

NOTICE OF SPECIAL MEETING

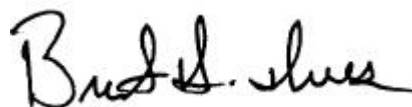
Pursuant to Section 54956 of the Government Code of the State of California, a Special meeting of the **Tracy City Council, Tracy Rural Fire Protection District, and South County Fire Authority** is hereby called for:

Date/Time: **Tuesday, September 2, 2014, 6:00 p.m.**
(or as soon thereafter as possible)

Location: **Council Chambers, City Hall**
333 Civic Center Plaza, Tracy

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy City Council, Tracy Rural Fire Protection Board, and South County Fire Authority on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

1. Call to Order
2. Roll Call
3. Items from the Audience - *In accordance with Procedures for Preparation, Posting and Distribution of Agendas and the Conduct of Public Meetings, adopted by Resolution 2008-140 any item not on the agenda brought up by the public at a meeting, shall be automatically referred to staff. If staff is not able to resolve the matter satisfactorily, the member of the public may request a Council or Board Member to sponsor the item for discussion at a future meeting.*
4. JOINT WORKSHOP WITH THE CITY OF TRACY, TRACY RURAL FIRE PROTECTION DISTRICT, AND SOUTH COUNTY FIRE AUTHORITY TO DISCUSS AND PROVIDE COMMENTS ON DRAFT REPORT ON ALTERNATIVE FIRE GOVERNANCE STRUCTURES
5. Adjournment



Mayor

August 28, 2014

The City of Tracy complies with the Americans with Disabilities Act and makes all reasonable accommodations for the disabled to participate in public meetings. Persons requiring assistance or auxiliary aids in order to participate should call City Hall (209-831-6105), at least 24 hours prior to the meeting.

Any materials distributed to the majority of the Tracy City Council, Tracy Rural Fire Protection District and South County Fire Authority regarding any item on this agenda will be made available for public inspection in the City Clerk's office located at 333 Civic Center Plaza, Tracy, during normal business hours.

AGENDA ITEM 4

REQUEST

JOINT WORKSHOP WITH THE CITY OF TRACY, TRACY RURAL FIRE PROTECTION DISTRICT, AND SOUTH COUNTY FIRE AUTHORITY TO DISCUSS AND PROVIDE COMMENTS ON DRAFT REPORT ON ALTERNATIVE FIRE GOVERNANCE STRUCTURES

EXECUTIVE SUMMARY

In response to San Joaquin LAFCo's request for an analysis of the fiscal impact on the County of the current non-detachment policy when territory within the Tracy Rural Fire District (District) is annexed into the City of Tracy, the City contracted with Management Partners to analyze the property tax and governance issues associated with the current policy. The June 2014 draft report submitted to the City provides options for the City's consideration, and discusses the governance implications and financial impact associated with each one. Management Partners was also requested to review the governance issues and recommend a course of action for consideration by the South County Fire Authority (SCFA), City of Tracy (City), and the Tracy Rural Fire Protection District (District). The report concludes that the most viable path for resolution may be annexation of the City into the Tracy Rural Fire Protection District. Staff proposes that this option be analyzed further from a policy, financial and administrative perspective to determine whether this is a viable option.

DISCUSSION

In October of 2011, LAFCo completed a Municipal Services Review (MSR) of Rural Fire Districts in San Joaquin County. The review questioned the appropriateness of the current governance model for fire services in the SCFA service area, including the policy of non-detachment when unincorporated territory within the District is annexed into the City. The MSR required that the City "Complete a plan regarding the governance model for Tracy Fire Department and Tracy Rural within 18 months subject to the approval of LAFCo. All subsequent annexation requests shall be consistent with the approved plan". The timeline was subsequently extended to 24 months.

The City submitted the Fire Governance Implementation Plan to LAFCo in July 2013. The plan was discussed by LAFCo, at length during its July 19 and August 16, 2013 meetings. LAFCo continued consideration until its October 18, 2013 meeting and subsequently to the December 13, 2013 meeting. During both meetings, LAFCo expressed concerns regarding the fiscal impact on the County of the current non-detachment policy when territory is annexed into the City.

The City retained Management Partners to address the fiscal and governance issues. Management Partners completed the draft report "Alternative Fire Governance Structure." The report was distributed to interested stakeholders in July for their review and comment. These included the Tracy Rural Fire District Board of Directors, the Fire Service Steering Committee, San Joaquin County, San Joaquin LAFCo and

representatives of labor and management within the Fire Department. The draft report is now before a joint meeting of the City Council, Tracy Rural Board of Directors and the South County Fire Authority (SCFA) for review and discussion.

STRATEGIC PLAN

This is a routine operational item and is not related to any of the Council Strategic plans.

FISCAL IMPACT

There is no fiscal impact to the review and discussion of the report.

RECOMMENDATION

Staff requests that the SCFA, the Tracy City Council, and the Tracy Fire District Board discuss and provide comments on the draft report on alternative fire governance structures.

Prepared by: Alford Nero, Fire Chief

Reviewed by: Jenny Haruyama, Administrative Services Director
Maria A. Hurtado, Assistant City Manager

Approved by: Troy Brown, City Manager

ATTACHMENT

Attachment A: City of Tracy Alternative Fire Governance Structures June 24, 2014 Draft Report

City of Tracy Alternative Fire Governance Structures

Draft: June 24, 2014

Management
Partners



Management Partners



June 24, 2014

Ms. Maria Hurtado
Interim City Manager
City of Tracy
333 Civic Center Plaza
Tracy, CA 95376

Dear Ms. Hurtado:

Management Partners is pleased to transmit this revised draft project report, which analyzes the property tax, fire protection service budget and governance issues associated with the current annexation/no detachment policy regarding areas annexed into the City of Tracy from the Tracy Rural Fire Protection District (Tracy Rural). The report also provides options for the City's consideration and discusses the governance implications and financial impact associated with each one. Finally, the report lays out considerations that both the City and Tracy Rural should consider before proceeding with a recommendation to the San Joaquin Local Agency Formation Commission.

Sincerely,

A handwritten signature in blue ink, appearing to read "Andrew Belknap". The signature is fluid and cursive, with the first name being the most prominent.

Andrew Belknap
Regional Vice President

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Executive Summary

The City of Tracy Fire Department was established in 1912. Originally a volunteer fire department, the City transitioned to a full-time department in 1918. Currently, the City of Tracy Fire Department provides fire protection service to the City of Tracy and the Tracy Rural Fire Protection District (Tracy Rural) through a contract with the South County Fire Authority (SCFA).

The Tracy Rural Fire Protection District was established in 1942. Tracy Rural is responsible for providing fire protection services for approximately 200 square miles in primarily unincorporated areas as well as annexed properties that have been incorporated into the City of Tracy since 1996, but which are not detached from Tracy Rural.

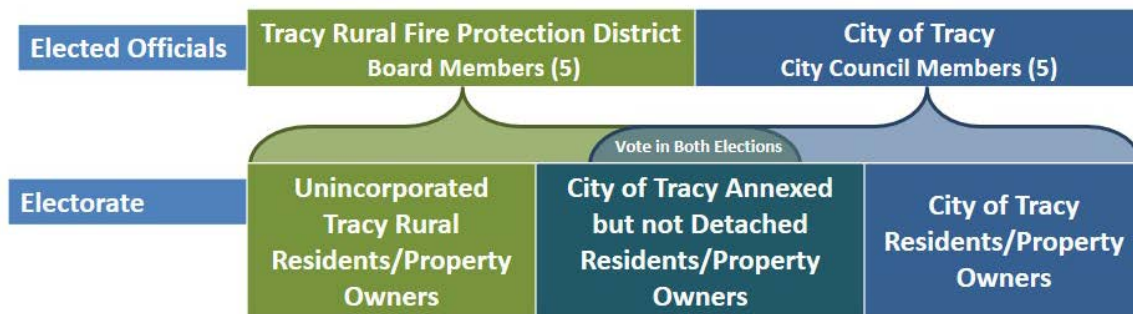
Established on September 7, 1999, the SCFA resulted from an agreement between the City of Tracy and Tracy Rural for the joint exercise of powers to provide fire protection services within the Authority's jurisdictional area by contracting for such services with the City of Tracy. The SCFA entered into an agreement with the City of Tracy on the same date for the provision of fire services to the Authority's jurisdictional area that includes all properties within the City and Tracy Rural. The Mountain House Community Services District (Mountain House) also receives fire protection services from the SCFA through a separate contract with Tracy Rural.

Since 1996, the City of Tracy has annexed 12 areas from within its Sphere of Influence (SOI). With the exception of Tracy Hills, all the properties were annexed into the City without detachment from Tracy Rural. (Some of Tracy Hills was not part of Tracy Rural.) While the original intent may have been an eventual consolidation of Tracy Rural and the City's fire protection services, this has not yet occurred. The current no-detachment policy sustains Tracy Rural's property tax and fire benefit assessment fee revenue sources.

Figure 1 depicts the current fire governance structure in the City and Tracy Rural. Effectively, residents and property owners in the annexed but not detached areas of the City have two sets of elected officials

responsible for delivering fire protection services to their properties. Further, residents in the annexed but not detached areas of the City also vote for two separate elected bodies that are responsible and accountable for fire protection services.

Figure 1. Current Fire Governance Structure



In 2011, the San Joaquin Local Agency Formation Commission (LAFCo) prepared a county-wide municipal service review (MSR) and implementation strategy of the rural fire protection districts in San Joaquin County. In the section that addressed the Tracy Rural Fire Protection District, LAFCo staff stated that services within the community are best provided by the City and that future annexations should detach from Tracy Rural. The City of Tracy disagreed with this position and LAFCo did not adopt the recommended implementation strategy as originally drafted in the MSR. Rather, the Commission adopted the following strategy as part of LAFCo Resolution 129:

Complete a plan regarding the governance model for Tracy Fire Department and Tracy Rural within 18 months) subject to the approval of LAFCo. All subsequent annexation requests shall be consistent with the approved plan.

In response to this action, the City of Tracy developed and analyzed options. This resulted in a document from the SCFA entitled *Fire Governance Implementation Plan*. The Plan was submitted to LAFCo and was considered at its July 19, 2013 meeting. LAFCo staff expressed concerns about the adequacy of the plan and at its August 16 meeting, the Commission amended Resolution 129 to allow 24 months to complete the study. Management Partners was subsequently retained by the City of Tracy to analyze the fiscal and governance issues associated with the current detachment policy as well as alternatives to this policy.

This report examines the following three scenarios with respect to property tax revenue, fire benefit assessment revenue (assessed by Tracy

Rural), and potential governance implications associated with implementation of each scenario.

1. *No Change, Annexation without Detachment (Scenario 1)*. This represents the current condition where all 12 areas annexed by the City since 1996 remain undetached from Tracy Rural.
2. *Annexation with Detachment (Scenario 2)*. Under this scenario, the revenue impact of detaching the 12 areas from Tracy Rural today is examined.
3. *Annexation of the City of Tracy (Scenario 3)*. This scenario examines the impact of the annexation of the entire City of Tracy into Tracy Rural, which would then provide fire protection services to the City.

The resolution of the annexation policy is complex, challenging, and will require significant consideration before the policy bodies of both the City and Tracy Rural come to consensus on how to proceed. Also, an in-depth or comprehensive financial analysis and budget projection for the SCFA or a truly consolidated operation was beyond the scope of this project. Further analysis may be required before full implementation of any of the options can proceed. Nonetheless, Management Partners recommends in this report that the most viable path toward resolution is for the City of Tracy to annex into Tracy Rural. We provide two specific recommendations in support of this objective, including the adoption of a resolution declaring the City's intent and the development of a business plan. The business plan would analyze the financial sustainability resulting from annexing into Tracy Rural as well as the most effective service provider for the delivery of fire protection and suppression services. The report also provides a discussion of the major issues that both Tracy Rural and the City will need to consider before proceeding with any action.

Background

To set the context, this section provides background about the fire service providers involved in the Tracy fire governance annexation and discussion about detachment. It also provides a summary of the key issues raised by San Joaquin LAFCo in its 2011 Municipal Services Review of Rural Fire Protection Districts in the County and the City of Tracy's response to date.

Fire Service Providers

The following provides an overview of the agencies involved in providing fire services to the City of Tracy, Tracy Rural, and Mountain House (under contract with Tracy Rural). The overview is not intended as an assessment of fire services or financial capabilities; it is provided as a description of the agency and its current budget status as related to this discussion.

City of Tracy Fire Department

The City of Tracy Fire Department was established in 1912, two years after the City's incorporation in 1910. Originally a volunteer fire department, the City transitioned to a full-time department in 1918. In 1999, the City of Tracy began contracting with the South County Fire authority (see discussion below) to provide fire protection services throughout the Authority's jurisdictional area, which includes the City of Tracy.

As of FY 2013-14, the City of Tracy Fire Department operates with an adopted budget of \$15.6 million and 78.7 full-time equivalent (FTE) employees, which includes capacity to meet the fire protection needs of Tracy Rural and Mountain House. The budget is supported by \$9 million from the City's General Fund, \$6.5 million from Mountain House and Tracy Rural, and miscellaneous fees and grant revenue.

Tracy Rural Fire Protection District (Tracy Rural)

Formed in 1942, Tracy Rural provides fire protection services for approximately 200 square miles in primarily unincorporated territory as well as those properties in the City of Tracy that have been annexed, but not detached, as detailed in Table 1.

In 1999, Tracy Rural partnered with the City of Tracy to form the SCFA, a joint powers authority (JPA), to streamline and integrate fire protection services in the region. Instrumental in forming this JPA was an agreement to shift all Tracy Rural personnel from Tracy Rural to the City Fire Department. Subsequently, the SCFA contracted with the City to provide all fire protection services for its member agencies.

Tracy Rural has a FY 2013-14 adopted budget of \$4.8 million. It projected \$4.2 million in expenses for fire protection services contracted to the JPA and approximately \$600,000 in other administrative expenditures.

Tracy Rural is also indebted to the City of Tracy for approximately \$5.9 million related to Tracy Rural's budget shortfalls in prior years. In 2011, the SCFA adopted Amendment 4, which stipulated that, for a period of 90 months the City would freeze Tracy Rural's debt balance of \$5.6 million and forgive the debt in exchange for Tracy Rural paying 100% of the operating expenses for the new shared Station 92. In FY 2011-12, Tracy Rural experienced a \$250,000 budget shortfall, which the City agreed to cover. In December 2012, the SCFA adopted Amendment 6, which included adding the \$250,000 to the total outstanding debt and extended Tracy Rural's agreement to pay for Station 92's operating expenses from 90 months to 94 months.

Aside from property tax, Tracy Rural relies on a significant portion of its funding from a fire benefit assessment fee that is estimated to bring in approximately \$1 million in revenue in FY 2013-14. According to Tracy Rural's 2014 Special Tax Rate Resolution, the benefit assessment levies a tax of \$0.03 per square foot of structural property, along with various other fixed and flat rate fees for special types of properties and structures.

In 1989, the San Joaquin County Board of Supervisors established a fire facility fee program to finance the improvement of fire protection facilities needed to support all new development within the unincorporated areas of San Joaquin County. Following the Board of Supervisors approval of an expenditure plan for the fire facility fee, Tracy Rural subsequently imposed this fire facility fee program in 1991 and

currently charges a one-time fee of \$0.15 per square foot on new residential, commercial, and industrial development.

Management Partners was unable to obtain financial statements from Tracy Rural regarding the revenue, expenditures, and balance of its fire facilities fee fund; however, the County Board of Supervisors accepted the state mandated Fire Protection Facilities Improvement Fee Program Annual Report for FY 2012-13 on December 10, 2013, which provided some insight. According to the staff report, Tracy Rural accrued \$2,030 in revenue during the fiscal year, which it expended, leaving it with a fund balance of \$75,146 in fire facility fees.

Mountain House Community Services District (Mountain House)

Tracy Rural is currently contracted to provide fire protection services to Mountain House, a community services district established in 1996 as enabled through California Government Code Section 61000-61009. Following the original agreement, the SCFA adopted Amendment 1 in 2002 to expand its jurisdictional area to include Mountain House.

When the City of Tracy and Tracy Rural formed the SCFA, they agreed to pay for fire protection services through a cost sharing formula. However, Mountain House's cost for fire protection services is not incorporated into this cost sharing agreement. While Mountain House's cost for service is incorporated into the SCFA's annual budget, Mountain House pays Tracy Rural a flat fee for service that is then passed through to the SCFA Fund managed by the City.

The City of Tracy's Fire Governance Implementation Plan of August 16, 2013 identified the potential for Mountain House's membership to strengthen the JPA. During the course of the subsequent analysis, however, Mountain House issued a one-year notice to terminate its contract with Tracy Rural and released a request for proposals (RFP) to seek alternative fire protection services. While Mountain House is a stakeholder impacted by the SCFA's services, it is not a member agency in the JPA, and thus, its budget and governance structure were not analyzed as part of this project.

South County Fire Authority (SCFA)

Established on September 7, 1999, the SCFA represents an agreement between the City of Tracy and Tracy Rural for the joint exercise of powers to provide fire protection services within the Authority's jurisdictional area by contracting for such services with the City of Tracy. State

Government Code 6502 established joint power authorities that have separate operating boards and receive their powers from the legislative or governing body that created the authority. Through the SCFA joint powers agreement, the City of Tracy and Tracy Rural agreed to the provision of the following services by the City of Tracy:

- Fire Administration,
- Fire Prevention,
- Fire Operations,
- Fire Training and Safety, and
- Fire Dispatch Services.

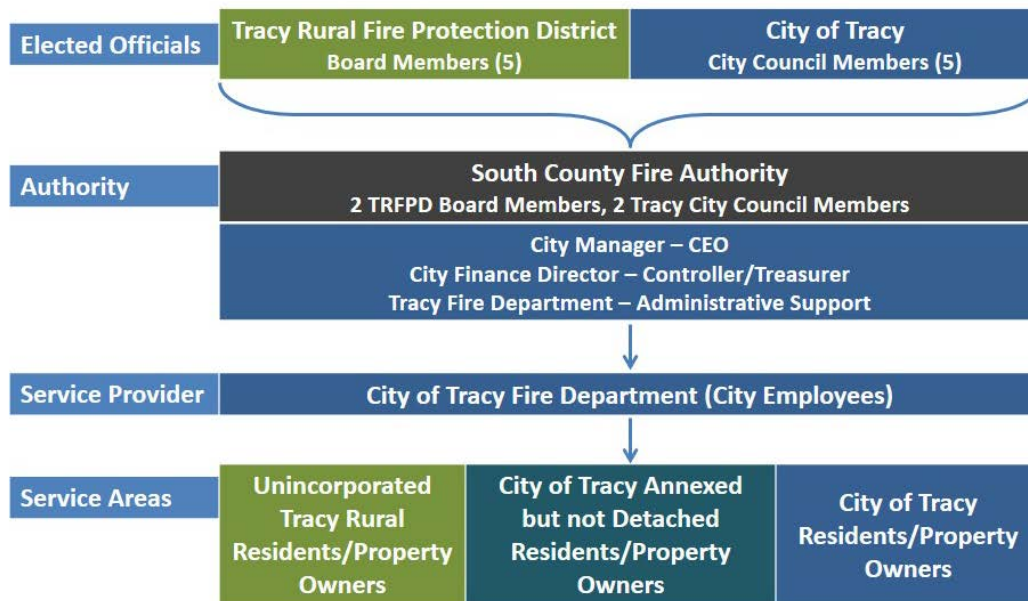
The Authority is prohibited from hiring employees or owning real and/or personal property except under specified conditions.

The SCFA then entered into an agreement with the City of Tracy on the same date for the provision of fire services to the Authority's jurisdictional area.

The SCFA, a separate governmental organization, is governed by a four-member board of directors consisting of two members from the Tracy City Council and two from the Tracy Rural Board of Directors. The Tracy city manager serves as the Authority's chief executive officer and appoints the fire chief for the Authority. The City finance director serves as the controller/treasurer of the Authority. General administrative support of the authority is provided by the Tracy Fire Department.

Figure 2 shows the current fire service structure in the City of Tracy and Tracy Rural.

Figure 2. Current Fire Protection Service Structure



The initial agreement set forth provisions for the operation and maintenance of joint facilities. Tracy Rural fire protection employees became City of Tracy Fire Department employees under an agreement regarding compensation and benefits. The JPA agreement also established shared responsibility for the annual costs of maintenance and operations for the fire protection services, which the two agencies must agree upon prior to each fiscal year. Initially set at 64% City and 36% Tracy Rural, it has most recently been modified to 69.5% City and 30.5% Tracy Rural as of the FY 2013-14 adopted budget. Finally, the agreement required Tracy Rural to annually levy a special tax for fire prevention and suppression within Tracy Rural. Tracy Rural imposed a benefit assessment fee in 1991 and required the City to impose a fire impact fee to fund its capital fund. It also required the City to impose a fire impact fee to be used to provide fire stations and equipment located within Tracy Rural’s boundaries.

Since the execution of the initial JPA agreement, there have been six amendments and various side agreements between the City and Tracy Rural. The major amendments addressed the following:

- *Amendment 1:* The SCFA jurisdictional area was altered to accommodate Mountain House’s service area due to its contract for fire protection services with Tracy Rural.
- *Amendment 4:* The City agreed to freeze and forgive Tracy Rural’s \$5.6M debt balance as long as Tracy Rural paid for 100% of the

new shared Station 92’s operations for 7.5 years (90 months). In this amendment, the City also agreed to impose a fire impact fee for City property that is also within the Tracy Rural boundaries. The operational cost sharing formula was altered to 64% City and 36% Tracy Rural.

- *Amendment 5:* The SCFA’s cost sharing formula between the City and Tracy Rural was altered to 67% City and 33% Tracy Rural.
- *Amendment 6:* The City agreed to add \$250,000 to Tracy Rural’s debt balance due to a budget shortfall in exchange for extending Tracy Rural’s coverage of Station 92’s operating expenses from 90 months to 94 months.

FY 2013-14 SCFA Budget Overview

As the service provider for the Authority’s jurisdictional area, every year the SCFA adopts the City Fire Department’s annual budget as its own budget. The SCFA’s FY 2013-14 adopted budget is \$15.6 million and is inclusive of those fire protection services provided to Tracy Rural and Mountain House. In FY 2013-14, the SCFA’s budget was supported by contributions from the City’s General Fund (\$9 million), Tracy Rural (\$3.8 million), Mountain House (\$2.3 million), and some residual fee and grant revenue. Table 1 provides an overview of the SCFA’s expenditures by program as provided in the City of Tracy Fire Department’s Adopted Budget. Table 2 provides a listing of the SCFA’s FY 2013-14 revenue sources.

Table 1. City of Tracy Fire Department/SCFA Budget for FY 2013-14

Expenditures by Program	Cost
Fire Administration	\$557,920
Fire Prevention and Education	\$420,620
Fire Operations	\$14,345,160
Fire Training and Safety	\$258,500
Total Budget	\$15,582,200

*Source: City of Tracy Adopted Budget FY 2013-14
Note: This budget includes Tracy Rural and Mountain House.*

Table 2. SCFA Funding Sources in FY 2013-14

Funding Sources	Funding
City of Tracy	\$9,052,090
Fee Revenues	\$175,500
Grant Revenues	\$206,000
Mountain House	\$2,313,290
Tracy Rural	\$3,835,320
Total	\$15,582,200

Source: City of Tracy Adopted Budget FY 2013-14

In addition to the issues surrounding annexations and governance, the City of Tracy also anticipates fire service costs to rise in the next five to ten years, as described in Table 3. According to the City’s Fire Department administration, as build-out continues to grow in Ellis and Tracy Hills, the City will need one to two additional fire stations in order to provide adequate fire protection coverage. Similarly, as build-out continues in Cordes Ranch, another fire station will need to be constructed. Overall, within the next ten years, the Fire Department will need to construct two or three fire stations to meet service demand.

Table 3. Estimated Future Expenses per Station

Per Station	Estimated Expense
One Time Expenses	
Facility Construction	\$4,500,000
Apparatus and Equipment	\$600,000
Total One Time Expenses	\$5,100,000
Annual Operating Expenses	
Facility Operating Cost	\$250,000
Personnel	\$1,500,000
Total Annual Operating Expenses	\$1,750,000

Source: City Fire Department staff provided one-time and annual operating expense estimates for additional fire stations.

According to City Fire Department administration, the one-time expenses may be covered through agreements with developers; however, this is not guaranteed. Subsequently, once the fire stations are built, the City Fire Department will be required to meet annual operating costs of \$1,750,000 per station. While it is not within the scope of this project to resolve these imminent service needs, it is important to keep in mind as the SCFA continues to evaluate its fire governance and mode of service delivery.

Annexation without Detachment

The City of Tracy has annexed 12 areas since 1996. With the exception of Tracy Hills, all the properties were annexed into the City without detachment from Tracy Rural. Part of Tracy Hills remains in Tracy Rural, while the remaining portion was not originally in Tracy Rural and therefore was fully annexed into the City. Table 4 provides a listing of annexed but not detached areas.

Table 4. Annexed Areas by the City, but not Detached from Tracy Rural Since 1996

Annexation (Date)	Acreage	Development Status Upon Annexation	Current Development Status
Cordes Ranch (09/2013)	1,781	Agricultural.	No change
Elissagaray (11/1996)	167	Approximately 7 homes.	436 SFRs
Ellis Specific Plan (03/2013)	321	1 SFR with a small tree-growing operation. Majority of the site was fallow agricultural land.	No change
Filios-Dobler (03/2012)	46	Majority of the site was used for agricultural hay production. Site contained 3 SFR plus one welding shop.	No change
Gateway (05/2003)	550	1 SFR on an approximately 15-acre site; balance of site agricultural lands in alfalfa production.	No change
Kagehiro (01/1997)	146	Agricultural.	293 SFRs
Lourence Ranch (04/1977)	40	Agricultural – row crops.	116 SFRs
Northeast Industrial (11/1996)	905	Approximately 13 SFRs. Remaining property in agricultural and dairy operations.	485 acres of industrial development and 420 acres of undeveloped property. Approximately 8 original SFRs.
Plain View (01/1998)	10	1 SFR on 2-acre site.	Used for vehicle storage
Presidio (11/1999)	149	1 SFR with agricultural buildings, fallow agricultural lands.	550 Single Family Residences.
Souчек (07/1998)	60	1 SFR, agricultural lands.	No change
Tracy Hills (09/1998)	2,725	Several homes, agricultural lands, grazing lands.	No change

Source: City of Tracy staff

Aside from the obvious loss of property tax and benefit assessment revenue if these areas were to detach from Tracy Rural, Management Partners was unable to obtain any official LAFCo policy to gain a clear and succinct understanding of the basis for a no detachment policy until

2011. We did not, however, research all the LAFCo documentation that accompanied each annexation with respect to the property tax allocations and annexations agreed to and now established.

We are aware that there may have been an informal agreement or understanding between the City, County, Tracy Rural and perhaps LAFCo staff at the time of the annexations and that no detachment was considered an interim step toward future consolidation. In 2002, both the City of Tracy and Tracy Rural adopted resolutions affirming the intention of annexed properties to the City to remain in the Tracy Rural boundaries. The resolution cites financial considerations for consolidated fire services, which “necessitated annexed land to the City of Tracy also remain in Tracy Rural’s boundaries.” While a JPA between Tracy Rural and the City of Tracy was formed in 1999 to provide fire service (see below), this does not represent a consolidation within the definition of governmental reorganizations under state law.

As a result of the no detachment policy until 2011, Tracy Rural has retained their share of 1% property tax as well as the revenue obtained from a voter-approved benefit assessment district. Upon annexation, the City of Tracy and San Joaquin County have allocated the County portion of property tax in accordance with various tax allocation agreements through the years. The most recent Agreement for Property Tax Allocation upon Annexation agreed to in 2012 (Appendix 1) between the City and County, dated November 20, 2012 states in Section 2 B:

For annexations that do not involve Detachment from a fire district, City and County shall, upon annexation that in whole or in part, does not involve Detachment from a fire district, share in the Annexation Property Tax Base and Incremental Growth thereof, for all portions of the annexation that do not involve Detachment from a fire district, as follows:

- i. Consolidated fire districts established prior to June 15, 1996, pursuant to the ratio of 20% CITY and 80% COUNTY.*
- ii. Consolidated fire districts established between June 15, 1996 and June 15, 2003, pursuant to the ratio of 15% CITY and 85% County.*
- iii. Consolidated fire districts established subsequent to June 15, 2003, pursuant to the ratio of 10% CITY and 90% COUNTY.*

Since Tracy Rural was a consolidated fire district established prior to June 15, 1996, Management Partners believes the applicable section regarding future annexations is 2 B(i).

Municipal Services Review (October 2011)

Local Agency Formation Commissions were created by State Law in 1963 to encourage the orderly formation of local government agencies, to preserve agricultural and open space land and to discourage urban sprawl. As stated by California Association of Local Agency Commissions (CALAFCO) on their website:

LAFCos are responsible for coordinating logical and timely changes in local governmental boundaries, conducting special studies that review ways to reorganize, simplify, and streamline governmental structure and preparing a sphere of influence for each city and special district within each county.

The Commission's efforts are directed toward seeing that services are provided efficiently and economically while agricultural and open-space lands are protected. To better inform itself and the community as it seeks to exercise its charge, each LAFCo must conduct service reviews to evaluate the provision of municipal services within each county.

Additionally, municipal service reviews were added to LAFCo's responsibilities in 2000:

LAFCos are responsible for coordinating logical and timely changes in local governmental boundaries, conducting special studies that review ways to reorganize, simplify, and streamline governmental structure and preparing a sphere of influence for each city and special district within each county.

The Commission's efforts are directed toward seeing that services are provided efficiently and economically while agricultural and open-space lands are protected. To better inform itself and the community as it seeks to exercise its charge, each LAFCo must conduct service reviews to evaluate the provision of municipal services within each county.

The San Joaquin LAFCo prepared a county-wide municipal service review (MSR) and implementation strategy in 2011 of the rural fire protection districts in San Joaquin County. The report focused on 19

special independent districts under LAFCo's jurisdiction that provide fire services to the unincorporated areas in San Joaquin County and the cities of Escalon, Ripon, Lathrop and a portion of Tracy. The MSR addressed the following:

- Population and growth;
- Service levels;
- Financial ability of the agencies to provide services;
- Status of, and opportunities for, shared facilities; and
- Accountability for community service needs, including governmental structure and operational efficiencies.

In the Implementation Strategy section of the MSR, LAFCo staff recommended and the Commission made determinations (as required by law) in several areas. In the section regarding improving the management efficiency of the districts, LAFCo staff recommended the following implementation strategy to the Commission:

Encourage the exploration of other governance models for the Tracy City Fire Department and the Tracy Rural such as consolidation or contracting for services and require the detachment of the District for all future annexations until such reorganization occurs.

LAFCo staff made this recommendation based on a number of considerations, but primarily because the City is "not providing full municipal services to its residents." Further, Section 56000 the Cortes-Knox-Hertzberg Act (CKH Act) also states:

The Legislature finds and declares that a single multipurpose agency is accountable for community service needs and financial resources, and therefore may be the best mechanism for establishing community service priorities especially in urban areas.

LAFCo staff reiterated that the policy and decision to detach or not to detach properties resides with LAFCo and there are significant implications associated with this decision that need to be addressed. The two primary issues are:

1. The financial impact on County property taxes when areas are annexed to the City but not detached from Tracy Rural.
2. The inability of the City of Tracy to provide full municipal services to the residents of the annexed but not detached areas, contrary to the goal of the CKH Act. Under the current policy,

Tracy Rural's Sphere of Influence (SOI) would overlap into the City's SOI because Tracy Rural is still the governmental agency responsible for the delivery of fire services in the non-detached areas of the City. Appendix 2 provides a map created by LAFCo of the resulting SOIs.

LAFCo staff stated that services within the community are best provided by the City and that future annexations should detach from Tracy Rural. The City of Tracy disagreed with this position and LAFCo did not adopt the recommended implementation strategy. Rather, the Commission adopted the following strategy in Resolution 129:

Complete a plan regarding the governance model for Tracy Fire Department and Tracy Rural within 18 months subject to the approval of LAFCo. All subsequent annexation requests shall be consistent with the approved plan.

Since approval of the MSR in October 2011, three annexations into the City have been processed through LAFCo without detachment from Tracy Rural.

Under the guidance of a Fire Service Steering Committee to oversee the process, the City of Tracy proceeded in 2012 to develop and analyze options for responding to the LAFCo action. These options were reviewed with the community through workshops, Fire Department employees, IAFF Local 3355 and the County Administrator. The four options analyzed were:

1. Strengthen the existing JPA,
2. Dissolve the SCFA and form a new JPA,
3. Outsource/contract fire services, and
4. Annex the City of Tracy into Tracy Rural.

The City requested a three-month extension to complete the study, and the options analysis culminated in a Fire Governance Implementation Plan. The City Steering Committee determined that Options 2 and 3 were not feasible and that steps be taken to implement Option 1.

The Plan was submitted to LAFCo and considered at its July 19, 2013 meeting. In its report, LAFCo staff expressed a range of concerns regarding the adequacy of the plan and the item was continued to the August 16, 2013 LAFCo meeting. The main concerns expressed were the lack of analysis regarding the rejected options, but more critically, the lack of the fiscal analysis and impact on the County as a result of the current detachment policy and related governance issues. An Ad Hoc

Committee of the Commission met with the City of Tracy and Tracy Rural in August 2013 to discuss the issues. At its August 16 meeting, the Commission amended Resolution 129 to allow for 24 months to complete the study.

Management Partners was subsequently retained by the City of Tracy to address the fiscal and governance issues associated with the current detachment policy as well as alternative options. This report does not include any further analysis of options to strengthen the existing JPA; while there may be merit in doing so for other reasons, we believe it would not address the underlying no detachment policy and related governance issues surfaced in the 2011 MSR.

Project Approach

Management Partners conducted this analysis of alternative governance structure approaches for the City of Tracy, the SCFA and Tracy Rural utilizing interviews, a review of property tax and related data, state law regarding governmental reorganizations and independent fire districts, land use data, relevant budgets and other related documents. The interviews, data analysis, industry experience, and review of relevant documents helped inform our analysis of the implications of various tax allocation and fire service delivery scenarios. The goal of doing so was to provide information and frame the issues for future policy consideration. Our approach is described briefly below.

Interviews

Management Partners believed it important to meet with City and Tracy Rural officials as well as LAFCo staff to get an in-depth understanding of the various perspectives and the information required for future decisions about this issue. We spent considerable time with City and LAFCo staff to ensure we were working with the relevant data points so future discussions would focus on the results and provide a good platform for policy recommendations and decisions. Our interviews and discussions addressed policy, financial, property tax, and governance issues that would need to be considered under alternative governance and fire service delivery scenarios. Our interviews included the following individuals:

- Former Tracy City Manager
- Tracy Assistant City Manager
- Tracy Administrative Services Director
- Tracy Fire Chief
- Tracy Fire Division Chief
- Tracy Rural Board Member
- Tracy Rural Board Secretary
- Tracy Community Development Director
- Tracy Assistant Development Services Director

- Tracy City Attorney
- Tracy Assistant City Attorney
- San Joaquin County LAFCo Executive Officer
- San Joaquin County LAFCo Analyst

Document Review

Management Partners reviewed a range of documents to provide the basis for our analysis. They included:

- Final Municipal Service Review – Rural Fire Protection Districts/San Joaquin County, dated October 21, 2011
- Tracy General Plan, dated February 1, 2013, and Final Supplemental Environmental Impact Review, dated December 1, 2010
- San Joaquin County LAFCo policies, procedures and relevant staff reports
- Tracy Rural Fire Protection District Resolution 2014-2 Setting the Special Tax Rate
- Various State Government and Revenue and Taxation Code Sections
- County of San Joaquin and City of Tracy Agreement for Property Tax Allocation upon Annexation, dated November 20, 2012
- Joint Powers Agreement for the SCFA, dated September 7, 1999
- Agreement between the City of Tracy and Tracy Rural regarding employment of personnel for provision of fire services, dated September 7, 1999, and all subsequent amendments and resolutions
- Agreement between the SCFA and the City of Tracy for provision of fire services, dated September 7, 1999, and all subsequent agreement amendments
- Fire Protection Services Agreement between Mountain House and Tracy Rural, dated September 17, 2002
- SCFA Fire Governance Implementation Plan dated August 16, 2013

Property Tax Analysis Methodology

According to California Revenue and Taxation Code Section 99-99.2, jurisdictional changes are subject to a property tax agreement to determine any adjustment of the allocation of property tax revenue on the affected agencies. State law provides that the applicable county will

negotiate property tax agreements on behalf of special districts when agreements are between a city and special district.

The City and County (on behalf of Tracy Rural) have, over the years, negotiated and agreed to several property tax allocation agreements for both properties that were annexed and detached and those that were annexed but not detached. We understand there were individual annexation agreements for each of the 12 areas discussed in this analysis.

Management Partners was unable to obtain all the agreements; however, we were able to obtain the November 2012 Agreement for Property Tax Allocation upon Annexation between the City and County, which provides guidelines on property tax allocation when properties are annexed from special districts, including fire districts. (The provisions of this agreement were described in the Background Section of this report.) Management Partners did not, however, apply the provisions of this agreement to estimate property tax implications under the various alternative scenarios. The County auditor-controller was able to provide current information on the varying property tax sharing ratios within each of the 12 areas that were annexed but not detached.

In calculating the property tax revenue currently received by the City, Tracy Rural, and the County, Management Partners relied on California Board of Equalization (BOE) Tax Rate Area (TRA) assessed valuation and property tax data provided by the San Joaquin County auditor-controller through LAFCo staff. Similarly, our methodology for estimating future property tax, should the 12 areas be detached from Tracy Rural, also used the same County auditor-controller TRA data.

San Joaquin LAFCo Mitigation Fee Policy

Aside from the regulatory protocols established by the CKH Act, policies and procedures for government reorganizations may differ within each LAFCo across the state. The San Joaquin County LAFCo has expressed strong interest in ensuring that special districts experiencing adverse impacts from annexation and subsequent detachment of property are able to continue providing an adequate level of service.

According to Section 12 of San Joaquin County LAFCo's Change of Organization Policies and Procedures, General Standards for Annexation and Detachment include:

*12. Adverse Impact of Annexation on the Other Agencies:
LAFCo will consider any significant adverse effects upon other service recipients or other agencies serving the area and may*

condition any approval to mitigate such impacts. Significant adverse effects shall include the effect of proposals that negatively impact special districts, budgets or services or require the continuation of services without the provision of adequate funding. LAFCo will not approve detachments from special districts or annexations that fail to provide adequate mitigation of the adverse impact on the district. LAFCo may determine an appropriate temporary mitigation, if any, and impose that temporary mitigation to the extent it is within its powers. If the needed mitigation is not within LAFCo's authority and approval would, in the opinion of the Commission, seriously impair the District's operation, the Commission may choose to deny the application.

While LAFCo does require consideration of such adverse impacts of reorganization, any such mitigation fee imposed is subject to periodic review. Section 13 of LAFCo's General Standards in its Service Review Policies addresses this temporary fee further by stating:

13. District Receiving Mitigation Fees: Every five years LAFCo will conduct Service Reviews and evaluate the financial ability of the districts to provide service and shall evaluate the continued necessity of the temporary mitigation fee in light of other government alternatives including but not limited to contract for services and other reorganization/consolidation options.

During the course of our interviews, LAFCo stated that the 12 areas that were annexed by the City but not detached from Tracy Rural are not subject to this mitigation fee policy as their initial annexation agreements did not result in imposition of the fee. As a result, Management Partners did not incorporate the financial implications of a mitigation fee in our alternative fire governance scenarios on the annexations to date since they were not applied.

Alternative Fire Governance Structures

Management Partners worked with both City and LAFCo staff to develop the alternative fire governance structures that would be examined as part of this analysis. There was a consensus that the following three alternative fire service delivery scenarios effectively were the most viable and should be examined:

1. *No Change, Annexation without Detachment (Scenario 1)*. This represents the current condition where all 12 areas annexed by the City since 1996 have been annexed to the City but not detached from the Tracy Rural Fire Protection District.
2. *Annexation with Detachment (Scenario 2)*. Under this scenario, the revenue impact of detaching the 12 areas from Tracy Rural today is examined.
3. *Annexation of the City of Tracy (Scenario 3)*. This scenario examines the impact of the annexation of the entire City of Tracy into the Tracy Rural Fire Protection District, which would then provide fire protection services to the City.

Each scenario is examined with respect to property tax revenue, benefit assessment revenue, and the governance implications that could result from implementation of each scenario.

SCFA Budget and Tax Allocation Factors

To understand the property tax and benefit assessment impacts under each scenario, this section provides a summary discussion of the SCFA budget revenues and expenditures. It also provides a description of the Tax Allocation Factors (TAFs) and their relationship to property tax revenue.

The SCFA budget overview does not include either the revenues or expenditures for contracted fire protection services between Tracy Rural and Mountain House. (Tracy Rural and the City of Tracy participate in a separate cost sharing agreement; however, there may be implications for SCFA if Mountain House chooses not to contract with Tracy Rural.)

Table 5 provides an overview of the FY 2013-14 SCFA budget to provide fire protection services to Tracy Rural and the City of Tracy. Tracy Rural's share of the budget does not include its own administrative expenditures to operate the fire district, which is in addition to its payment to the SCFA.

Table 5. SCFA FY 2013-14 Budget Overview

Expenditures	Tracy Rural Share	City Share	FY 2013-14 Budget
Fire Protection Services	\$3,835,310	\$9,433,590	\$13,268,900
Equipment	\$0	\$636,950	\$636,950
Indirect Costs	\$113,530	\$227,070	\$340,600
Total Budget	\$3,948,840¹	\$10,297,610	\$14,246,450

Source: City of Tracy Adopted Budget FY 2013-14; SCFA FY 2013-14 Budget Resolution

Note: Does not include Mountain House's portion of the SCFA budget.

¹Tracy Rural's total budget includes the total cost of providing fire protection service. This does not include other district expenditures as detailed in Table 7.

Table 6 provides the revenue and funding sources each agency projected in FY 2013-14. Tracy Rural's revenue exceeds SCFA's budget for Tracy Rural's fire services as Tracy Rural has additional administrative expenditures in operating a fire district, as detailed in Table 7. The City's funding in Table 6 falls below the City's share of the SCFA budget as it does not include equipment and indirect costs, which are funded through an internal service fund. The details of this fund were not identified in the City's adopted budget.

Table 6. Tracy Rural and City Fire Protection Service Fire Service Revenue Projections for FY 2013-14

Funding	Tracy Rural	City
General Fund	-	\$9,052,090 ¹
Property Tax	\$3,745,000	-
Benefit Assessment	\$1,007,518	-
Other Funding	\$89,500	\$381,500
Total Funding	\$4,842,018	\$9,433,590

Source: Tracy Rural Adopted Budget FY 2013-14, City of Tracy Adopted Budget FY 2013-14,

¹ This is a General Fund allocation to the City Fire Department. The City receives \$14 million in property tax revenue as a City General Fund revenue source; however, property tax is not specifically allocated to the Fire Department and therefore not listed in the table.

Table 7 provides an overview of Tracy Rural's total FY 2013-14 budget, including the JPA payments to SCFA for fire protection and Tracy Rural's own administrative expenditures. According to the Tracy Rural budget, Tracy Rural projected a payment of \$4.2 million to the SCFA for fire

protection services in the current fiscal year; however, the City only projects \$3.9 million as seen in Table 5. After reviewing financial statements with staff from the City and Tracy Rural, Management Partners believes the Tracy Rural’s adopted budget for JPA payments may simply be an over projection, leaving slight flexibility in its operating expenses for fire protection services.

Table 7. Tracy Rural’s FY 2013-14 Budget Overview

Expenditures	FY 2013-14 Budget
District Expenditures	\$642,018
JPA Payments	\$4,200,000
Total Budget	\$4,842,018

Source: Tracy Rural Adopted Budget FY 2013-14
 Note: Does not include Mountain House expenditures.

While Scenario 1 imposes no changes to the current structure of annexed but not detached properties, Scenarios 2 and 3 would impact property tax allocations and the budgets for the City of Tracy and Tracy Rural.

Tax Allocation Factors

In the State of California, TRAs are geographical areas comprised of varying combinations of taxing agencies and voter-approved debt service funds. In San Joaquin County, there are nearly 1,300 TRAs and 160 taxing authorities. For the purposes of this analysis, we did not track voter-approved debt that is in addition to property tax as it would not be impacted by the alternative scenarios evaluated in this report.

On June 6, 1978, California voters approved Proposition 13 (Prop 13), which limits the maximum amount of any ad valorem tax on real property at 1%. In the following year, the State Legislature passed Assembly Bill 8 (AB 8) which established a method for the distribution of property tax revenue to the varying taxing agencies in a TRA in accordance with Prop 13. These distributions are commonly known as Tax Allocation Factors (TAF) and vary greatly by TRA, the number and type of taxing agencies present in a TRA, and tax sharing agreements between taxing agencies in a TRA.

For the 12 areas analyzed in this report, each is comprised of multiple parcels often spread across different TRAs. Therefore, total property tax revenue calculations include a range of TAFs. For each of these properties, Management Partners used FY 2013-14 TRA assessed value and property tax data from the BOE database accessed by the County Auditor-Controller.

Alternative Fire Service Delivery and Governance Scenarios

This section provides a discussion of the financial and property tax implications for each of the annexation scenarios analyzed.

Scenario 1: No Change, Annexation without Detachment

Under Scenario 1, there would be no financial implications for the SCFA budget as no change in the current property tax allocations from the properties annexed by the City but not detached from Tracy Rural would occur. Table 8 provides the current assessed value, total property tax revenue, and the share of property tax revenue distributed to the County, City, and Tracy Rural for the 12 annexed but not detached properties.

Table 8. Scenario 1: FY 2013-14 Estimated Property Tax Revenue Based on Current Tax Allocation Factors (Annexation without Detachment)

Property	Assessed Value	Property Tax	County's Current Property Tax Share	City's Current Property Tax Share ¹	Tracy Rural's Current Property Tax Share
Elissagaray	\$179,760,768	\$1,811,288	\$376,169	\$76,996	\$198,555
Northeast Industrial	\$254,938,050	\$2,568,094	\$473,343	\$185,293	\$298,059
Kagehiro	\$99,137,084	\$998,221	\$207,537	\$42,331	\$109,449
Lourence Ranch	\$33,977,893	\$342,127	\$71,131	\$14,508	\$37,512
Plain View	\$619,681	\$6,813	\$1,654	\$0	\$806
Soucek	\$3,874,860	\$39,016	\$8,112	\$1,655	\$4,278
Tracy Hills	\$23,400,163	\$1,053,540	\$217,015	\$148,593	\$26,763
Presidio	\$179,893,590	\$1,811,365	\$376,596	\$76,814	\$198,606
Gateway	\$27,063,119	\$301,211	\$68,123	\$12,022	\$38,797
Filios Dobler	\$1,823,768	\$37,244	\$7,208	\$1,272	\$4,123
Ellis Specific Plan	\$5,511,087	\$58,447	\$11,975	\$2,113	\$6,865
Cordes Ranch	\$28,500,193	\$492,907	\$109,026	\$19,240	\$62,367
Total	\$810,000,063	\$9,520,272	\$1,927,890	\$580,838	\$986,181

Source: Assessed value, property tax, and allocations are from the BOE database; does not include voter approved bond debt or other authorized assessments. Estimates are for FY 2013-14.

¹Property tax collected and allocated to the City is considered General Fund revenue and not specifically allocated to the Fire Department.

In FY 2013-14, based on the County auditor-controller's TRA assessed valuation and property tax data, approximately \$1.9 million in property tax revenue was received by the County, \$581,000 by the City, and \$986,000 by Tracy Rural for a total of \$3.5 million.

Governance Implications

Under the current “no detachment” policy, residents and property owners in the non-detached areas of the City have two governmental entities with separately-elected bodies accountable for the delivery of fire services to the annexed areas: Tracy Rural and the City of Tracy. Since the property is not detached from Tracy Rural but is annexed to the City, residents in the non-detached areas are eligible to vote for both the Tracy Rural Fire District Board of Directors and the Tracy City Council. Further, property owners have fire protection obligations (benefit assessment fees and development impact fees) to two different governmental agencies with fire protection responsibilities in the same area. (The benefit assessment fee is imposed by Tracy Rural and development impact fees are imposed by both Tracy Rural and the City, but not the SCFA.)

As mentioned previously, Tracy Rural and the City joined together to create the SCFA, a JPA or separate governmental organization, and contracted with the City of Tracy Fire Department to deliver fire protection services to Tracy Rural and the City. The SCFA has board members appointed by both Tracy Rural and the City. When a JPA is formed between two or more public agencies that share a common power and want to jointly deliver services, it is typically between two governmental entities without existing overlapping boundaries for the common delivery of that service.

Finally, as stated in the 2011 MSR, LAFCo’s policy “favors the provision of services by a municipality over single-purpose districts.” While the SCFA, a JPA, is not a single-purpose district, it is currently the designated governmental organization, albeit not a municipality, responsible for the delivery of service to the non-detached properties within the City of Tracy. Residents and property owners within the non-detached properties still have two separately-elected bodies accountable for and responsible for the delivery of fire protection services whose elected officials, in turn, make appointments to the SCFA Board of Directors.

Scenario 2: Annexation with Detachment

Scenario 2 assumes the 12 areas annexed by the City would detach from Tracy Rural and that Tracy Rural would subsequently lose its property tax revenue for these properties. Tracy Rural would also be unable to impose the benefit assessment fee and as a result would lose the revenue from that source as well. Table 9 provides an overview of the property tax revenue increase for the County and City for these detachments.

For this scenario, Management Partners assumed the Tax Allocation Factors would be in accordance with the City’s 2012 property tax sharing agreement with the County, as described in the Background Section of this report. (A different property tax sharing agreement could also be negotiated.) This agreement stipulates that when annexations involving detachment from a fire district established prior to June 14, 1996 occur, the City and County shall share in the Annexation Property Tax Base and Incremental Growth thereof in a ratio of 20% City and 80% County for all portions of the annexation that involve detachment from the fire district. Under this scenario, Tracy Rural would no longer receive any property tax allocation from the detached properties and its property tax would be reallocated to the City and the County based on the 80/20 split.

Table 9. Scenario 2: Estimated FY 2013-14 Property Tax Revenue under Annexation with Detachment

Property	Assessed Value	Property Tax	County's Property Tax Revenue Share	Scenario 2 Increase	City's Revenue Share ¹	Scenario 2 Increase
Elissagaray	\$179,760,768	\$1,811,288	\$521,376	39%	\$130,344	69%
Northeast Industrial	\$254,938,050	\$2,568,094	\$765,357	62%	\$191,339	3%
Kagehiro	\$99,137,084	\$998,221	\$285,288	37%	\$74,030	75%
Lourence Ranch	\$33,977,893	\$342,127	\$86,914	22%	\$36,237	150%
Plain View	\$619,681	\$6,813	\$1,968	19%	\$492	-
Souчек	\$3,874,860	\$39,016	\$11,151	37%	\$2,894	75%
Tracy Hills	\$23,400,163	\$1,053,540	\$235,602	9%	\$156,769	6%
Presidio	\$179,893,590	\$1,811,365	\$517,682	37%	\$134,334	75%
Gateway	\$27,063,119	\$301,211	\$95,154	40%	\$23,788	98%
Filios Dobler	\$1,823,768	\$37,244	\$10,083	40%	\$2,521	98%
Ellis Specific Plan	\$5,511,087	\$58,447	\$16,762	40%	\$4,191	98%
Cordes Ranch	\$28,500,193	\$492,907	\$158,919	46%	\$31,713	65%
Total	\$810,000,063	\$9,520,272	\$2,706,256	40%	\$788,652	36%

Source: Assessed value, property tax, and allocations are from the BOE database; does not include voter approved bond debt or other authorized assessments. Estimates are for FY 2013-14.

¹Property tax collected allocated to the City is considered General Fund revenue and not specifically allocated to the Fire Department.

Based on the applicable changes in property tax percentage allocations and the dissolution of Tracy Rural’s TAF share, the County and City would receive approximately \$2.7 million and \$789,000, respectively, in annual property tax revenue.

Table 10 shows a comparison of the amount of property tax allocated for the County, City and Tracy Rural in the two scenarios. Scenario 2 projects

the revenue impact if the annexed properties were detached from Tracy Rural today.

Table 10. FY 2013-14 Property Tax Revenue Allocation Comparison under Scenarios 1 and 2 for Annexed Areas

Agency	Current Share (Scenario 1)	Annexation with Detachment (Scenario 2)	Gain/Loss
County	\$1,927,890	\$2,706,256	\$778,367
City	\$580,838	\$788,652	\$207,814
Tracy Rural	\$986,181	\$0	-\$986,181

Table 11 details the total property tax revenue impact for both the City and Tracy Rural. Overall, the City would gain approximately \$208,000 in property tax revenue and the Tracy Rural would lose approximately \$986,000 in property tax revenue.

Table 11. Scenario 2: City and Tracy Rural FY 2013-14 Property Tax Revenue Impact

Agency	Property Tax Scenario 1	Property Tax Scenario 2	Gain/Loss
City	\$14,410,000 ¹	\$14,617,814 ¹	\$207,814 ²
Tracy Rural	\$3,745,000	\$2,758,819	-\$986,181

¹The \$14 million in property tax revenue is a City General Fund revenue and not directly allocated to the Fire Department. The change in property tax under Scenario 2 is an estimated increase in property tax from the detachment of 12 annexed but currently not detached properties in Table 2.

²With the detachment of the 12 areas, the City's additional property tax revenue is accounted for in the General Fund and not Fire Department funding.

Scenario 2 would result in a significant financial impact to Tracy Rural, as a loss of \$986,000 in property tax revenue represents approximately 20% of Tracy Rural's entire annual revenue and 26% of the total property tax revenue it currently receives. Between Tracy Rural and the City, there would be a net loss of \$778,000 in revenue to support fire protection services. The County would gain this same amount, which would not be allocated to fire protection services as they do not provide these services in the County. If these 12 areas were to detach from Tracy Rural, the SCFA Board would need to consider alternative revenue sources or alterations in service delivery in order to mitigate this funding loss.

Benefit Assessment Impact

In addition to the property tax revenue loss, Tracy Rural would also lose revenue from the fire benefit assessment currently levied on properties

within these 12 areas. During the course of this analysis, Management Partners was not able to obtain any financial documentation from Tracy Rural detailing the benefit assessment revenue currently received from these 12 areas. Structural square footage for these properties was also not available to estimate the current benefit assessment revenue and the implications from detachment.

Governance Implications

Under a full detachment policy, the annexed properties within Tracy Rural would detach from Tracy Rural and residents and property owners would no longer be eligible to vote for the Board of Directors. (They would also no longer be subject to the fire benefit assessment fee imposed by Tracy Rural, and Tracy Rural would lose the revenue it currently receives from that source.) Residents and property owners would be fully within the City of Tracy, and the City Council would be the only elected body accountable and responsible for fire protection services. It is possible and likely that the SCFA, or a JPA with some amendments to its authorities, could and would continue to provide services to the area currently covered by Tracy Rural. However, there would no longer be any overlapping boundaries between Tracy Rural and the City of Tracy.

Scenario 3: City Annexation into Tracy Rural

Under Scenario 3, the City of Tracy would annex into Tracy Rural, which would then be responsible for the delivery of fire services to both the City and Tracy Rural. Under this scenario, Tracy Rural (through the County) and the City would negotiate an exchange of property tax revenue between the City and Tracy Rural for fire protection services within the City. Tracy Rural would also be able to impose the fire benefit assessment fee upon properties within the City.

Fire Benefit Assessment Fee

With the annexation of the City into Tracy Rural, Tracy Rural could impose by law its existing benefit assessment fee on properties within the City without a vote of the residents or property owners. The charge without regard to property valuation for fire prevention and fire suppression is \$0.03 per square foot for residential dwellings, commercial, agricultural and industrial developed properties. The tax is imposed on the developed square footage. There are a handful of other flat and fixed-rate fees for vacant lots and other specialty properties such

as barns, berms, etc., but for projection purposes, we applied the \$0.03 per square foot to developed property within the City.

The City does not maintain a database of actual square footage constructed within the City. The estimated total square feet constructed within the City of Tracy was therefore calculated from a methodology derived by LAFCo. The City of Tracy includes approximately 23,000 parcels, excluding the areas annexed from Tracy Rural since 1996. Of the 23,000 parcels, detailed structural square footage is available for approximately 21,000 parcels. These parcels provide an estimated 42 million square feet of structures within the City; however, approximately 2,000 parcels do not have the detailed square footage for businesses and vacant parcels. Using the San Joaquin County Geographic Information System (GIS), and excluding the vacant parcels, LAFCo estimated an additional 25 million structural square feet for a total of 67 million square feet citywide.

Table 12 provides an estimate of the revenue impact that may result from the imposition of a benefit assessment fee in the City of Tracy. This square footage was calculated for the sole purpose of estimating the proceeds from the imposition of a benefit assessment within the City; further analysis and other data verification methods would be required before any estimates of property valuation or property tax based on the square footage could be truly determined.

Table 12. Fire Benefit Assessment Fee Impact under Scenario 3

Measure	Amount
Estimated City Total Square Feet	67,000,000
Benefit Assessment (per Square Foot)	\$0.03
Projected Revenue from Core City Properties	\$2,010,000
Tracy Rural’s Current Benefit Assessment	\$1,007,518
Total Projected Benefit Assessment Revenue	\$3,017,518

Source: San Joaquin LAFCo and San Joaquin County GIS estimates; Tracy Rural FY 2013-14 Special Tax Rate Resolution; Tracy Rural Adopted Budget FY 2013-14.

An estimated additional \$2 million in revenue from the fire benefit assessment that would be levied on all property within the City in accordance with the benefit assessment currently imposed in Tracy Rural would result from annexation of the City into Tracy Rural.

Management Partners worked with City staff to identify some typical properties within the City and the additional fees that would be assessed based on square footage. Table 13 sets forth a representative sample of such properties.

Table 13. Benefit Assessment Impact on Typical Properties in the City of Tracy

Property	Type	Square Feet	Benefit Assessment
Major Retailer Distribution Center	Industrial	1,225,680	\$36,770
Medical Equipment Distribution Center	Industrial	59,780	\$1,793
Office	Office	40,000	\$1,200
Grocery Store	Retail	64,925	\$1,948
Drug Store	Retail	14,820	\$445
Single Family Residence	Residential	1,699	\$51

Source: City of Tracy Economic Development staff

Tracy Rural and City Budget Impact

Under Scenario 3, a property tax exchange or contractual agreement would be negotiated for fire protection services to be delivered to the City of Tracy in accordance with state law regarding governmental reorganizations and annexations. The County (which would negotiate on behalf of Tracy Rural) and City would discuss what, if any, tax sharing agreements may be made with the annexation of City property into Tracy Rural.

Scenario 3 assumes the City would agree to a property tax reallocation or contract (which could be a range of revenue sources including other General Fund revenue) sufficient to fund fire protection services annually by Tracy Rural to the City of Tracy. Table 14 provides an estimate of the revenue impact for Tracy Rural under this scenario as well as the impact on the City budget allocation to the Fire Department.

Table 14. Scenario 3: City and Tracy Rural Revenue Impact Related to Fire Protection

Revenue	Tracy Rural Current	Tracy Rural Scenario 3	FY 2013-14 City Allocation to the Fire Department	City Scenario 3
General Fund	-	-	\$9,052,090	\$7,042,090 ¹
Property Tax	\$3,745,000	\$3,745,000	-	-
Benefit Assessment	\$1,007,518	\$3,017,518	-	\$2,010,000 ¹
Other Revenue	\$89,500	\$89,500	\$381,500	\$381,500

¹City's General Fund Revenue for fire protection services in Scenario 3 assumes that Tracy Rural's Benefit Assessment levied over City property (\$2,010,000) would be credited toward the City's share of fire protection service costs.

Governance Implications

Under full annexation into Tracy Rural, the Tracy City Council would no longer be responsible for the delivery of fire protection services to residents and property owners within the City. Rather, annexation into Tracy Rural would mean that its Board of Directors (existing or reconstituted in terms of representation) would be responsible for fire protection within the City and Tracy Rural (unincorporated area) as a whole. Board members would be elected by residents across Tracy Rural, including those within the City of Tracy. If Tracy Rural were then to contract with the City of Tracy for fire service delivery (see section below on Fire Service Alternatives – Considerations), residents and property owners may still hold the City Council accountable for fire service, but the City Council would have little direct control except to the extent provided through agreed upon contract provisions. Alternatively, it is also possible that Tracy Rural may enter into a JPA with the City of Tracy for the provision of fire protection services throughout Tracy Rural, which would then provide an opportunity for the City to participate through membership on the Board of Directors.

Sphere of Influence (SOI) Build-out Projections

LAFCo expressed a strong interest in understanding what the revenue impact of build-out or future development within the entire City SOI would have on property tax revenues under Scenarios 1 and 2. We were unable to generate reliable estimates of future development within the City's entire SOI and as a result chose to provide a build-out projection for the existing 12 annexed properties. Our methodology for calculating projected build-out and its financial implications included a variety of steps due to the limited amount of actual data available.

First, Management Partners requested build-out development potential for each of the 12 annexed but not detached properties from City staff. Table 15 is a summary of the information provided by City staff.

Table 15. Build-out Potential of Annexed, but not Detached Properties

Annexation (Date)	Acreage	Development Status Upon Annexation	Current Development Status	Build-out Development Potential
Cordes Ranch (09/2013)	1,781	Agricultural.	No change	<ul style="list-style-type: none"> • 591,980 sq. ft. commercial • 2,465,932 sq. ft. office • 27,789,102 sq. ft. business park industrial
Elissagaray (11/1996)	167	Approximately 7 homes.	436 SFRs	24 SFRs approved (Tentative Subdivision Map approved). Seven additional SFR lots possible.
Ellis Specific Plan (03/2013)	321	1 SFR with a small tree-growing operation. Majority of the site was fallow agricultural land.	No change	<ul style="list-style-type: none"> • 2,250 SFR • Parks • 180,000 sf retail/office • 16-acre swim center
Filios-Dobler (03/2012)	46	Majority of the site was used for agricultural hay production. Site contained 3 SFR plus one welding shop.	No change	General Plan/Zoning and EIR certification in place for 466,000 sf commercial (office/retail)
Gateway (05/2003)	550	1 SFR on an approximately 15-acre site; balance of site agricultural lands in alfalfa production.	No change	General Plan/Zoning and EIR certification in place for: <ul style="list-style-type: none"> • 5 million sf of class-A office • 220,000 sf retail • 9-hole golf course
Kagehiro (01/1997)	146	Agricultural.	293 SFRs	An additional 291 SFRs entitled, but no building permits issued.
Lourence Ranch (04/1977)	40	Agricultural – row crops.	116 SFRs	An additional 50 SFRs entitled, but no building permits issued.
Northeast Industrial (11/1996)	905	Approximately 13 SFRs. Remaining property in agricultural and dairy operations.	485 acres of industrial development and 420 acres of undeveloped property. Approximately 8 original SFRs.	Remaining 420 acres of land and the remaining homes. Approximately one million+ square feet of industrial possible.
Plain View (01/1998)	10	1 SFR on 2-acre site.	Used for vehicle storage.	Zoned for industrial uses, possible aggregate mining.
Presidio (11/1999)	149	1 SFR with agricultural buildings, fallow agricultural lands.	550 Single Family Residences.	None; built out.
Soucek (07/1998)	60	1 SFR, agricultural lands.	No change	Designated residential (approximately 250-350 SFRs) under the General Plan.

Annexation (Date)	Acreage	Development Status Upon Annexation	Current Development Status	Build-out Development Potential
Tracy Hills (09/1998)	2,725	Several homes, agricultural lands, grazing lands	No change	GP/Specific Plan approved and EIR certified. Applications submitted for Specific Plan amendments and Tentative Subdivision maps. Approximately: <ul style="list-style-type: none"> • 5,100 SFR • 300 multi-family homes • 1.4 million sf business park (office/industrial) • 3.1 million sf light industrial • 162,000 sf office • 780,000 sf retail/commercial

Source: City of Tracy Community Development Department

For residential family units, Management Partners attempted to work with the City to procure an average price of a single and multi-family residence; however, the data were not readily accessible. Instead, the median value of owner-occupied housing units from 2008 to 2012 in the City of Tracy was extracted from U.S. Census statistics as a representative of all single-family residences in the Tracy area. Data on multi-family residences were extracted from a Muni Services database provided to the City under a separate contract.

For all other land use designations, City staff were able to provide parcel numbers of typical properties to search for assessed value on the County Assessor’s Property Value Assessment Inquiry online database. After extrapolating a price-per-square-foot from these typical properties, we were able to scale the estimated value of build-out for the various land use designations identified in Table 15 for the 12 annexed but not detached properties.

To determine the property tax revenue impact, Management Partners calculated the annual property tax for each of these properties assuming a 1% property tax on the total built-out assessed value. Since each parcel within an the annexed area may have different TAFs, average TAFs provided by LAFCo were used to calculate the estimated share of the property tax revenue for the County, City, and Tracy Rural.

Table 16 provides an overview of the estimated property tax revenue in Scenario 1, which assumes the 12 areas analyzed in this report remain annexed by the City, but not detached from Tracy Rural. These property tax revenue projections apply only to the build-out potential of these properties, and do not include the current property tax revenue received

by the three agencies from these 12 areas as documented in Table 8. (Projections are calculated using the current assessments of these properties, and have not been adjusted to represent future value.) The total impact of anticipated build-out, which combines the current base property tax revenue and estimated revenue based on build-out of the 12 areas in 10 years, is summarized in Table 19.

Determining economic development opportunities in the face of an economy that continues to fluctuate, particularly in the San Francisco Bay Area, makes it difficult to project when build-out of these properties might actually occur. Complete build-out in ten years is unlikely; however, Management Partners believes revenue projections beyond this point would lose their value for this assessment. Assuming complete build-out of projected development potential in ten years, the County is projected to receive \$10.5 million in additional annual property tax revenue from build-out. The City is projected to receive \$1.9 million in additional revenue while Tracy Rural is projected to receive an additional \$6 million.

Table 16. Scenario 1: Estimated Additional Property Tax Revenue from Potential Build-out in 10 Years

Property	Assessed Value 10 Year Projection	Property Tax ¹	County Revenue Share	City Revenue Share	Tracy Rural Revenue Share
Elissagaray	\$9,295,660	\$92,957	\$20,450	\$3,718	\$11,898
Northeast Industrial	\$33,000,000	\$330,000	\$72,600	\$13,200	\$42,240
Kagehiro	\$87,259,260	\$872,593	\$191,970	\$34,904	\$111,692
Lourence Ranch	\$14,993,000	\$149,930	\$32,985	\$5,997	\$19,191
Plain View ²	\$0	\$0	\$0	\$0	\$0
Soucek	\$89,958,000	\$899,580	\$197,908	\$35,983	\$115,146
Tracy Hills	\$1,975,003,360	\$19,750,034	\$4,345,007	\$790,001	\$2,528,004
Presidio ³	\$0	\$0	\$0	\$0	\$0
Gateway	\$271,304,000	\$2,713,040	\$596,869	\$108,522	\$347,269
Filios-Dobler	\$108,671,200	\$1,086,712	\$239,077	\$43,468	\$139,099
Ellis Specific Plan	\$716,661,000	\$7,166,610	\$1,576,654	\$286,664	\$917,326
Cordes Ranch	\$1,469,271,232	\$14,692,712	\$3,232,397	\$587,708	\$1,880,667
Total	\$4,775,416,712	\$47,754,167	\$10,505,917	\$1,910,167	\$6,112,533

¹Total Property Tax is extrapolated as 1% of the estimated assessed value at build-out.

²Plain View has no development assumptions as it has underlying aggregate resources and no utilities.

³Presidio is fully built-out and has no further development projections.

In Scenario 2, shown in Table 17, if the 12 annexed areas were to detach from Tracy Rural, build-out projections anticipate that the County and City would receive \$14.9 million and \$3 million in additional revenue, respectively.

Table 17. Scenario 2: Estimated Additional Property Tax Revenue from Potential Build-out in 10 Years

Property	Assessed Value 10 Year Projection	Property Tax ¹	County Revenue Share	City Revenue Share
Elissagaray	\$9,295,660	\$92,957	\$29,002	\$5,763
Northeast Industrial	\$33,000,000	\$330,000	\$102,960	\$20,460
Kagehiro	\$87,259,260	\$872,593	\$272,249	\$54,101
Lourence Ranch	\$14,993,000	\$149,930	\$46,778	\$9,296
Plain View ²	\$0	\$0	\$0	\$0
Souчек	\$89,958,000	\$899,580	\$280,669	\$55,774
Tracy Hills	\$1,975,003,360	\$19,750,034	\$6,162,010	\$1,224,502
Presidio ³	\$0	\$0	\$0	\$0
Gateway	\$271,304,000	\$2,713,040	\$846,468	\$168,208
Filios-Dobler	\$108,671,200	\$1,086,712	\$339,054	\$67,376
Ellis Specific Plan	\$716,661,000	\$7,166,610	\$2,235,982	\$444,330
Cordes Ranch	\$1,469,271,232	\$14,692,712	\$4,584,126	\$910,948
Total	\$4,775,416,712	\$47,754,167	\$14,899,300	\$2,960,758

¹Total property tax is extrapolated as 1% of the estimated assessed value at build-out.

²Plain View has no development assumptions as it has underlying aggregate resources and no utilities.

³Presidio is fully built-out and has no further development projections.

In ten years, if the 12 annexed areas were to detach from Tracy Rural, the County’s annual property tax revenue from build-out alone would increase by approximately \$4.4 million, the City’s annual revenue would increase by an additional \$1 million, and Tracy Rural would lose all of the estimated \$6.1 million in additional annual property tax revenue. Table 18 summarizes the varying levels of property tax revenue in the different scenarios.

Table 18. Estimated Additional Property Tax Revenue Summary from 10 Year Projected Build-out

Agency	Scenario 1	Scenario 2	Difference ¹
County	\$10,505,917	\$14,899,300	\$4,393,383
City	\$1,910,167	\$2,960,758	\$1,050,592
Tracy Rural	\$6,112,533	\$0	-\$6,112,533

¹The sum of County and City property tax revenue differences do not equate to Tracy Rural’s share of property tax revenue due to calculations using average TAFs.

Table 19 summarizes the property tax revenue for each of these agencies through Scenarios 1 and 2, including both the current property tax revenue from each of the 12 annexed areas properties and projected revenue from build-out.

Table 19. Estimated Total Property Tax Revenue, including Existing Property Tax from 10 Year Build-out

Agency	Property Tax Revenue Scenario 1 (No Detachment)	Property Tax Revenue Scenario 2 (With Detachment)	Difference ¹
County	\$12,626,595	\$17,876,182	\$5,249,587
City	\$2,549,088	\$3,828,275	\$1,279,187
Tracy Rural	\$7,197,333	\$0	-\$7,197,333

¹The sum of County and City property tax revenue differences do not equate to Tracy Rural's share of property tax revenue due to build-out calculations using average TAFs.

If the 12 annexed areas detached from Tracy Rural today (Scenario 2) and projected build-out occurred over 10 years, the following property tax revenue changes would accrue to the respective public agencies:

- County: An increase of approximately \$5.2 million
- City: An increase of approximately \$1.3 million
- Tracy Rural: Loss of approximately \$7.2 million

Financial and Governance Impact Summary

Figure 3 estimates the property tax and governance impacts of Scenarios 1 and 2 following a 10-year projected build-out of the 12 annexed areas. Scenario 3 represents a general assessment of the property tax impact on existing and future annexations if City were to annex into Tracy Rural.

Figure 3. Property Tax and Governance Impacts of Three Scenarios Following 10-Year Build-Out

	Scenario 1 No Change, Annexation without Detachment	Scenario 2 Annexation with Detachment	Scenario 3 City Annexation into Tracy Rural
Tracy Rural Property Tax Impact	\$\$\$	\$\$\$	\$\$\$
City Property Tax Impact	\$	\$	\$\$ (considers fire benefit assessment fee)
County Property Tax Impact	\$\$	\$\$	\$
Governance	Unresolved	Resolved for future annexations	Resolved

\$/\$ = Minimal property tax impact (\$2.5 million or less) \$\$/\$\$ = Moderate property tax impact (About \$5 million)
 \$\$\$/\$\$\$ = Significant property tax impact (Greater than \$5 million)

Fire Service Delivery Alternatives and Considerations

The purpose of this engagement with the City of Tracy was to identify the property tax impacts and governance implications for various government reorganization options regarding future annexations from Tracy Rural and fire service delivery. The primary objective was to meet the analysis requirements and interests of LAFCo so the City of Tracy could develop a strategy for a fire governance model in anticipation of future annexations of territory from Tracy Rural into the City. There is no requirement for the 12 annexed but not detached areas to now detach from Tracy Rural; however, that could occur should Tracy Rural and the City agree to do so and LAFCo concurs.

An in-depth financial analysis of fire service delivery needs and resources under property tax Scenarios 2 and 3 was beyond the scope of this project. Existing and future fire service delivery needs would need to be examined in depth with respect to budgetary resources before this could occur. Nonetheless, this section lays out issues that need to be considered in order for City executive staff to make a recommendation to the City Council and subsequently to the LAFCo Board.

General Considerations

The following are general issues and considerations that the City should review carefully before proceeding down any policy path:

1. *Property tax sharing agreements modifications.* While annexation agreements have been negotiated and agreed upon, they can be modified if both parties agree. In other words, should there be interest in detachment from Tracy Rural for future annexations, the City could approach the County (which negotiates on behalf of Tracy Rural) regarding possible amendments to those agreements to reduce the impact to Tracy Rural.
2. *Provision of fire protection service.* Under contract with the SCFA, the City currently provides fire protection service to Tracy Rural territory (both in the unincorporated and incorporated areas that have not been detached) and incorporated areas of the City. Fire facilities are

owned and, in some cases, shared by Tracy Rural and the City. Under Scenario 2, it is likely that the City would continue to provide the service under a JPA; however, under Scenario 3, Tracy Rural would likely be officially responsible for the delivery of fire service within Tracy Rural. Contracting with the City for that purpose is a possibility, although Tracy Rural may wish greater control over the service and function.

3. *Employment of the Fire staff.* Fire Department staff members are employees of the City, not the SCFA, and therefore subject to City policies and procedures. They also enjoy the compensation and benefits provided under a negotiated labor agreement with the City. The city manager and fire chief, under general direction of the City Council *and* the SCFA Board, provide direction and oversight to the department. Under Scenario 2, the staff would remain employees of the City and the City could continue to contract fire protection service to Tracy Rural for the unincorporated area within the JPA structure. Under Scenario 3, fire employees could either transition back to Tracy Rural or stay as employees of the City under a contractual services agreement to Tracy Rural. Under the latter, however, the Tracy Rural Board, as the policy body responsible for the delivery of fire protection services and associated costs, would be the final decision-making authority over these matters. Additionally, general compensation, benefits and CalPERS obligations would need to be carefully reviewed, particularly with respect to unfunded liabilities, should fire employees be transitioned to Tracy Rural.
4. *Governance implications.* For properties that have been annexed to the City but remain within Tracy Rural boundaries, there is a confusing set of elected and appointed officials responsible for fire service delivery. If asked, most residents and property owners would likely say that their fire service is provided by the City of Tracy Fire Department, which is technically true. LAFCo believes that responsibility for a core municipal service within a City should be the same for all property owners and residents. Currently, however, there are two elected bodies and one appointed Board of Directors that provide governance policy and general direction to varying degrees regarding fire service delivery within the City of Tracy.
 - *Annexed but not detached properties within the City:* Tracy Rural Fire Protection District Board (elected), Tracy City Council (elected), and the SCFA Board of Directors (appointed).
 - *All other properties within the City of Tracy:* Tracy City Council (elected) and the SCFA Board of Directors (appointed).

5. *Sufficient resources for fire protection service.* The provision of fire protection and suppression services represents a significant expenditure for any local government agency that provides it. A comprehensive review of fire service revenues and expenditures in the near term and at least a five-year projection should be conducted to determine the minimum level of resources needed to support the fire service. Scenarios 2 and 3 lay out today's potential property tax impacts that would result from each government reorganization scenario. However, again, existing and future property tax sharing agreements are subject to negotiation.

Alternative Options

There are basically three options for the City to address the governance and service delivery issues raised by the LAFCo MSR. Each is described below along with a general assessment of the financial and governance implications for each of the governmental entities involved in this discussion.

1. **Continued annexation without detachment.** Properties annexed to the City within the City's SOI would not detach from Tracy Rural.

Tracy Rural Financial Impact: Significant. Revenues would increase from property tax growth resulting from new development in existing non-detached properties, future annexations, and proceeds from the imposition of the benefit assessment fee on any new construction.

City Financial Impact: Moderate. Revenues would increase from future property tax growth and the City could collect development impact fees in support of fire capital needs, as appropriate.

County Financial Impact: Significant. The County would continue to share in property tax growth based on the existing negotiated agreement with the City, but this would not include a redistribution of Tracy Rural's property tax upon annexation of new properties to the City.

Governance: No resolution. Two elected bodies and one appointed board would continue to be responsible for fire service delivery within the City. Tracy Rural's influence on fire service delivery

and its costs would continue to be directed through its two appointed members on the SCFA Board of Directors.

Figure 4 provides a depiction of the fire governance structure under Scenario 1, which is the same as the current structure described in the beginning of this report.

Figure 4. Fire Governance Structure Under Scenario 1

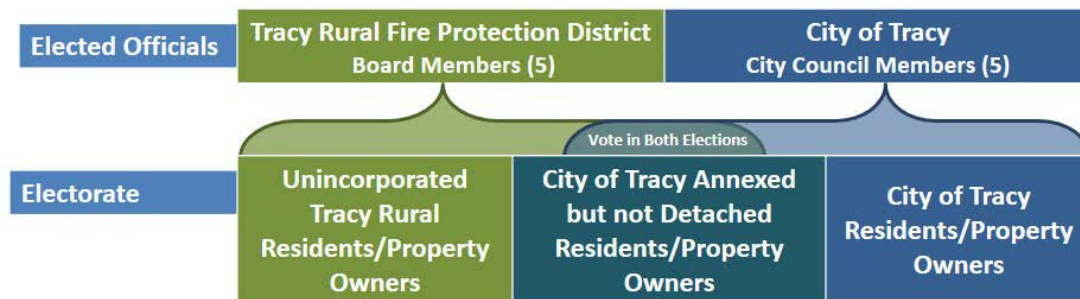
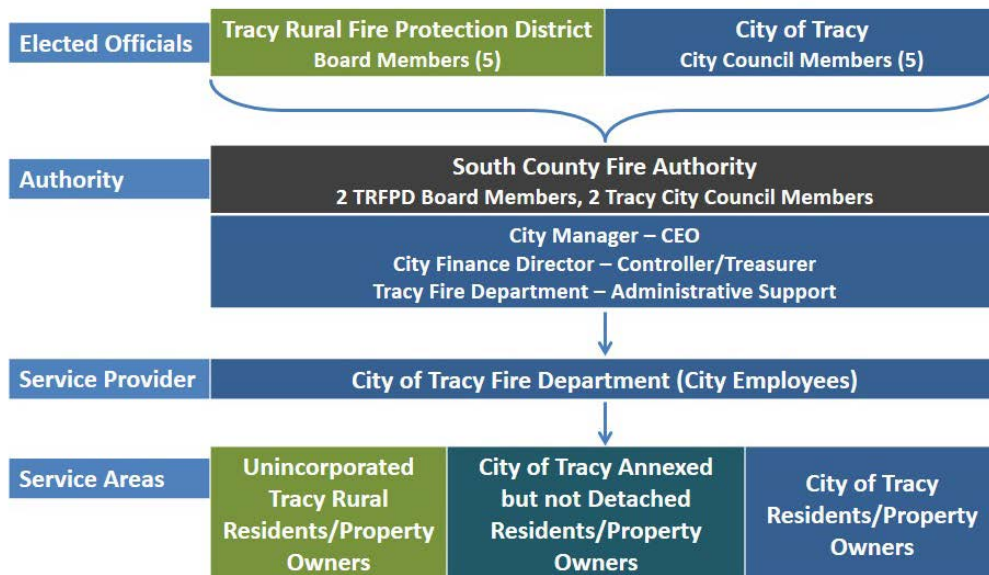


Figure 5 provides a description of the fire service structure under Scenario 1, which is the same structure described earlier in this report.

Figure 5. Fire Protection Service Structure Under Scenario 1



2. **Annexation with detachment.** Properties within the City SOI would detach from Tracy Rural and fully annex into the City. Based on the existing or possibly a renegotiated property tax

sharing agreement, Tracy Rural's property tax would be redistributed between the County and the City. The fire benefit assessment fee would also not be imposed on annexed properties that are no longer within Tracy Rural.

Tracy Rural Financial Impact: Moderate for future annexations. (This assumes no change to the status of the existing 12 annexed properties). In part, the impact would depend on the mitigation fee that may be imposed by LAFCo on properties detached from fire districts and annexed into cities. Tracy Rural, however, would no longer be responsible for fire service delivery for properties within future annexed areas.

City Financial Impact: Moderate to significant. The City would gain by a greater share of the property tax and future development growth from the redistribution of Tracy Rural's property tax for properties annexed in the future. The impact on the City would also depend on the mitigation fee that may be imposed by LAFCo. The City would continue to collect development impact fees on property developed within the City.

County Financial Impact: Significant over time. The County would gain property tax as a result of the redistribution of Tracy Rural's property tax upon annexation to the City.

Governance: Resolved for future annexations. The Tracy City Council would be the sole elected body responsible for fire service delivery even if a JPA with an appointed Board were to continue to contract with the City to provide service to the City and Tracy Rural.

Figure 6 provides a depiction of the fire governance structure under Scenario 2.

Figure 6. Fire Governance Structure Under Scenario 2

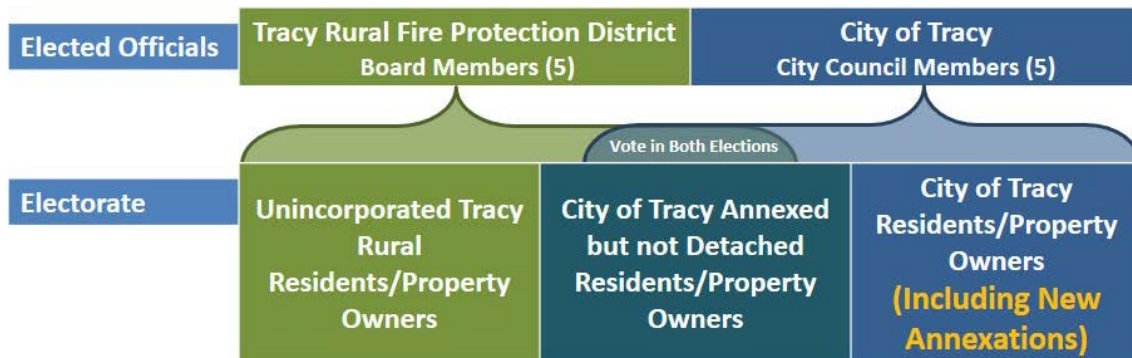
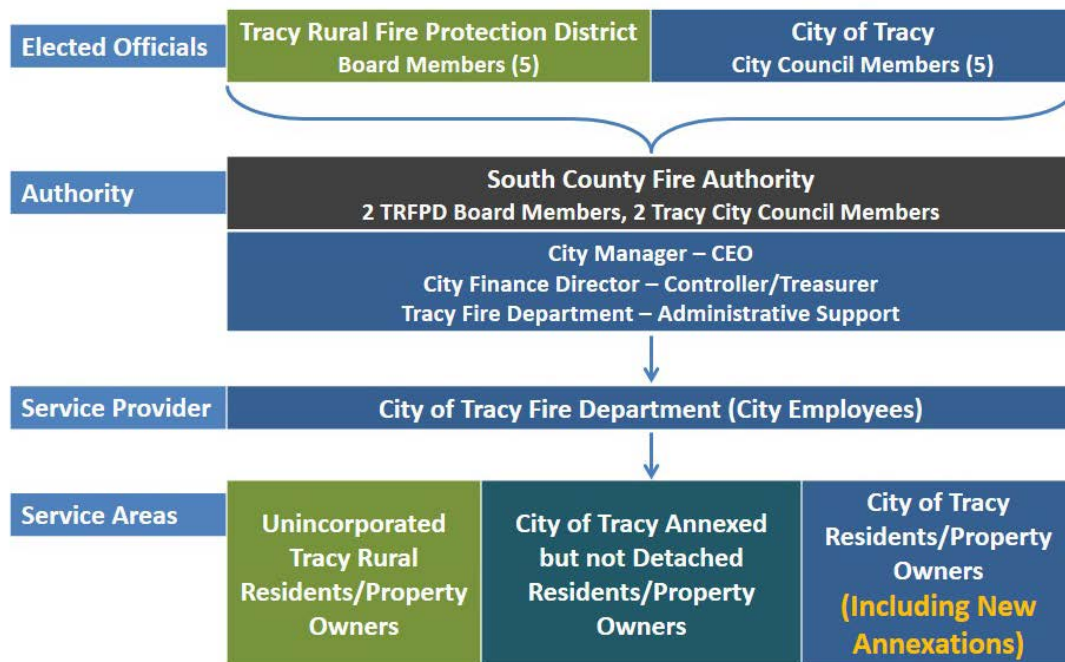


Figure 7 provides a description of the likely fire service structure under Scenario 2.

Figure 7. Fire Protection Service Structure Under Scenario 2



3. **Annexation into Tracy Rural.** The City would annex into the Tracy Rural Fire Protection District, which would then be responsible for the delivery of fire protection and suppression services within the City and the unincorporated areas of Tracy Rural.

Tracy Rural Financial Impact: Significant. Based on a “to be negotiated” property tax agreement, the City would agree to an exchange of property tax revenue between the entities sufficient to support an agreed upon level of fire service now and into the future. Tracy Rural would also benefit from property tax growth resulting from new development on existing properties and new properties annexed into the City. Tracy Rural would also receive the proceeds from the imposition of the fire benefit assessment fee on existing properties within the City and future development.

City Financial Impact: Moderate to significant as a result of the imposition of the fire benefit assessment fee on City properties, thereby allowing the reallocation of General Fund revenues to other ongoing service priorities. The impact on the General Fund will also depend upon the agreed upon level of fire service to be delivered within Tracy Rural and a negotiated property tax agreement in support of fire services district wide, which would include all City properties as well. Tracy Rural and the City will also have to agree upon the distribution of property tax when unincorporated properties annex into the City.

County Financial Impact: None. There would be no change in the distribution of Tracy Rural’s existing property tax in the unincorporated area. Annexations of property from the unincorporated area of the County to the City would be subject to existing property tax sharing agreements between the two entities.

Governance: Structural governance issue resolved as the Tracy Rural Fire Protection District Board of Directors (or a successor agency) would be the sole elected body responsible for the delivery of fire service within Tracy Rural and the City. The Board Directors would be elected by voters across the district, which would include the City. The Tracy City Council, however, would no longer have direct policy responsibility for fire service except through their appointed representatives on a JPA Board, should Tracy Rural choose this route for the delivery of fire protection services or an agreement directly with the City Fire Department. Roles and responsibilities would be need to be defined and agreed upon within either contractual arrangement.

Figure 8 provides a depiction of the fire governance structure under Scenario 3.

Figure 8. Fire Governance Structure Under Scenario 3



Figures 9, 10 and 11 provide a description of three possible fire service structures under Scenario 3. Option 1 provides that the Tracy Fire Department employees would transition to Tracy Rural. Options 2 and 3 assume the employees would remain as employees of the City of Tracy.

Figure 9. Fire Protection Service Structure Under Scenario 3 (Option 1)

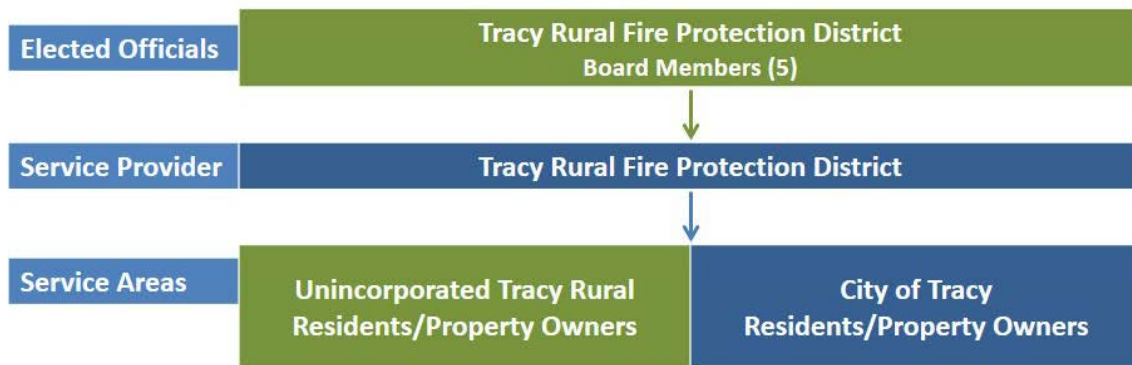


Figure 10. Fire Protection Service Structure Under Scenario 3 (Option 2)

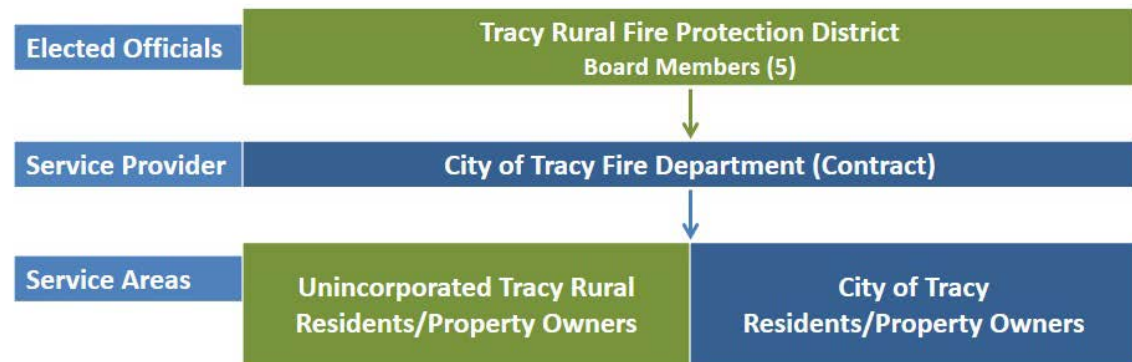
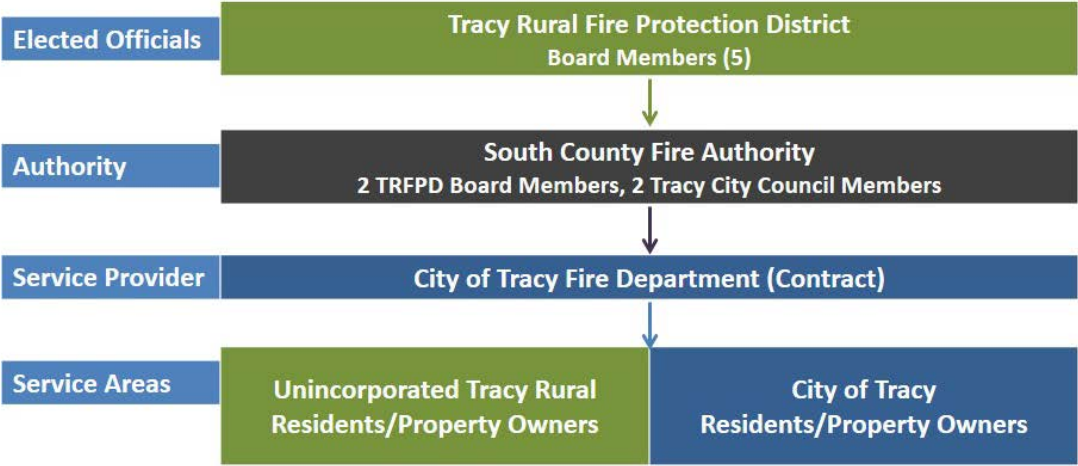


Figure 11. Fire Protection Service Structure Under Scenario 3 (Option 3)



A Planned Approach

The issues and choices are complex. A recommended approach depends, in part, on whether the objective is to achieve fire service delivery and governance within an urban or municipal setting or to gain financial stability, although they are not mutually exclusive. Management Partners believes the City should consider the following important goals when considering this issue:

1. A financially sustainable fire service delivery function.
2. A service provider capable of delivering an efficient, effective and accountable fire service to all residents.
3. A streamlined and predictable property annexation process for properties within Tracy's SOI.

Policy guidance from City Council as well as close consultation with Tracy Rural will be critical before next steps and a path toward resolution of the annexation issue can be developed. Additionally, because LAFCo is responsible for government boundaries, the agency continues to be keenly interested in the policy and financial implications of this discussion. Finally, other fire districts in San Joaquin County are following this issue closely because the outcome will have implications regarding properties annexed to cities from their districts.

Good governance would suggest that when property is annexed into a city that provides a major municipal function like fire protection and suppression, the city should take on that responsibility and the accompanying financial cost. Management Partners believes this is the appropriate path and typically this is what occurs. Most LAFCOs in the state in major urbanized areas would likely mandate this through annexation proceedings under state law. Presumably, a city in a geographic area with an SOI such as Tracy would be supportive of an annexation if it met important economic development objectives such as development potential, sales tax generation, and job growth. The expectation is that an annexation will result in some increased revenue resources to support the delivery of a major municipal service. California's property tax system, however, does not come close to

providing sufficient property tax revenue to offset the cost of major municipal services and effectively has not been relied upon to do so since 1978 and the passage of Proposition 13.

Tracy Rural relies heavily on property tax and its fire benefit assessment fee to provide fire service and meet its financial obligations under agreement with the SCFA. The City relies in equal measure on these same revenues to be able to provide fire service to the entire territory under the jurisdiction of the SCFA, whether incorporated or unincorporated. The current governance and fire service delivery structure has worked reasonably well from a fire protection and suppression perspective since the initial annexation in 1996 and the formation of the SCFA in 1999. Continuation of this structure may achieve one or two of the goals cited above, but may not achieve a predictable and streamlined annexation process in the future.

To achieve all the goals, Management Partners believes the most viable path for resolution would be annexation of the City into Tracy Rural and recommends the City take steps to analyze this option further from a policy, financial, and administrative perspective. Under this approach, Tracy Rural could sustain a reliable revenue stream and the City could potentially reduce its General Fund allocation to the Fire Department as a result of the imposition of the fire benefit assessment fee within the City.

Doing so would effectively result in a regional fire district where the quality and delivery of service would be under the jurisdiction of one governing body. The quality of service, any service disparities, funding resources and governance could then be addressed on a district-wide basis regardless of municipal boundaries. Whether service would be provided under contract with the City of Tracy or employees would transition to Tracy Rural would be determined as part of the development of an implementation business plan once an approach is agreed upon in concept. The County would not benefit from any Tracy Rural property tax redistribution under this plan.

Recommendation 1. Adopt a resolution declaring the City's intent to annex into the Tracy Rural Fire District following the development of a viable business plan that supports this action. This planned approach will require extensive discussion with elected officials, Tracy Rural, the community, Fire Department employees, and LAFCo.

Recommendation 2. Develop a business plan that addresses the financial sustainability of annexation into Tracy Rural and the most cost-effective delivery of fire protection and suppression services either directly by Tracy Rural, through a JPA, or by direct contract with the City of Tracy.

Management Partners believes the business plan and related analysis and a full annexation into Tracy Rural may take 18 months to two years to complete.

Next Steps

Management Partners believes the following to be the next steps following the release of this report to elected officials, LAFCO and other stakeholders.

1. Engage in discussions with stakeholders, such as Fire department employees and the Fire Service Steering Committee.
2. Conduct a joint meeting between the City Council and Tracy Rural Fire District Board of Directors to discuss the report, future options and a planned approach.
3. Convey the City's interests and the agreed upon planned approach to LAFCo in response to its direction in 2011 to complete a plan regarding the governance model for Tracy Fire Department and Tracy Rural within 24 months, subject to approval of LAFCo.
4. Initiate the development of a business plan and related analysis as described in Recommendation 2.

Conclusion

The City of Tracy has grown significantly over the last decade and has the potential to expand its boundaries to an even greater extent in the future. As always, build-out fluctuates and is severely dependent on economic cycles, which in the Bay Area have expanded and contracted about every five years. Commercial, office and industrial land uses represent a significant portion of the development potential within the existing 12 annexed areas; however, Tracy Hills, with the potential for 5,500 single family homes, would have greater potential emergency medical needs and may represent the greatest impact on fire services.

All built-out land use sectors will require services from an urban fire service agency. In addition to meeting the requirements and interests of LAFCo, the residents and property owners within the existing annexed areas, as well as those within future annexations, will want clarity and predictability regarding delivery of their fire service and its costs. Most importantly, they will want to understand who is responsible and accountable.

Appendix 1 – Property Tax Allocation Agreement

County of San Joaquin & City of Tracy
Agreement for Property Tax Allocation upon Annexation
A-12- 474

AGREEMENT entered into this 20 day of November, 2012 by and between the City of Tracy, hereinafter referred to as "CITY" and the County of San Joaquin, hereinafter referred to as "COUNTY";

PREAMBLE:

CITY and COUNTY acknowledge that both CITY and COUNTY have increasing service responsibilities with restrained revenue resources. There is no consensus between CITY and COUNTY regarding the analysis of local government funding issues arising from annexations. CITY and COUNTY each have their own distinctive and differing perspectives on costs and revenues generated by annexed areas. However, there is a statutory requirement for a Property Tax Allocation Agreement for the Local Agency Formation Commission to annex land.

WITNESSETH:

WHEREAS, Article 13A, Section 1 of the Constitution of the State of California limits ad valorem taxes on real property to one percent (1%) of full cash value; and

WHEREAS, Chapter 6 of Part 0.5 of Division 1 of the Revenue and Taxation Code (Sections 95 et. seq.) provides for the allocation of property tax revenues; and

WHEREAS, CITY and COUNTY must have an agreement for the allocation of property tax revenues upon annexation.

NOW, THEREFORE, in consideration of the premises and the following terms and conditions, the parties hereto agree as follows:

1. DEFINITIONS. The words and phrases in this Agreement shall have meanings as set forth below:
 - A. "Annexation Property Tax Base" shall mean the Base Year sum of the ad valorem tax allocated to Detaching Special Districts, as defined herein, and to COUNTY within the area being annexed.
 - B. "Detaching Special Districts" shall mean those political subdivisions organized pursuant to the laws of the State of California whose functions within the area being annexed are terminated and/or assumed by CITY.
 - C. "Detachment" shall mean the removal from a special district of any portion of the territory of that special district.

- D. "Base Year" shall mean the assessed valuation applicable to the property and improvements within the area being annexed at the time the application for annexation is submitted to the Local Agency Formation Commission (LAFCo).
- E. "Incremental Growth" shall mean the total increase or decrease in the property tax base over the base year within the annexed area.

2. PROPERTY TAX ALLOCATION.

Upon each annexation, property tax allocation shall be determined pursuant to one of the following provisions:

- A. For annexations that involve Detachment from a fire district, CITY and COUNTY shall, upon each annexation that in whole or in part, involves Detachment from a fire district, share in the Annexation Property Tax Base and all Incremental Growth thereof pursuant to the ratio of 20% CITY and 80% COUNTY for all portions of the annexation that involve Detachment from a fire district.
- B. For annexations that do not involve Detachment from a fire district, CITY and COUNTY shall, upon each annexation that in whole or in part, does not involve Detachment from a fire district, share in the Annexation Property Tax Base and Incremental Growth thereof, for all portions of the annexation that do not involve Detachment from a fire district, as follows:
 - i. Consolidated fire districts established prior to June 15, 1996, pursuant to the ratio of 20% CITY and 80% COUNTY.
 - ii. Consolidated fire districts established between June 15, 1996 and June 15, 2003, pursuant to the ratio of 15% CITY and 85% COUNTY.
 - iii. Consolidated fire districts established subsequent to June 15, 2003, pursuant to the ratio of 10% CITY and 90% COUNTY.
- C. For annexations by the cities of Escalon and Ripon only, notwithstanding Subsections 2A and 2B, CITY and COUNTY shall, upon each annexation, share in the Annexation Property Tax Base and all Incremental Growth thereof pursuant to the ratio of 36.6% CITY and 63.4% COUNTY, until such time as the current population of CITY, based on the most recent estimates published by the California State Department of Finance, exceeds 18,000.
- D. For the City of Tracy 2003 Gateway annexation only, CITY and COUNTY, from the date of this agreement forward, shall share in the Annexation Property Tax Base and all Incremental Growth thereof pursuant to the ratio of 15% CITY and 85% COUNTY.

3. APPLICATION OF AGREEMENT.

- A. Term. The provisions of this Agreement shall apply to all pending and future annexations from the effective date of this Agreement through July 31, 2019, unless otherwise terminated under Section 10.

- B. Effective date. The effective date of property tax allocation for each annexation shall be determined in accordance with Government Code Section 54902 and any succeeding statutory provisions. Currently, statements of boundary change must be filed with the State Board of Equalization on or before December 1 of the year immediately preceding the year in which property taxes are to be shared.
 - C. Future property taxes. The provisions of this Agreement would also apply to any property exempt from ad valorem taxes which subsequently became taxable within the area to be annexed.
 - D. Terms of subsequent agreements. Except as noted in Section 2, property tax share allocated to CITY from future annexation areas will be no lower than any other city in San Joaquin County with the same criteria.
4. JOINT REVIEW.
CITY and COUNTY may jointly review COUNTY property tax records from time to time or as requested by CITY to verify accurate distribution under the Agreement.
5. EXCLUSIONS.
- A. The Agreement shall not apply to proposed annexation areas where the COUNTY is currently receiving transient occupancy tax (TOT) revenues. Annexation agreements for areas where the COUNTY is currently receiving TOT revenues will be individually negotiated between the COUNTY and CITY to address the potential TOT loss to the COUNTY.
 - B. The Agreement shall not apply to proposed annexation areas where gross taxable sales, subject to sales and use taxes, exceed \$1 million in the most recent year that taxable sales data is available from the State Board of Equalization or any other State successor organization that may provide taxable sales information. Annexation agreements for areas containing over \$1 million in taxable sales will be individually negotiated between the COUNTY and CITY to address the potential sales and use tax loss to the COUNTY.
 - C. The Agreement shall not apply to annexations that, in whole or in part, include more than fifty (50) acres of COUNTY owned property. Such annexations will be considered under separately negotiated and mutually beneficial annexation and development agreements.
6. REGIONAL COOPERATION.
In consideration of the unique and mutual funding difficulties of both CITY and COUNTY, CITY and COUNTY will jointly develop and seek to implement changes in their activities which will improve the cost effectiveness of service delivery by both CITY and COUNTY, including but not limited to consolidation of services between governmental agencies and inter-agency contracting for services.
7. COUNTY CAPITAL FACILITIES FUNDING.
CITY recognizes the importance of regional services and facilities provided by the COUNTY for all residents of the entire COUNTY.

CITY shall contribute to COUNTY's funding for regional facilities by adopting or renewing a County facilities fee ordinance and resolution enacting and implementing the County Capital Facilities Fee (CFF) Program. In accordance with the requirements of Government Code Sections 66000 et seq., CITY shall adopt this ordinance and resolution prior to or concurrent with execution of this Agreement.

8. URBAN DEVELOPMENT COOPERATION.

A rational pattern of urban land uses is a common goal of CITY and COUNTY, as expressed in their respective General Plans. The efficient construction of urban infrastructure and the delivery of municipal services require cooperation between COUNTY and CITY within areas designated for urban development, specifically CITY'S Sphere of Influence.

- A. County General Plan Policy. COUNTY affirms the policies expressed in its General Plan that support concentration of additional major urban development within urban centers.
- B. Urban Planning and Development Cooperation. The preparation of land use and infrastructure plans within CITY'S Sphere of Influence, consistent with statutory guidelines, is encouraged. COUNTY shall refer all land use applications requiring discretionary approval within CITY'S Sphere of Influence to CITY for review and comment.
- C. Capital Facilities Funding and Cooperation. CITY and COUNTY will cooperate in the development of infrastructure plans within CITY'S Sphere of Influence. Relative to areas for which CITY and COUNTY have jointly adopted master plans for infrastructure and, upon request by CITY, COUNTY will schedule an Area Development Impact Fee (ADIF) for public hearing. This ADIF will incorporate CITY development impact fees that are specifically required to support jointly planned infrastructure. COUNTY shall cooperate in the construction of capital facilities thus funded.

9. COMMUNITY SERVICE FACILITIES

- A. Siting of Community Facilities. CITY and COUNTY recognize the importance of community services provided by COUNTY and other providers and also the importance of these services being convenient to residents of COUNTY making use of these services. Accordingly, as a part of the land use planning and pre-zoning for proposed municipal annexations, CITY will cooperate with COUNTY to identify community service needs of the local community and, where appropriate, work with COUNTY to locate potential sites for these community services facilities.
- B. CITY may elect to adopt or add to existing development impact fees in lieu of providing community service facility sites. Such fees may be administered within CITY or may be included as a component of the above-mentioned County Capital Facilities Fee.

10. TERMINATION.

This Agreement may be terminated, by any party hereto, upon six (6) months written notice which termination shall terminate the agreement for each and every party.

Said termination shall not affect annexations for which the LAFCo Executive Officer has issued a certificate of filing prior to the end of the six (6) month termination period.

11. GOVERNING LAW AND ATTORNEYS' FEES.

This Agreement shall be construed and enforced in accordance with the laws of the State of California. Should any legal action be brought by either party because of any default under this Agreement or to enforce any provision of this Agreement, or to obtain a declaration of rights hereunder, the prevailing party shall be entitled to reasonable attorneys' fees, court costs and such other costs as may be fixed by the Court. The standard of review for determining whether a default has occurred under this Agreement shall be the standard generally applicable to contractual obligations in California.

12. NOTICES.

Any notice of communication required hereunder among CITY and COUNTY must be in writing, and may be given either personally, by telefacsimile (with original forwarded by regular U.S. Mail) or by Federal Express or other similar courier promising overnight delivery. If personally delivered, a notice or communication shall be deemed to have been given and received when delivered to the party to whom it is addressed. If given by facsimile transmission, a notice or communication shall be deemed to have been given and received upon actual physical receipt of the entire document by the receiving party's facsimile machine. Notices transmitted by facsimile after 5:00 p.m. on a normal business day or on a Saturday, Sunday, or holiday shall be deemed to have been given and received on the next normal business day. If given by Federal Express or similar courier, a notice or communication shall be deemed to have been given and received on the date delivered as shown on a receipt issued by the courier. Such notices or communications shall be given to the parties at their addresses set forth below:

To CITY (City Manager):

Leon Churchill, Jr.
City of Tracy
333 Civic Center Plaza
Tracy, CA 95376

To COUNTY (County Administrator):

Manuel Lopez
County Administration Building
44 N. San Joaquin St., Ste. 640
Stockton, California 95202-2931
Telefacsimile: (209) 468-2875

With Copies To (City Attorney):

Daniel G. Sodergren
City of Tracy
333 Civic Center Plaza
Tracy, CA 95376

With Copies To (County Counsel):

David Wooten
County Administration Building
44 N. San Joaquin St., Ste. 679
Stockton, California 95202-2931
Telefacsimile: (209) 468-0315

Any party hereto may at any time, by giving ten (10) days written notice to the other parties, designate any other address or facsimile number in substitution of the address or facsimile number to which such notice or communication shall be given.

13. SEVERABILITY.

If any provision of this Agreement is held invalid, void, or unenforceable but the

remainder of this Agreement can be enforced without failure of material consideration to any party, then this Agreement shall not be affected and it shall remain in full force and effect, unless amended by mutual consent of the parties. Notwithstanding this severability clause, each subsection of Section 2 Property Tax Allocation and Section 5 Exclusions, is material and substantial and the failure of said subsection is the failure of material consideration, causing the agreement to be void from the date that the subsection is held invalid.

14. FURTHER ASSURANCES.

Each party shall execute and deliver to the other party or parties all such other further instruments and documents and take all such further actions as may reasonably necessary to carry out this Agreement and to provide and secure to the other party or parties the full and complete enjoyment of its rights and privileges hereunder.

15. CONSTRUCTION.

All parties have been represented by counsel in the preparation of this Agreement and no presumption or rule that ambiguity shall be construed against a drafting party shall apply to interpretation or enforcement hereof. Captions on sections and subsections are provided for convenience only and shall not be deemed to limit, amend, or affect the meaning of the provision to which they pertain.

16. OTHER MISCELLANEOUS TERMS.

The singular includes the plural; the masculine gender includes the feminine, "shall" is mandatory; "may" is permissive.

17. TIME.

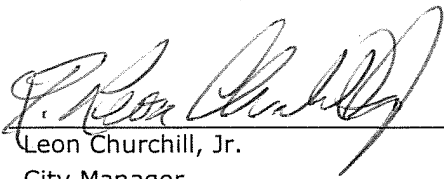
Time is of the essence of each and every provision hereof.

18. COUNTERPART.


This agreement may be executed in counterpart agreements, binding each executing party as if said parties executed the same agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

RECOMMENDED FOR APPROVAL:

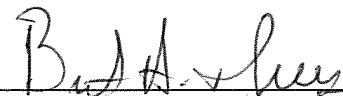


Leon Churchill, Jr.
City Manager



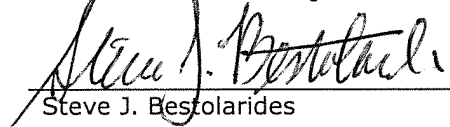
Manuel Lopez
County Administrator

CITY OF TRACY




Brent H. Ives
Mayor

COUNTY OF SAN JOAQUIN



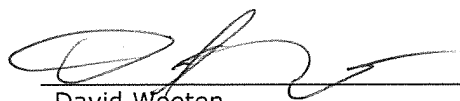
Steve J. Bestolarides
Chairman, Board of Supervisors

Approved as to Form



Daniel G. Sodergren
City Attorney

Approved as to Form

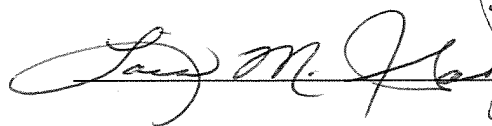


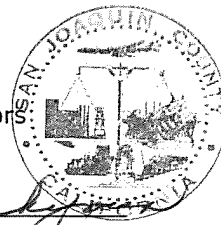
David Wooten
County Counsel

ATTEST: Sandra Edwards
City Clerk








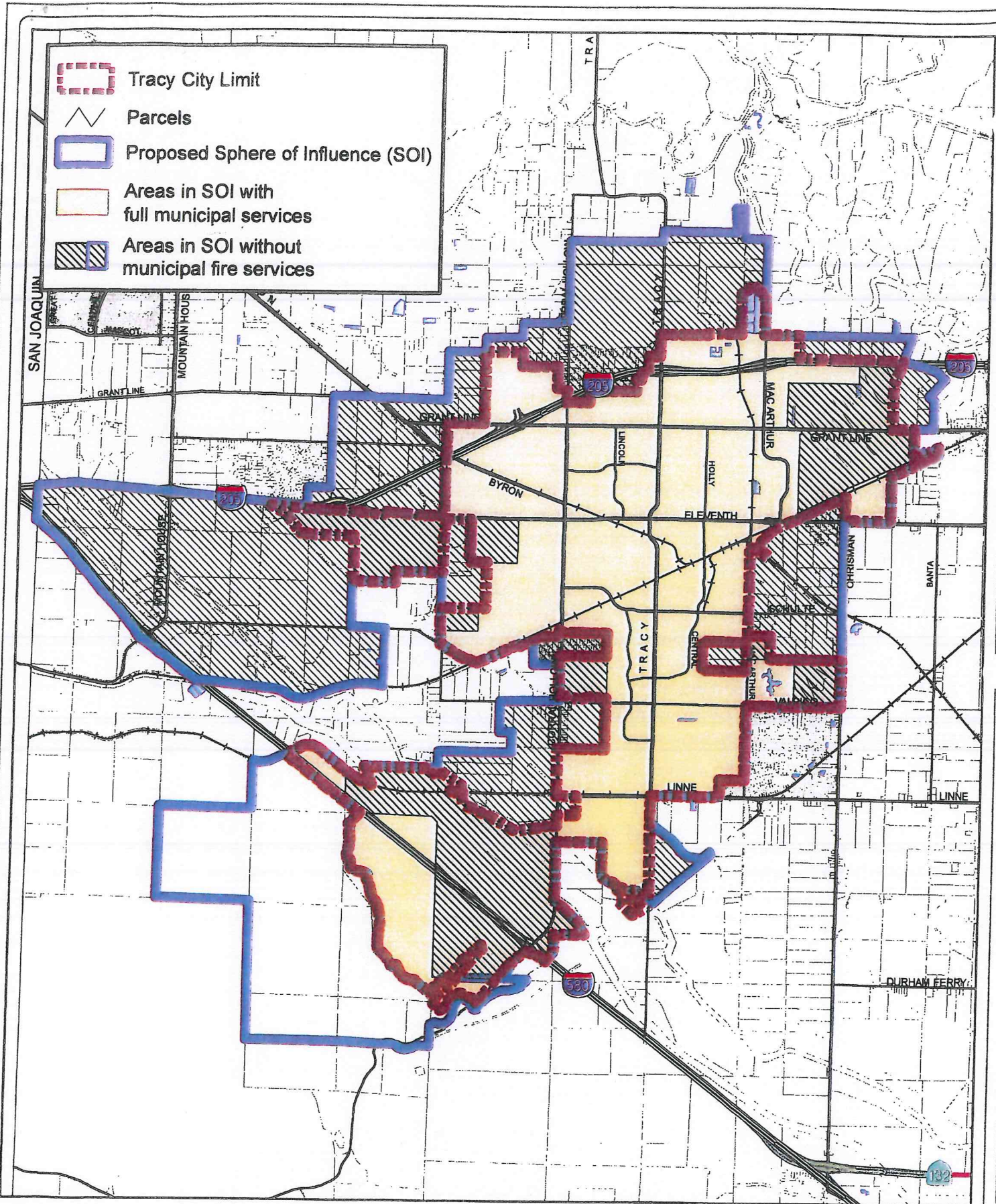
ATTEST: Lois M. Sahyoun
Clerk of the Board of Supervisors





Appendix 2 – Tracy Sphere of Influence Map

-  Tracy City Limit
-  Parcels
-  Proposed Sphere of Influence (SOI)
-  Areas in SOI with full municipal services
-  Areas in SOI without municipal fire services



PROPOSED TRACY SPHERE of INFLUENCE

San Joaquin County Geographic Information Systems
 1810 East Hazelton Avenue, Stockton, CA 95205

The information on this map is based on the most current information available to San Joaquin County Geographic Information Systems. The County of San Joaquin does not warrant its accuracy, completeness, or suitability for any particular purpose. The information on this map is not intended to replace engineering, financial or primary records research.

