayor Pro Tem Maciel thanked Council Member Rickman for bringing this item to Council and the community.

- B. Consider a Request to Support the American Legion Karl Ross Post 16 "4400 Campaign" Effort to Establish a Memorial in Iraq to Honor America's – Council Member Elliott indicated the request was to support the project to honor America's soldiers and proposed that City Council send a letter in support of the 4400 Campaign.

It was moved by Council Member Elliott and seconded by Council Member Abercrombie that the Council provide support the Karl Ross Post 16 "4400 Campaign" to establish a memorial in Iraq to honor America's fallen soldiers.

Council Member Rickman indicated Council didn't receive clarification on program management fee charges.

Council Member Rickman congratulated Irene Rose who retired last week after 26 years of service with the Police Department.

Mayor Pro Tem Maciel also congratulated Sunny Sanders on her retirement. Mayor Pro Tem Maciel requested updates on previous issues including the sign ordinance for private schools, street lights and technology, as well as an update on the Hembre building.

Mayor Ives indicated he would be in Washington D.C. during the next Council meeting and would like to attend the next CIP workshop tentatively scheduled for April 17, 2012. Mayor Ives asked if the CIP workshop could be rescheduled to a later date. CIP Workshop, Part II, scheduled for April 30, 2012, at 5:00 p.m.

Mayor Ives announced the arrival of Macy Lynn Fredrick.

Council Member Rickman indicated he would like an update regarding a vacant property workshop.

8. ADJOURNMENT - It was moved by Council Member Abercrombie and seconded by Council Member Elliott to adjourn. Voice vote found all in favor; passed and so ordered. Time 9:48 p.m.

The above agenda was posted at the Tracy City Hall on March 29, 2012. The above are summary minutes. A recording is available at the office of the City Clerk.

Mayor

ATTEST:

City Clerk