

**NOTICE AND CALL OF
SPECIAL MEETING**

AGENDA

Monday April 22, 2019 9:00 A. M.

BOARD OF SUPERVISORS CHAMBERS
44 NORTH SAN JOAQUIN STREET, 6TH FLOOR
STOCKTON, CALIFORNIA

* * * *

Call to Order
Announce Date and Time of Meeting for the Record
Roll Call

CONSENT ITEMS

1. MEETING MINUTES OF MARCH 14, 2019
(Action by All Members)
Approve Summary Minutes of the regular meeting.
2. OUT-OF-AGENCY SERVICE REQUEST
(Action by Regular Members)
Request from the City of Stockton to provide out-of-agency sewer service outside the City boundary under Government Code §56133 to 3527 Utah Avenue, 3559 Mourfield Avenue, 2516 S. B. Street, and 2502 S. B Street, Stockton.

ACTION ITEMS

3. FIRE SERVICES GOVERNANCE MODEL FOR THE CITY OF TRACY AND THE TRACY RURAL FIRE PROTECTION DISTRICT
(Action by Regular Members)
The Commission to consider a policy regarding detachment from the Tracy Rural Fire Protection District.

PUBLIC COMMENTS

4. Persons wishing to address the Commission on matters not otherwise on the

EXECUTIVE OFFICER COMMENTS

5. Comments from the Executive Officer

COMMISSIONER COMMENTS

6. Comments, Reports, or Questions from the LAFCO Commissioners

CLOSED SESSION

7. Open Session Disclosure Regarding Closed Session Items pursuant to Government Code Section 54957.7

8. CLOSED SESSION

- A. Conference with Legal Counsel-Existing Litigation pursuant to Government Code Section 54956.9(a)

Name of Case: Pacific Gas and Electric v. San Joaquin LAFCo and South San Joaquin Irrigation District (San Joaquin County Superior Court Case No. 39-2015-00321743-CU-JR-STK)

9. Open Session Report on Closed Session pursuant to Government Code Section 54957.1

ADJOURNMENT

LAFCo

509 W. WEBER AVENUE SUITE 420 STOCKTON, CA 95203

**SUMMARY MINUTES
March 14, 2019**

BOARD OF SUPERVISORS CHAMBERS
44 NORTH SAN JOAQUIN STREET, 6TH FLOOR
STOCKTON, CALIFORNIA

Chairman Johnson called the meeting to order at 9:07 a.m.

MEMBERS PRESENT: Commissioners Kuehne, Patti, Villapudua and
Chairman Johnson

MEMBERS ABSENT: None

ALTERNATE MEMBERS
PRESENT: Commissioners Andrade, Morowit and Winn

ALTERNATE MEMBERS
ABSENT: None

OTHERS PRESENT: James Glaser, Executive Officer; Monica Streeter,
Legal Counsel; and Mitzi Stites, Commission Clerk

Chairman Johnson welcomed Commissioner Morowit to the Commission.

Executive Officer Jim Glaser, informed the Commission that Monica Streeter is filling in for Rod Attebery today for Legal Counsel.

CONSENT ITEMS

Chairman Johnson opened the matter up for Public and Commissioner Comments.

No comments were made.

A motion was made by Commissioner Villapudua and seconded by Commissioner Andrade to approve the Consent Calendar.

The motion for approval of the Summary Minutes of February 14, 2019, was passed by an unanimous vote of the Commission.

Chairman Winn recused himself.

PUBLIC HEARING ITEMS

2. HAMM ANNEXATION TO THE WOODBRIDGE IRRIGATION DISTRICT
(LAFC 41-18)
(Action by Regular Members)
Request to annex approximately 137 acres to Woodbridge Irrigation District.

James Glaser, Executive Officer, provided a PowerPoint presentation. Woodbridge Irrigation District (WID) provides irrigation water to landowners on approximately 42,900 acres generally located in the northern area of San Joaquin County.

The landowner of the three parcels requesting annexation currently receives WID water to the properties and is charged a higher "outside" rate than landowners within the district. Irrigation of the parcels is achieved by shallow canals and ditches, but will change with new and more efficient pipes after annexation. The applicant would be responsible to construct and operate the piped delivery system to the properties from WID's canal facility. Annexation will allow the landowner to receive the same level of service as other parcels in the District including the same water rate charged and a priority of water service as lands outside the district are not entitled to receive water service in critically dry years.

On September 18, 2018 the WID Board considered the annexation of the Hamm properties and adopted a Resolution authorizing an application be made to LAFCo.

The existing SOI for the District is the same as its service boundary, therefore, the Commission's approval of this annexation requires an amendment to the agency's sphere of influence.

It is recommended that the Commission adopt Resolution No. 1397 approving the annexation and amending the sphere of influence for Woodbridge Irrigation District.

Chairman Johnson open the floor to Commissioner Comments.

Commissioner Kuehne inquired why this annexation is not subject to the Williamson Act.

Mr. James Glaser, Executive Officer, stated that this annexation is not going into a city and the land is staying as agriculture.

Commissioner Kuehne commented that in the report it states that Herrick Lateral Canal would deliver the water to the Hamm property.

The pipeline is designed to serve 426 acres total, which 289.30 acres is already designated. After adding in the Hamm annexation of 136.66, this pipeline will be at capacity.

Commissioner Kuehne informed the Commission that he will vote to approve this annexation but the Herrick Lateral Canal is now at capacity and will not be able to provide water for the C&C Farms Annexations that is also on this agenda.

Todd Versteeg, Superintendent, Woodbridge Irrigation District, informed the Commission that not everyone uses the water at the same time. This is not an issue and that Woodbridge Irrigation District can serve the Hamm annexation as well as the proposed C&C Farm Annexations. He also informed the Commission that there are plans to increase the Sargent Lateral Pipeline that will increase the capacity of the Herrick Lateral Canal.

Chairman Johnson opened the floor to Public Comments.

Jack Hamm, Hamm Family Trust, requested that the Commission approve this annexation.

Chairman Johnson closed the floor to Public Comments.

The motion was made by Commissioner Patti, seconded by Commissioner Kuehne to approve Resolution No. 1397, approving the Hamm Annexation to Woodbridge Irrigation District and amendment to the sphere of influence.

The motion passed by a unanimous vote of the voting members of the Commission.

3. DISSOLUTION OF INACTIVE SPECIAL DISTRICTS
NJYO WATER DISTRICT (LAFC 02-19) AND DOS REIS STORM WATER DISTRICT (LAFC 07-19)
(Action by Regular Members)
Request from California State Controller's Office to dissolve NYJO Water district and Dos Reis Storm Water District.

Mr. James Glaser, Executive Officer, presented an overview of Special Districts.

Special districts must file annual financial statements to the State Controller's Office. Under legislation (SB 448) if no financial statements are filed, the State Controller's Office sends a request that appropriate action be taken such as dissolution of a district if the district is "inactive."

Mr. Glaser recommended that the Commission adopt Resolution No. 1398 approving the dissolution of NYJO Water District and Resolution No. 1399. Approving the dissolution of Dos Reis Storm Water District.

Chairman Johnson opened the floor to Commissioner Comments.

Commissioner Andrade inquired if anything will change with the properties that are in these districts.

Mr. James Glaser, Executive Officer, said that the properties are not paying or receiving any services now from the districts. Nothing will change for the properties in the districts.

Commissioner Morowit asked if this was just to clean up all records since there is no service.

Mr. James Glaser, Executive Officer, stated that yes, it is.

Chairman Johnson closed the floor to Commissioner Comments.

Chairman Johnson opened the floor to Public Comments.

Martin Harris, Terra Land Group, stated concerns for this project and asked the Commission not to approve it.

Chairman Johnson closed the floor to Public Comments.

The motion was made by Commissioner Patti, seconded by Commissioner Kuehne to approve Resolution No. 1398, approving the dissolution of NYJO Water District and Resolution No. 1399, approving the dissolution of Dos Reis Storm Water District.

The motion passed by a unanimous vote of the voting members of the Commission.

4. ANNEXATION TO THE WOODBRIDGE IRRIGATION DISTRICT C&C FARMS ANNEXATION #1 (LAFC 05-19) AND C&C FARMS ANNEXATION #2 (LAFC 06-19)
(Action by Regular Members)
Request to annex two parcels of C & C Farms to Woodbridge Irrigation District. C & C Farms Annexation #1 approximately 5.45 acres and C & C Farms Annexation #2, approximately 17.04 acres.

C & C Farms currently receives approximately 25.86-acre feet per year to irrigate the existing vineyards and the landowner is charged a higher "outside" rate than landowners within the district. As a customer outside of the district, the landowner does not receive priority water in critically dry years.

On January 10, 2019 the WID Board considered the annexation of C & C Farms and adopted a Resolution authorizing an application be made to LAFCo to annex the properties.

It is recommended that the Commission adopt Resolution Nos. 1400 and 1401 approving C & C Farms #1 and #2 annexation into Woodbridge Irrigation District and amending the sphere of influence.

Chairman Johnson opened the floor to Commissioner Comments.

Commissioner Kuehne restated his concerns earlier with the Hamm Annexation that the Herrick Lateral Canal is now at capacity.

Commissioner Patti inquired if it would be easy for Woodbridge Irrigation District to show usage of water from the Herrick Lateral Canal.

Todd Versteeg, Superintendent, Woodbridge Irrigation District, stated that he can get written documentation to show that there will enough water to support the annexation.

Mr. James Glaser, Executive Officer, stated that the Commission could approve this annexation with a condition. The condition would be listed as Section 5 in the Resolution that directs the Executive Officer to withhold the filing of the Certificate of Completion until Woodbridge Irrigation District demonstrates capacity to serve the subject property.

Chairman Johnson closed Commissioner Comments.

Chairman Johnson opened the floor to Public Comments.

Chairman Johnson closed the floor to Public Comments.

The motion was made by Commissioner Kuehne, seconded by Commissioner Patti to approve Resolution No. 1400 and No. 140, approving the C&C Farms #1 and #2 annexations into Woodbridge Irrigation District and amending the sphere of influence with the condition that the Executive Officer withhold the filing of the Certificate of Completion until the Woodbridge Irrigation District demonstrates capacity to serve the subject.

The motion passed by a unanimous vote of the voting members of the Commission.

PUBLIC COMMENTS

7. Persons wishing to address the Commission on matters not otherwise on the agenda.

Before Public Comments were heard, Chairman Johnson stated that the City of Tracy will be on the May Agenda.

Mark Bowman, Counsel for Tracy Rural Fire District, addressed the Commission regarding annexations to the City of Tracy.

Mr. Alvarez, resident from the City of Tracy addressed the Commission regarding his annexation.

Robert Rickman, Mayor of City of Tracy, addressed the Commission regarding the City of Tracy annexations.

Charlie Morrison, Cox, Castle and Nicholson, for Ponderosa Homes, addressed the Commission on the Tracy Village annexation.

Wayne Schneider addressed the Commission on the Tracy Village annexation.

Eugene Birk, addressed the Commission on the Tracy Village annexation.

Roy Hawkins addressed the Commission on the Tracy Village annexation.

Jeff Schroeder, Ponderosa Homes, addressed the Commission the Tracy Village annexation.

Steve Herum, Herum\Crabtree\Suntag, addressed the Commission on the City of Tracy annexations.

Leticia Ramirez, City of Tracy, addressed the Commission on the City of Tracy annexations.

Chainman Johnson closed the public comments.

Chairman Johnson inquired if Mr. James Glaser, Executive Officer, had any comments.

Mr. Glaser stated that he can give a short explanation now or, if preferred, a written report that would take a while to prepare.

Commissioner Patti asked for the short version on the City of Tracy annexations.

James Glaser, Executive Officer, stated that the City of Tracy needs to do what all the other Cities are required to do when they have annexations. The City of Tracy needs to update their Sphere of Influence and that needs to be accompanied with their Municipal Service Review. In 2011 City of Tracy also agreed to have a governance study completed before any annexations. Mr. Glaser commented that he has received a study regarding fire governance but questions still remain.

EXECUTIVE OFFICER COMMENTS

8. Comments from the Executive Officer

In December, the Commission directed staff to send the Island Annexation Report out to the Cities and County for comments. Only the City of Manteca has replied. Staff will send out reminder notices and then bring those responses back to the Commission.

There will be no April Meeting. Next Commission Meeting will be on Thursday, May 9, 2019. Items on the agenda include the Preliminary Budget Report with the Final Budget in June. Mr. Glaser requested that a Budget Committee be appointed by the Chairman. This committee will meet at least one time in April. The Tracy Fire Governance Report will be discussed at the May meeting. On your dais you will find a paper that explains the annexation process for the City of Tracy.

- Step 1 Fire Governance Report
- Step 2 MSR
- Step 3 SOI
- Step 4 Annexation Applications

Possibly on the agenda for May will be the Byron Bethany Irrigation District MSR/SOI.

LAFCo Commission Members need to file Form 700 by April 1, 2019. Information on a new legislative bill, AB-1389 has been placed on your dais for your review.

COMMISSIONER COMMENTS

6. Comments, Reports, or Questions from the LAFCo Commissioners.

Chairman Johnson stated that he would appoint the Budget Committee and let Mr. Glaser know.

Commissioner Patti stated that in light of the public comments LAFCo should have an AD HOC Committee before the May Commission Meeting.

Commissioner Villapudua inquired why the City of Tracy could not go through the MSR process as the City of Stockton just did.

Commissioner Patti stated that the City of Tracy has a separate step built into their process that makes it more complicated.

Chairman Johnson stated that the Ad Hoc Committee would be himself, and Commissioner Patti, Mr. Glaser, Counsel, and two or three people from the City of Tracy. This will be done as soon as possible. Chairman Johnson inquired on a time line for Mr. Glaser.

Mr. Glaser, Executive Officer, stated that to do his report on the Fire Governance Model he first needs to understand the data in the report prepared by the City of Tracy. Then he needs to analyze the report and circulate it for comments. He has asked questions of the City of Tracy but has yet to receive the critical information necessary to be placed on the May agenda.

Chairman Johnson stated that he would set up this Ad Hoc Committee and advise all.

CLOSED SESSION

9. Open Session Disclosure Regarding Closed Session Items pursuant to Government Code Section 54957.7

10. CLOSED SESSION

A. Conference with Legal Counsel-Existing Litigation pursuant to Government Code Section 54956.9(a)
Name of Case: Pacific Gas and Electric v. San Joaquin LAFCo and South San Joaquin Irrigation District (San Joaquin County Superior Court Case No. 39-2015-00321743-CU-JR-STK)

11. Open Session Report on Closed Session pursuant to Government Code Section 54957.1

There was no Closed Session.

10:27 a.m. – Chairman Johnson adjourned the meeting to Thursday, May 9, 2019.

LAFCo

509 W. WEBER AVENUE SUITE 420 STOCKTON, CA 95203

EXECUTIVE OFFICER'S REPORT

April 22, 2019

TO: LAFCo Commissioners

FROM: James E. Glaser, Executive Officer

SUBJECT: **CITY OF STOCKTON OUT-OF-AGENCY SERVICE REQUESTS**

Recommendation

It is recommended that the Commission approve the requests from the City of Stockton to provide out-of-agency sewer service under the Government Code §56133 to properties located at 3527 Utah Avenue, 3559 Mourfield Avenue, 2516 S. B Street, 2502 S. B Street, Stockton.

Background

Government Code Section §56133 states that the Commission may authorize a city or special district to provide new or extended services outside its jurisdictional boundaries but within its sphere of influence in anticipation of a later change of organization and that prior to providing new or extended service, the city or district must first receive approval from LAFCo. The Commission adopted a policy that conditions their approval for out-of-agency service requiring the recordation of an agreement with the landowner consenting to annexation of their property when annexation becomes feasible.

The City of Stockton submitted requests for approval to extend sanitary sewer services to single family residences outside the city limits but within the City's sphere of influence. A vicinity map is attached showing the locations of each out-of-agency request. Connections to City sewer lines are available to the properties and the property owners have paid the appropriate connection fees to the City. The requests for out-of-agency service are in compliance with the Government Code §56133 and Commission policies. Staff recommends approval of the attached Resolution 1383 approving out-of-agency services.

Attachment: Resolution No. 1403
Vicinity Map

Resolution No. 1403

**BEFORE THE SAN JOAQUIN LOCAL AGENCY FORMATION
COMMISSION APPROVING AN OUT-OF-AGENCY SANITARY SEWER
SERVICE FROM THE CITY OF STOCKTON TO 3527 UTAH AVENUE, 3559
MOURFIELD AVENUE, 2516 S. B STREET, 2502 S. B STREET,
STOCKTON.**

WHEREAS, the above-reference requests have been filed with the Executive Officer of the San Joaquin Local Agency Formation Commission pursuant to §56133 of the California Government Code.

NOW THEREFORE, the San Joaquin Local Agency Formation Commission DOES HEREBY RESOLVE, DETERMINE, AND ORDER as follows:

Section 1. Said out-of-agency service request is hereby approved.

Section 2. The proposal is found to be Categorically Exempt from CEQA.

Section 3. The proposal is subject to the following conditions:

- a. Prior to connection to the city sewer or water, the City of Stockton shall record a covenant and agreement with the property owners to annex to the City of Stockton in a form acceptable to the Executive Officer.
- b. This approval and conditions apply to current and future property owners.

PASSED AND ADOPTED this 22ND day of April, by the following roll call votes:

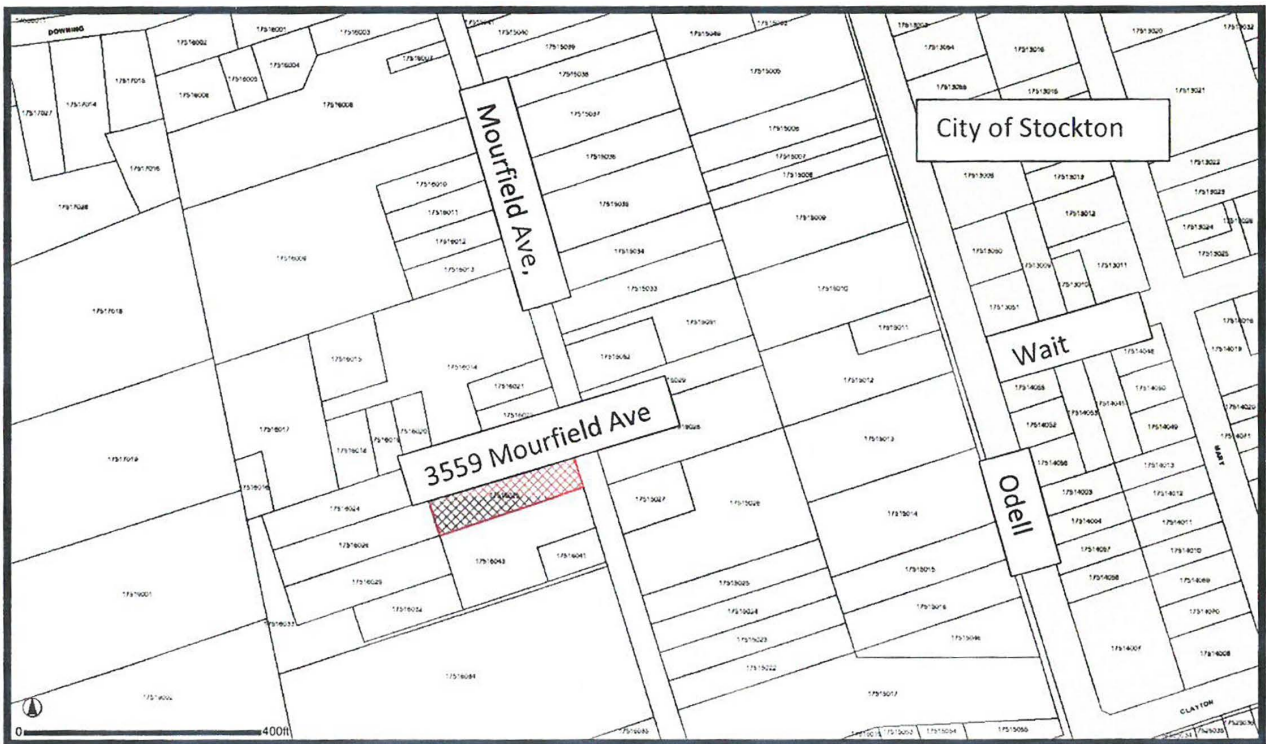
AYES:

NOES:

ABSENT:

Peter M. Johnson, Chairman
San Joaquin Local Agency
Formation Commission

Res. No. 1403
04-22-19



EXECUTIVE OFFICER'S REPORT

April 22, 2019

To: LAFCo Commissioners

From: James E. Glaser, Executive Officer

SUBJECT: Fire Service Governance Model for the City of Tracy and Tracy Rural Fire Protection District

RECOMMENDATION

It is recommended that the Commission adopt a policy that *future* annexations to the City of Tracy will detach from Tracy Rural Fire Protection District. An alternate motion is attached directing the Executive Officer to seek professional consulting services to study the issue further.

POLICY ISSUE

To satisfy a requirement imposed by the Commission in October 2011, namely to determine if future annexations to the City of Tracy should **detach or not detach** from Tracy Rural Fire Protection District.

SUMMARY OF KEY FINDINGS

The following findings support the recommendation requiring detachment:

- There is a duplication of services under the present model.
- There is a tax structure that charges more to new residents and businesses for the same fire services.
- There is a projected tax increment loss to the County of \$55 million over the next 8 years and a corresponding increase in demand on County services as a result of new development

and a cumulative loss to the County of approximately \$74.2 million in revenue (2001/02 through 2018/19).

- Tracy Rural has not been economically viable since inception of this model.
- There are questions as to whether Tracy Rural can be sustainable in the future.
- Cities have more financial resources available to fund fire service than districts.
- The expectation that property tax alone can fund urban fire services is unrealistic.
- The City of Tracy benefits greatly economically from this model while other agencies are fiscally impacted.

CHRONOLOGY

This matter has come before the Commission in July, August, October and December of 2013 and in May, August, October and December of 2014. This matter focuses on the issue of the organizational structure of the South County Fire Authority (SCFA) (now South San Joaquin County Fire Authority) and the relationship of this joint powers authority to the City of Tracy and Tracy Rural Fire Protection District and the fiscal implications of the present “no-detachment” policy. These issues were first expressed in LAFCo’s County Fire Municipal Service Review and as a result, the Commission determined that further study was needed and adopted an Implementation Strategy on October 21, 2011 that stated:

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

Below is a timeline of events leading up to today’s Agenda Item:

DATE	EVENT
July 2011	Public Hearing on Fire District MSR. Commission requested additional time and referred matter to its Ad Hoc Committee to gather more information from Tracy and Tracy Rural before making a decision on the Implementation Strategy. Public Hearing continued.
August 2011	Commission Ad Hoc meeting in Tracy to discuss issues of detachment. Tracy indicates they are working towards reorganization but have not made any determinations. Tracy requested an 18 month extension to complete it.
October 2011	Public Hearing <ul style="list-style-type: none"> • Fire District MSR adopted • Addressed fiscal impacts of annexations • Organizational structures, including consolidation, discussed in MSR • Identifies some policy issues and recommendations under “Implementation Strategy” including: <ul style="list-style-type: none"> ○ Amend Commission policies to require consideration of economic impact from annexations through the use of a “mitigation fee”

	<ul style="list-style-type: none"> ○ Explore the feasibility of providing fire service to the Unprotected Delta Area ○ Requiring Tracy to complete a plan regarding the governance model for Tracy City Fire and Tracy Rural within 18* months subject to the approval of LAFCo. All subsequent annexations will be consistent with the approved plan. <i>*Commission subsequently extended the completion date until October 21, 2013 (24 months). See December 13, 2013</i> <ul style="list-style-type: none"> ● Commission adopts fee mitigation policy
<p>July 2013</p>	<p>Report prepared by Tracy for Commission consideration. Report provided 2 options: (1) maintain current structure and no detachment or (2) annex the City into Tracy Rural. Staff Report recommends that the report be returned for a more in-depth discussion of the 2 alternatives as well as inclusion of the rejected options of dissolving the SCFA and forming a new JPA and have all entities contract for fire service with the City or the fire district. It was requested that a fiscal analysis on the financial impact to the County be provided.</p> <p>Commission directed staff to put the Governance Report back on the Agenda and to provide Notice of Public Hearing to allow amendments to the MSR.</p>
<p>August 2013</p>	<p>Action Item: Commission consideration of the Governance Report be approved or that the Implementation Strategy language in the MSR be deleted</p> <p>The City submitted a <i>Fire Governance Implementation</i> Plan (Exhibit 1); however, the Commission determined it did not sufficiently address the fiscal and governance issues and extended the date to complete a governance plan within 24 months (October 2013).</p> <p>Commission amends Implementation Strategy from 18 months to 24 months and acknowledges Governance Report leaving it open for further consideration.</p>
<p>October 2013</p>	<p>The City presented an overview of the various governance options that had been considered and stated that a consultant would be needed to perform feasibility studies. The Commission continued the matter to the December 2013 meeting.</p>
<p>December 2013</p>	<p>The City informed the Commission that the consultant, Management Partners, had been hired to analyze alternative fire governance structures and to analyze the property tax and governance issues associated with the “no detachment” policy. At this meeting, the Commission clarified the issues to be studied and requested that <i>“the fire study would include the feasibility of detachment and no detachment of Tracy Rural Fire District and the feasibility of a full consolidation of Tracy Rural and the City Fire service. The Commission continued the matter until May 16, 2014” (Summary Minutes, 12/13/2013).</i> Tracy requested and received additional time to complete their report by September 2014. Commissioners requested that the City’s draft fire study by the consultants come to LAFCo first. Tracy hires Management Partner’s to do a full fiscal analysis.</p>

May 2014	(24 months—Fire Governance Report due) Preliminary report prepared by consultant but SCFA requested additional review time. Commission continues matter to an undetermined date for completion.
July 2014	Alternative Fire Governance Structures Report was completed by Management Partners (Exhibit 2). The draft report was presented to Tracy City Council, Tracy Rural Board of Directors, and the South County Fire Authority at a September 2 nd Special Meeting. No action was taken at the meeting and Tracy staff was directed to forward the report to LAFCo. Since neither the City nor Tracy Rural made a recommendation, the Commission returned the report.
August 2014	Progress report given by staff to Commission on Tracy’s Governance Study. A draft report given to Commissioners, however, the report had not been considered by Tracy City Council and SCFA requests that an update be provided at the next meeting and a final report for the October meeting.
October 2014	Review of Governance Report. Report provides 3 options. Each option examined its implications on property tax revenues, fire benefit assessment revenues, and governance structure. Tracy City Council considered report however did not provide a recommendation as to which option it favors. Unclear as to which policy City is working towards so LAFCo cannot determine whether subsequent annexation should detach or not detach. Commission returns report to City.
January 2019	The City transmitted a report entitled Governance Review dated December 26, 2018. This report (Exhibit 3) will be subject to discussion in a following section.

BRIEF HISTORY

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

Tracy Rural was established in 1942 and 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.

In 1996 the City of Tracy and Tracy Rural submitted a letter to the Commission requesting two proposed annexations not detach from the rural fire district pending finalization of negotiations to consolidate. The Commission agreed not to detach these properties.

The South County Fire Authority (SCFA) was established on September 7, 1999 as an agreement between the City and Tracy Rural for the joint exercise of powers (Joint Powers Agreement) to

provide fire protection services within the Authority’s jurisdictional area by contracting for such services with the City of Tracy.

Since 1996, the City of Tracy has annexed 12 areas from within its Sphere of Influence (SOI). With the exception of a portion of Tracy Hills, all properties were annexed into the City without detachment from Tracy Rural. The record indicates that the reason provided for not detaching from Tracy Rural was that the City and Tracy Rural anticipated the formation of a consolidated district whereby Tracy Rural (or another newly formed district) would be responsible for fire protection service in the City and District. While this may have been the original intent, such consolidation has not occurred and this option is now not supported by the City or Tracy Rural.

In February 2018, the City and the Tracy Rural dissolved the South County Fire Authority through a dissolution agreement and entered into a new agreement that formed the South San Joaquin County Fire Authority. The changes were made, in part, to address Tracy Rural’s concern over lack of authority over financial and administrative policies that impact fire protection in their jurisdiction. This model continues to prevent fire protection revenues from being reallocated from the District to the County. The model also allows other agencies to join. The model does not address LAFCo concerns.

DISCUSSION

Since 1996, the City of Tracy has annexed twelve (12) projects from within its Sphere of Influence to the City and has not requested the detachment of Tracy Rural upon annexation of these additional territories. The following figure identifies the specific annexations:

Consolidation Anticipated

Annexation (Date)	Acres	Development Status Upon Annexation	Current Development Status
Elissagaray (11/1996)	167	Approximately 7 homes	436 SFRs
Northeast Industrial (11/1996)	905	Approximately 134 SFRs. Remaining property in agricultural and dairy operations.	5,624,888 sq ft industrial
Kagehiro (01/1997)	146	Agricultural	293 SFRs
Lourence Ranch (04/1997)	40	Agricultural-row crops	116 SFRs
Plain View (01/1998)	10	1 SFR on 2 acre site	Used for vehicle storage
Souчек (07/1998)	60	1 SFR, agricultural lands	No change
Tracy Hills (09/1998)	2,725	Several homes, agricultural lands, grazing lands	397 SFRs under construction

Joint Powers Authority Formed (September 1999)

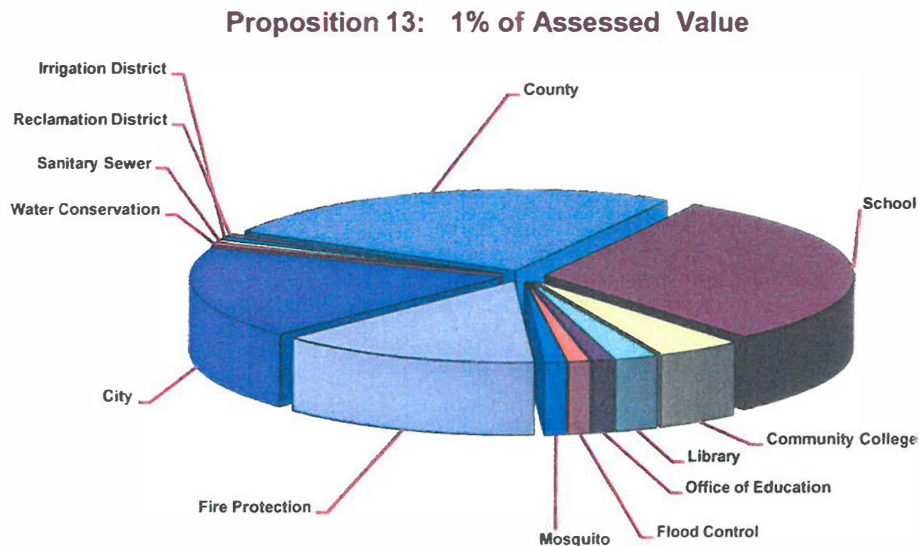
Presidio (11/1999)	149	1 SFR with agricultural buildings, fallow agricultural lands	550 SFRs
Gateway (05/2003)	550	1 SFR on approximately 15 acre site; balance of site agricultural lands in alfalfa production	No change
Filios-Dobler (03/2012)	46	Majority of the site was used for agricultural hay production. Site contained 3 SFR plus one welding shop	451 apartments
Ellis Specific Plan (03/2013)	167	1 SFR with a small tree-growing operation. Majority of the site was fallow agricultural land	281 SFRs
Cordes Ranch (09/2013)	1,796	Agricultural	5,482,463 sq ft
Total Acres	6,761		

The record shows (Attachment A: Letter dated May 14, 1996 from Tracy and Tracy Rural) that the reason given for not detaching from the Tracy Rural was that the City and the District anticipated the formation of a consolidated district. When consolidation occurs, the City of Tracy would relinquish its authority to provide fire services and allow Tracy Rural (or another new agency) to be responsible for fire protection service for the City and District. Instead, in September 1999, the City and the District entered into a joint powers agreement and formed the South County Fire Authority. The formation of a joint powers agreement does not change the organizational structure of the two agencies. Tracy Rural remains as an independent special district and the City remains as a municipality. The difference, by not detaching, is that the City does not provide full municipal services to the newly annexed area and that Tracy Rural and the City remains responsible for fire services in the newly annexed area. This creates a situation where two agencies are responsible for providing the same service in the same area. From a practical aspect the joint powers authority is the official provider of fire services, not Tracy Rural and not the City. In 2002, the City and Tracy Rural adopted resolutions agreeing that properties that were annexed into the city limits would not detach from the Tracy Rural. However, the decision to detach or not to detach rests with LAFCo. There are still two agencies responsible for fire service in the same area.

TAX REVENUE

Property taxes are the single most important source of revenues for the fire districts, making up an average of 67.4 percent of all revenues for districts in the County. Property tax revenue makes up 76% of all Tracy Rural's revenues. As a funding source, property taxes are constrained by statewide initiatives that have been passed by voters over the years. Voters have been particularly reluctant to increase taxes to pay for new growth.

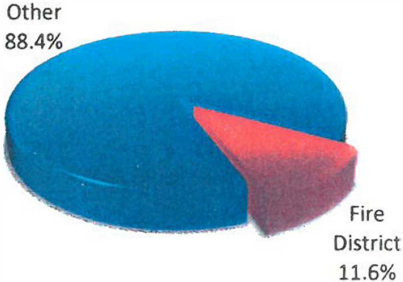
The pie chart below shows a typical distribution of property taxes.



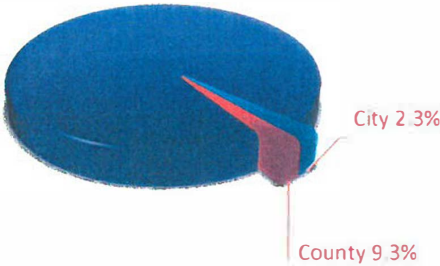
Proposition 13 was passed by the voters in 1978 which limited the ad valorem property tax rate, limited growth of the assessed value, and required voter approval of certain local taxes. Generally, the measure fixes the tax at one percent of the value, except for taxes to repay certain voter approved bonded indebtedness. Immediately following the passage of Proposition 13, the Legislature adopted SB 154 and subsequently adopted AB 8 in 1979 to establish tax allocation formulas. These bills allocated property tax revenues on a pro-rata basis. Generally, AB 8 allocated property tax revenue to the local agencies within each tax rate area based on the proportion each agency received during the three years preceding adoption of Proposition 13. This allocation formula benefits local agencies which had relatively high tax rates at the time Proposition 13 was enacted, and allocates less to districts and cities that were spending relatively low amounts at the time. AB 8 also increased the share of property tax revenue allocated to local governments by shifting the property tax revenue away from schools. School losses were back-funded from the State General Fund. Tracy Rural receives approximately 11.6% of the tax increment.

The practice of not detaching from Tracy Rural has two implications. One is financial and one is related to governmental organization. From a financial perspective, the District continues to receive property tax at a rate of about 11.6% of the total property tax. The District is also allowed to continue to collect a special assessment for structures at a rate of 3 cents per square foot for improvements. Without detachment, the monies collected by the District are not available to the County or the City. By not detaching from Tracy rural, the net fiscal impact to the County is that the County will receive about 9.3% less in property tax and the City will receive about 2.3% less (although the City would not be financially responsible for fire service). The following chart graphically displays the distribution of the tax increment with detachment of a fire district from a city and without detachment. With detachment (similar to Lodi, Stockton, and Manteca), the 11.6% share of the property tax received by the District would be shared with the County and City—resulting in an increased amount to these two agencies.

TAX INCREMENT WITHOUT DETACHMENT



TAX INCREMENT OF FIRE DISTRICT SHARE WITH DETACHMENT



While cities and counties exercise broad powers of taxation that are granted to general purpose governments by the State Constitution, special districts are limited to revenue sources authorized by the legislature. Although each district is an autonomous unit of local government with sovereignty over internal fiscal issues, the type of revenue sources are relatively restricted. As a result, the Districts rely primarily upon *property tax, special assessments, fees for service, and development mitigation fees*. Unlike cities which can use a wider variety of sources in addition to property tax (sales and use taxes, vehicle license fee, utility user fees, transient occupancy tax, etc.). The most significant financing constraints for fire services are legal requirements that limit property taxes and require voter approval of new taxes and tax increases. As a result, cities can be much more adaptive to respond to revenue shortfalls.

**REVENUE FUNDING OPPORTUNITIES FOR FIRE PROTECTION
CITIES vs. FIRE DISTRICT**

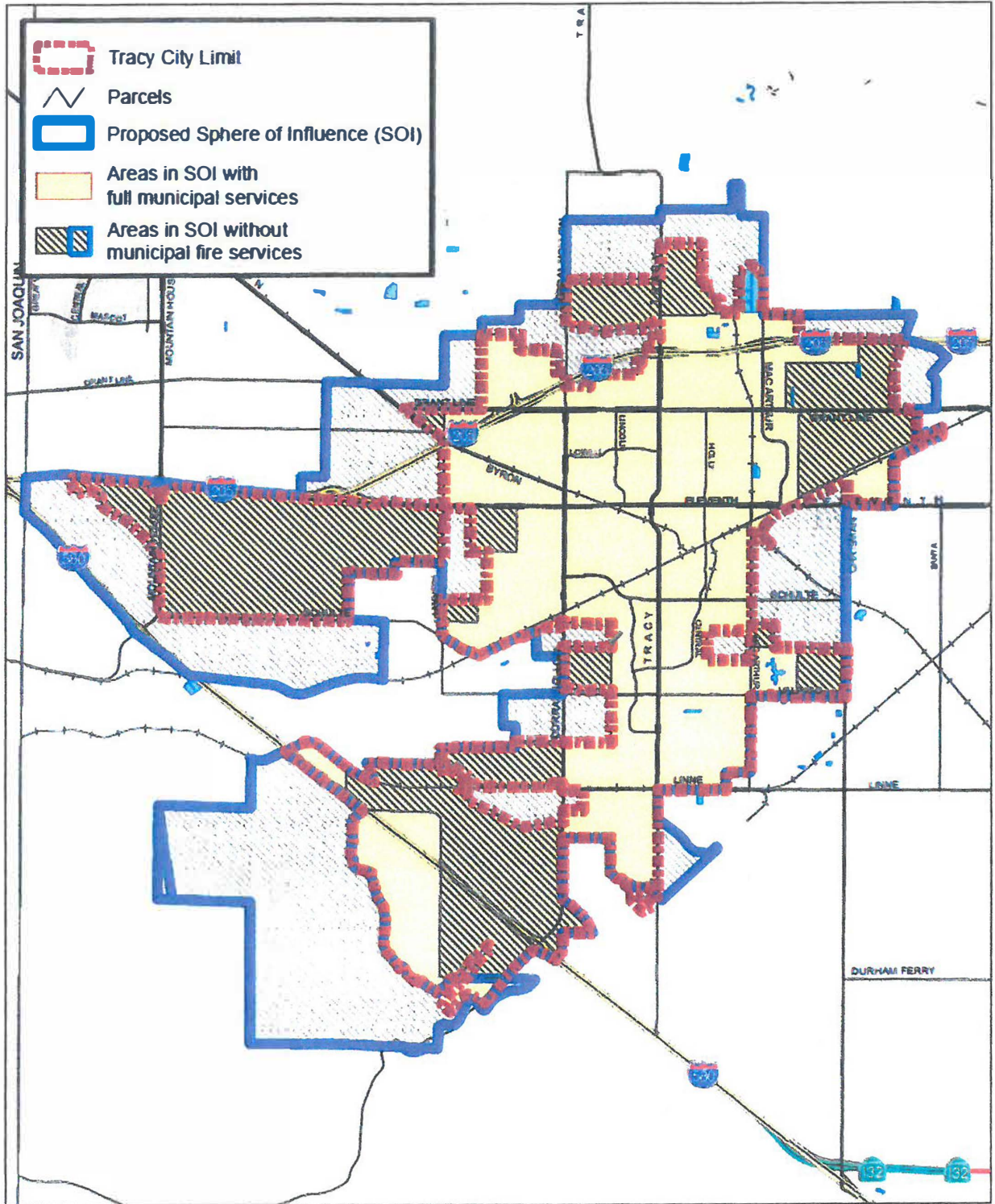
Sources of Revenue	City	Fire District
Property Tax	√	√
Fire Special Assessment Fee		√
Development Fees	√	√
Fees for Service	√	√
Real Property Transfer Tax	√	
Sales and Use Tax	√	
Public Safety Sales Tax	√	
Property Tax In-Lieu License Fee	√	
Transient Lodging Tax	√	
Business License Tax	√	
Building and Construction Permits	√	
Special Licenses	√	
Franchise Fees	√	
Intergovernmental Revenue	√	
Fines and Forfeitures	√	
Community Facilities Districts CFD (Mello Roos)	√	

The second implication is that from a governmental perspective the City is not providing full municipal services to its residents. This is best explained by the sphere of influence for the City of Tracy as depicted on Map 1. Tracy Rural’s Sphere of Influence would overlap into the City’s sphere. The City’s sphere would have two categories-one which provides full municipal services and one that provides municipal service minus fire protection. The map displays the areas which are currently in the City which receives city vs. rural fire protection services. Almost all future annexations would be in the second sphere category. This means that the City Council is responsible for fire services in only a portion of the existing community. According to Commission Policy the hierarchy for the establishment of a sphere of influence is to give preference to the inclusion in a municipality sphere of influence, then within a multipurpose districts (i.e., community service district), and lastly to a single-purpose district (e.g., fire district).

Sphere Hierarchy: Where an area could be assigned to the sphere of influence of more than one agency providing needed service, the following hierarchy shall apply dependent upon ability to serve, unless an agency or district has specialized capacity to provide such service:

- a. Inclusion within a municipality sphere of influence
- b. Inclusion with a multipurpose district sphere of influence
- c. Inclusion within a single-purpose district sphere of influence

Map 1



The Cortese-Knox-Hertzberg Act (§56001) 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.”

It was and is staff’s position that services within the community are best provided by a City and that future annexations should detach from the Tracy Rural. The original draft Municipal Service Review reflected that position. The City of Tracy in a letter of June 9, 2011 expressed disagreement with the concept of detachment. As a result, the Commission’s Rural Fire District Ad Hoc Committee (Commissioners Ruhstaller, Vogel, Stockar) met with the City of Tracy and Tracy Rural Fire District on August 24, 2013 to discuss the issue of detachment. Tracy representatives requested an opportunity to perform a study regarding reorganization and needed 18 months to complete it. Because of that commitment, the Commission added a section to the Implementation Strategy that read as follows:

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

REPORTS

There has been several reports prepared regarding the fire governance issues. The following summarizes the most recent reports:

Fire Governance Implementation Plan (August 16, 2013) (Exhibit 1)

This report included the evaluation of four options: maintain the current structure, dissolve the SCFA and form a new joint powers authority, have all entities contract for fire service with the City or the District, and annex the City and Mountain House Community Services District (MHCSA) to form one fire district. The MHCSA indicated that they did not want to be annexed into the District. The report narrowed the discussion to two options: (1) maintain the current structure, or (2) annexing the City into the District.

LAFCo concluded that the report needed to be expanded to include a discussion of the alternatives that were rejected and for what reasons. LAFCo wanted to have a critical assessment of all of the options and not just the ones that the City’s committee was supporting. A fiscal analysis and discussion of the impact on the County and an analysis of a traditional detachment from a fire district and the provision of fire services by the City was also needed.

Alternative Fire Governance Structures Report (Management Partners- September 2014) (Exhibit 2)

In this report, the consultant provided three options for providing fire services in Tracy including: 1) No change, annexation without detachment; 2) Annexation with detachment; and 3) City annexation into Tracy Rural Fire District. Each option was examined for its implications on property tax revenues, fire benefit assessment revenues, and governance structure. Financial data was obtained from the County Auditor's Office to examine and illustrate in real numbers the fiscal impacts that past annexations with "no detachment" from Tracy Rural Fire District has had on the rural fire district, the City, and the County and its future implications. The report provides an excellent overview of the issues. The report estimated that in ten years the property tax impact if the 12 annexations had detached was \$4.4 million to the County. Today, it is estimated that a cumulative loss of potential revenue to the County for the next eight years totals \$55 million.

While the report provided options for the City to consider, the Tracy City Council forwarded the report absent a recommendation to LAFCo as to which option it favors and without outlining any next steps. The report states that "Policy guidance from the City Council as well as close consultation with Tracy Rural will be critical before next steps and a consensus path toward resolution of the annexation issue can be developed." Unless it can be demonstrated that the City and Tracy Rural can successfully transition into a consolidated fire agency and that there is political support to do so, annexation *with detachment* appears to be the appropriate future course of action. LAFCo concluded that continuation of the no detachment policy continues to grow a rural district without consideration of future costs coupled with the added responsibility of providing urban fire services. Continuation of the no detachment will also continue to fiscally harm the County as outlined in the report. The Commission returned the report for the recommendations from the City and Tracy Rural.

Governance Review Report (2019) (Exhibit 3)

The Governance Review Report was prepared to reaffirm the recommendation and action taken on February 20, 2018 by the City to approve the formation of the South San Joaquin County Fire Authority and to provide an updated study to LAFCo.

In 2007, staff of the South County Fire Authority conducted a study to evaluate different fire governance options that would address concerns from Tracy Rural and LAFCo. The study also looked at the ability to expand the Authority to include additional agencies in the future. The study evaluated three primary options:

Option 1- City detach from Tracy Rural

Option 2- The City annexes into Tracy Rural

Option 3- Reconstitute and strengthen the current JPA

According to the report by the City of Tracy:

Option 1- City detach from Tracy Rural. The report states that the challenge with this model was the financial impact on the City and the District. The fiscal analysis assumed the existing County and City Tax Sharing Agreement (80% County 20% City) would apply when dividing District revenues after detachment. The City's 20 percent allocation would not cover the cost of providing fire protection in the area that would detach from the District. In the first year (FY 2019/20), there would be a \$3,044,021 shortfall that would require the City to utilize general operating funds. To

keep the same service levels, the City would be required to increase General Fund expenditures annually to \$8,640,314 (FY 2026/27) with a cumulative General Fund augmentation of \$50,080,296 through FY 2026/27. During the same time frame, County revenues would increase \$2,592,421 in FY 2019/20 and continue to increase to \$7,165,906 in FY 2026/27 with a cumulative increased allocation of \$40,773,395. During the same time frame, the District would lose \$51,707,830 in revenues but would no longer be required to provide fire protection in the areas that were annexed and not detached. The District's special tax (.03 cents per sq. ft.) would be discontinued within the City boundaries and would create a cumulative revenue loss of \$10,934,434 through FY 2026/27.

Option 2 - City annex into the District. The report states that the challenge with this model would be the City's willingness to give up control of fire protection and 63% (\$13.8 Million of \$22 Million) of their property taxes. Under the JPA, the City Council continues to have significant authority over fiscal resources and service level determinations for fire protection within the core city that remains outside of the District. The model would also increase City property taxes (.03 per sq. ft.) without requiring a vote of the tax payers.

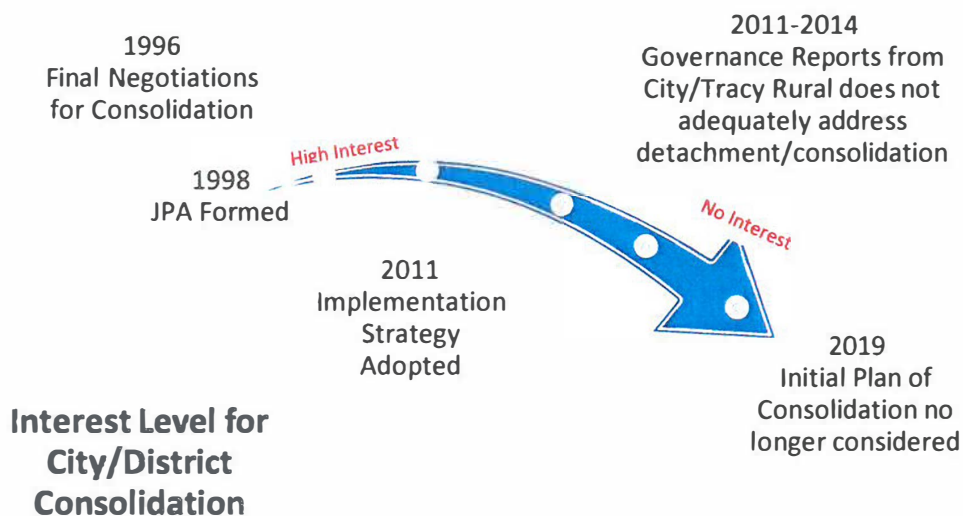
Option 3 - Reconstitute and strengthen the current JPA. The report states that this model was chosen and implemented based on the following considerations:

- The model only requires the approval of the two governing bodies (and the Secretary of State).
- The model provides the City with continued control over the City's budget and service levels in the core City areas.
- The model ensures the long term fiscal sustainability of the District.
- The model addressed the District's concern over a lack of authority over financial and administrative policies that impact fire protection within their jurisdiction.
- The model protects fire protection revenues from being reallocated from the District to the County.
- The model is reversible. At a later date, the Council could decide to operate a municipal fire department and the District could return to providing services as a Fire District.
- The JPA Board will have the authority to negotiate fire protection impacts with developers. This can be done through the City, but having an independent fire agency at the table always benefits the local government agency.
- There will be no confusion over who is the Authority Having Jurisdiction (AHJ) for fire protection matters. Fire protection authorities have been delegated to the JPA by both member agencies.
- This model is expandable. Other agencies could join and increase efficiencies which results in lower costs to the member agencies. The Lathrop-Manteca Fire District and Mountain House Community Services District have expressed an interest in joining the newly formed JPA.

- *The new JPA eliminates additional agreements and amendments that were adopted under the previous JPA. The amendments were difficult to interpret, implement and track. The Smoothing Agreement, the Pre-Paid Service Agreement (Amendments 4 and 6), and the Supplemental Services Agreement (Amendment 3) have all been eliminated and replaced with an intuitive, fair, and equitable cost allocation model.*
- *The model addresses many LAFCO concerns.*
- *The phased approach allows the new JPA to pursue additional model elements and to potentially migrate to a full fire District.*

Analysis of the Governance Review Report

The report does not provide for an objective analysis useful to LAFCo. Its preparation was, in part, to justify a previous decision made by the City Council. Although it addresses other options, it does not present the information in an unbiased and objective manner. The report tends to characterize issues in a manner favorable to the conclusion. (For example, the report states that in the mid 1990's the City *began* the process of annexing properties into the City limits whereas annexations occurred throughout City's nearly 100-year history). The report assumes that a city's property tax allocation should provide sufficient revenue to provide fire service. Cities never rely on property tax alone to cover the cost of services. That is why cities have access to so many different revenue sources and districts do not. The report does not recognize that the County will have an increased demand on services because of new growth. The report does not address the fundamental question of the duplication of service by two agencies and the differing tax structure for new residents and businesses. The report dismisses the City annexation to Tracy Rural option as the lack of willingness of the City to give up control of fire protection even though this was the very reason stated by the City and District in the beginning of this process.



The fundamental error, however, is the financial projections. The report uses a very aggressive growth forecast, which is unsupported by historical building data and by the City’s own financial consultant, Susan Goodwin Consulting Group Inc. The model applies a per square foot assumption by land use type to derive assessed value and thus tax revenue. The table below shows the differences between these sources.

Source Data Comparison

	Building Permit Data (5 year historical data in annexed areas)	Goodwin Report (citywide) 8 years	Governance Review Report (in annexed areas) 8 years	Variance above Building Permit Data and Goodwin Report
Housing	186 units average per year	505 units average per year	610 units average per year	170%
Industrial	1.7 million square feet average	1.0 million square feet average	3.55 million square feet average	260%
Retail	0	13,000	55,000	846%
Office	0	12,500	15,950	255%

The above chart demonstrates that the assumptions used in the Governance Review Report promotes an extremely promising future. This actually raises a new issue as to the economic viability of Tracy Rural to provide the service. The report states that initially there was early recognition that the District would not initially have the financial resources to maintain the current level of service level under the JPA. This was due to District employees becoming City employees with greater pay and benefits and the addition of new positions. It was estimated that the revenue deficit would last approximately 18 months from the inception of the original JPA. The debt to the City grew from \$500,000 to in excess of \$6 million. The recent reconstituted JPA included a provision for the City to forgive a major portion of this debt. The debt lasted nearly 20 years. This brings into question whether Tracy Rural can add the needed fire stations if the growth does not materialize. On the other hand, using these questionable assumptions may actually overstate the impact to the County under the option of no detachment. The \$40 million loss to the County estimated in this report as the result of not detaching Tracy Rural thru 2026/2027 will occur but probably not in that period. This loss is nearly 10 times higher than the projected loss in the Management Partners Report in 2014. According to the County Auditor Controller’s Office (ACO), the cumulative loss of potential revenue to the County totals \$55 million during the 2019/20 through 2026/27 fiscal year time frame.

The next issue associated with the financial analysis is the lack of examination of the fiscal impact on the County in the past and for the future beyond FY 2026/2027. The report “cleans the slate” for 2018 and only studies the next eight years. This does not provide full picture of the fiscal impact to the County. The ACO calculated the revenue loss that occurred in the past from annexations utilizing the time frame of FY2001/02 through 2018/19, which has resulted in a loss of revenue totaling \$19.2 million for the County.

Impact of Detachment on the City and Tracy Rural

If the Commission adopts the recommended policy of detachment of Tracy Rural upon annexation to Tracy, the action will only affect future annexations. LAFCo is not authorized (§56375 (a) (2)) to initiate detachment proceedings. Therefore, the effect of not detaching from Tracy Rural for the twelve previous annexations will not be affected by LAFCo’s action today. The Joint Powers Agreement would remain in effect and delivery of services by the South San Joaquin County Fire Authority could continue for both Tracy and Tracy Rural. The financial responsibility to provide service for future annexations, however, would shift to Tracy as it is for remaining portions of the City. The City would receive additional property tax revenue although probably not in an amount to cover the full cost of service. The City would have to use other revenues sources that would be expected to increase as a result of new development. This organizational structure would be the same as for the City prior to 1996 and identical to the approach for fire services for all other cities that provide fire service in the County (Stockton, Lodi, and Manteca). The County would receive additional funds to provide funding for increase in County provided services.

Although LAFCo cannot initiate a detachment, Tracy, Tracy Rural or the County could request the detachment of Tracy Rural in the future for areas that overlap with the City of Tracy. The Cortese-Knox- Hertzberg Act defines an affected agency as any agency that contain territory for which a change of organization is proposed. By way of example, Contra Costa County recently applied to Contra Costa LAFCo for detachment of land that overlapped with Byron Bethany Irrigation District and Discovery Bay Community Services District. Any of the three agencies could initiate the proceedings.

Comments Received

LAFCo distributed the Governance Review Report (2019) to San Joaquin County for review and comment. The County Administrator’s communication dated April 15, 2019 is attached (Attachment B).

The communication states that annexation without detachment has resulted in a significant loss of revenue for the County. Utilizing the time frame identified in the Governance Review between Fiscal Years (FY) 2019/20 through 2026/27, the San Joaquin County Auditor Controller’s Office (ACO) identified County revenues would have increased by \$3.5 million in FY 2019/2010 and continued to increase to \$10.1 million in FY 2026/27, with a cumulative loss of potential revenue

totaling \$55 million during the 2019/20 through 2026/27 fiscal year time frame. The ACO also calculated revenue loss that occurred in the past from annexations utilizing the time frame of FY 2001/02 through 2018/19, which has resulted in a loss of revenue totaling \$19.2 million for the County. Combining both time frame period, the County will have a cumulative loss of approximately \$74.2 million in revenue due to annexation without detachment for the twelve existing annexations.

The communication states further the County encourages the City of Tracy to adhere to the same process as all other cities that provide fire service in the County (Stockton, Lodi, and Manteca) which is to perform annexation with detachment. Requiring future annexations to the City of Tracy to detach from the Tracy Rural Fire Protection District will ensure the County is provided necessary funding for increased demand on County services.

SUMMARY

The continuation of a model that requires a rural fire district to provide urban fire services is not in the best interest of the public. It allows for the duplication of service including the overlapping of sphere of influence boundaries. It permits a tax structure that charges more for fire services for new residents and businesses than for others. The model has not been economically viable for Tracy Rural since its inception of the original JPA. It is questionable as to Tracy Rural's future sustainability. Continuation of this model may result in a decrease level of service for fire protection if new stations are not constructed as needed. The negative impact to County resources are substantial by using an archaic tax system to prevent the sharing of resources for the increased in demand from new development.

If the Commission is inclined to continue the present organizational structure (annexation without detachment), it is recommended that LAFCo seek the services of a professional consulting firm to explore the consequences of carrying out that action and to explore whether Tracy Rural has the financial ability to provide the service. Although there has been numerous reports on this matter, none has appear to analyze the pertinent matters in a fair and impartial manner for carrying out this alternative. The most recent report seems to conflict with previous reports including the Management Partners Report of 2014. Staff believes however, there is more than sufficient information in the record to substantiate a determination that the Commission adopt a policy that *future* annexations to the City of Tracy will detach from Tracy Rural Fire Protection District.

Resolution No. 1402

Motion

Attachment A: Letter dated May 14, 1996 from Tracy and Tracy Rural

Attachment B: Letter dated April 15, 2019 from County Administrator's Office

Exhibit 1: Fire Governance Implementation Plan (August 6, 2013)

Exhibit 2: Alternative Fire Governance Structures Report (Management Partners-September 2014)

Exhibit 3: Governance Review Report (2019)

Resolution No. 1402

**Before the San Joaquin Local Agency Formation Commission
Adopting an Annexation Policy for the City of Tracy and Tracy Rural Fire Protection
District**

WHEREAS, Section 56430 of the Government Code requires the Commission to conduct a service review of the municipal services provided in the county or other appropriate areas designated by the Commission; and

WHEREAS, the Commission adopted a Municipal Service Review for Rural Fire Protection Districts in San Joaquin County on October 21, 2011; and

WHEREAS, said Municipal Service Review required completion of a plan regarding the governance model for Tracy City Fire Department and Tracy Rural Fire Protection District subject to the approval of LAFCo; and

WHEREAS, numerous studies have been prepared including a Fire Governance Implementation Plan (dated August 16, 2013), an Alternative Fire Governance Structures Report (dated September 2014) and a Governance Review Report (dated December 2018); and

WHEREAS, such studies provided information regarding options including detachment and no detachment of Tracy Rural FPD from the City of Tracy upon annexation, the organizational structure, and financial implications of carryout various options; and

WHEREAS, the Commission held a public meeting on the governance model on April 25, 2019 in the Board of Supervisors Chambers, 44 North San Joaquin Street, Stockton, California and received comments; and

WHEREAS, at said meeting the Commission heard and received evidence, both oral and written regarding the governance model, and all persons present were given an opportunity to be heard; and

WHEREAS, this Commission has duly considered all materials submitted regarding governance model for Tracy City Fire Department and Tracy Rural Fire Protection District

NOW, THEREFORE, the San Joaquin Local Agency Formation Commission DOES HEREBY RESOLVE, DETERMINE, AND ORDER as follows:

Section 1. Certifies that the project is found to be exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15262 of the CEQA Guidelines.

Section 2. Adopts the model requiring that future annexations to the City of Tracy will detach from the Tracy Rural Fire Protection District.

Section 3. The Executive Officer is hereby authorized and directed to distribute copies of this Resolution to affected agencies and interested parties.

PASSED AND ADOPTED this 25th day of April 2019 by the following roll call votes:

AYES:

NOES:

PETER M. JOHNSON, Chairman
San Joaquin Local Agency
Formation Commission

MOTION

Moved by Commissioner _____, seconded by Commissioner _____ that the Executive Officer is hereby directed to seek proposals for professional consulting services related to the consequences and financial feasibility of continuing the option of no detachment of Tracy Rural upon annexation to the City of Tracy.



CITY of TRACY

FIRE DEPARTMENT

Terrell S. Estes
Fire Chief

May 14, 1996

Mr. Gerald F. Scott
Executive Officer
San Joaquin County
1860 East Hazelton Avenue
Stockton, CA 95205

RE: Annexations of Northeast Industrial and Elissagary

Dear Mr. Scott:

The City of Tracy has submitted two proposed annexations entitled "Northeast Industrial and Elissagary". These proposed annexations are requesting to remain within the boundaries of the Tracy Rural Fire Protection District.

The reason for this request is that the City of Tracy Fire Department and the Tracy Rural Fire Protection District are in final negotiations to consolidate. When consolidation does occur, the City of Tracy will relinquish fire protection responsibilities as well as their Fire Department employees to the Tracy Rural Fire Protection District under a contractual agreement. The new Fire District finance plan is based on new annexations not detaching from the Fire District for fire protection and property tax reasons. The District may continue with the "voter approved" tax override as well.

Both Fire Chiefs representing the City of Tracy Fire Department and the Tracy Rural Fire Protection District are in favor of this proposal. If you have any questions or concerns, please feel free to give one of us a call at your convenience.

Sincerely,


Terrell S. Estes
Fire Chief
City of Tracy Fire Department


Gene LeBlanc
Fire Chief
Tracy Rural Fire Protection District
(209) 835-1883

**Office of the County Administrator**

Monica Nino, County Administrator

Jerry Becker, Assistant County Administrator

April 15, 2019

James Glaser
Executive Officer
San Joaquin LAFCO
509 West Weber Avenue, Suite 420
Stockton, CA 95203

South San Joaquin County Fire Authority Governance Review

Dear Mr. Glaser:

This letter is in response to the Governance Review conducted by the South San Joaquin County Fire Authority dated December 26, 2018 regarding funding issues arising from annexations involving non-detachment.

In order to process annexation applications, State law requires that an agreement be in place between the requesting city and the county to specify how the existing property tax in the area to be annexed will be redistributed. Agreements can be negotiated individually for each annexation or a "master" agreement can be put into place to facilitate the approval process. In San Joaquin County, master agreements between the County and each of the cities have facilitated annexations since 1997. The City of Tracy entered into its most recent tax sharing agreement with San Joaquin County on November 20, 2012. Pursuant to the tax sharing agreement, for annexations that involve detachment from a fire district, reallocated property taxes are shared in the ratio of 80% for the County and 20% for the City. For annexations that do not involve detachment from a fire district, reallocated property taxes are shared in the ratio of 85% for the County and 15% for the City for consolidated fire districts established between June 15, 1996 and June 15, 2003. For consolidated fire districts established subsequent to June 15, 2003, reallocated property taxes are shared in the ratio of 90% for the County and 10% for the City.

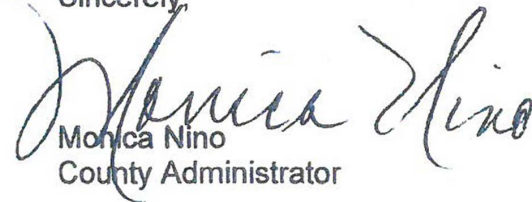
Since 1996, the City of Tracy has annexed twelve properties within its Sphere of Influence and the properties were annexed into the City without detachment from the Tracy Rural Fire District. The reason provided for not detaching from the fire district was that the City and Tracy Rural anticipated the formation of a consolidated district where the fire district would be responsible for fire protection service in both the City and the District, however, to date, this consolidation has not occurred per the terms of the agreement. Annexation without detachment has resulted in a significant loss of revenue for the County. Utilizing the time frame identified in the Governance Review between Fiscal Years (FY) 2019/20 through 2026/27, the San Joaquin County Auditor Controller's Office (ACO) identified County revenues would have increased by \$3.5 million in FY 2019/2020 and continued to increase to \$10.1 million in FY 2026/27, with a cumulative loss of potential revenue totaling \$55 million during the 2019/20 through 2026/27 fiscal year time frame. The ACO also calculated revenue loss that occurred in the past from

annexations utilizing the time frame of FY 2001/02 through 2018/19, which has resulted in a loss of revenue totaling \$19.2 million for the County. Combining both time frame periods, the County will have a cumulative loss of approximately \$74.2 million in revenue due to annexation without detachment for the twelve existing annexations.

The Governance Review identifies two future annexations that would be annexed without detaching from the District, the Avenues with 250 homes and Tracy Village with 575 homes. The County acknowledges that both the City and the County have increasing service responsibilities with restrained revenue resources and the County does not want to delay the processing of these annexations. However, the County encourages the City of Tracy to adhere to the same process as all other cities that provide fire service in the County (Stockton, Lodi, and Manteca) which is to perform annexation with detachment. Requiring future annexations to the City of Tracy to detach from the Tracy Rural Fire Protection District will ensure the County is provided necessary funding for increased demand on County services.

Thank you for your consideration. If you have any questions, I can be reached at (209) 468-3203 or by contacting Mo Hatef, Senior Deputy County Administrator at (209) 468-2996.

Sincerely,



Monica Nino
County Administrator

MN:MH:ag

c: Board of Supervisors
Auditor-Controller
Tad Neave, South San Joaquin County Fire Authority, City of Tracy

MN04-03



FIRE GOVERNANCE IMPLEMENTATION PLAN

August 16, 2013

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY	3
2. BACKGROUND	4
3. FIRE GOVERNANCE STEERING COMMITTEE PROCESS	4
4. FIRE GOVERNANCE OPTIONS	5
A. Option 1: Strengthen the Existing Joint Powers Authority	5
B. Option 2: Dissolve the SCFA and Form a New JPA.....	5
C. Option 3: Outsource/Contract Fire Services.....	6
D. Option 4: Annex the City into the District to Form One Regional Fire District	6
5. RECOMMENDED FIRE GOVERNANCE MODEL.....	7
6. FIRE GOVERNANCE IMPLEMENTATION APPROACH.....	7
7. FIRE GOVERNANCE IMPLEMENTATION SCHEDULE.....	8
8. MASTER ANNEXATION AGREEMENT.....	9
9. CONCLUSION	9
ATTACHMENT: County of San Joaquin & City of Tracy Agreement for Property Tax Allocation upon Annexation	9

SECTION 1: EXECUTIVE SUMMARY

On October, 2011, the San Joaquin County Local Area Formation Commission (LAFCo) requested that the South County Fire Authority (SCFA) Joint Powers Authority (JPA) evaluate its existing fire governance structure and develop an implementation plan that reflects recommended changes within an 18 month time period. The SCFA established a Fire Service Steering Committee to oversee the review process, which included analyzing various fire governance models and obtaining stakeholder and resident input.

The Fire Service Steering Committee identified and evaluated four governance options:

- Option 1: Strengthen the Existing Joint Powers Authority (JPA);
- Option 2: Dissolve Existing JPA & Form a New JPA;
- Option 3: Have Existing Entities Contract Directly with the City of Tracy (City); and
- Option 4: Annex the City into the Tracy Rural Fire Protection District (TRFPD) to Form One Regional Fire District

The Steering Committee determined that Options 2 and 3 were not feasible and recommended that steps be taken to implement Option 1, which involves strengthening the existing JPA structure. The Committee also recommended that the SCFA concurrently pursue Option 4 and explore the feasibility of forming one regional fire district. The recommended options were approved by the SCFA, Tracy City Council, and TRFPD and presented to LAFCo on July 19, 2013.

At the July 19, 2013 LAFCo meeting, the Commission requested that the SCFA provide additional information concerning its recommendations, including a comprehensive fiscal impact analysis of forming a regional fire district and further explanation of the governance options that were determined not feasible by the Steering Committee. However, after receiving correspondence from the San Joaquin County Administrator's office, along with a copy of the Master Annexation Agreement, Executive Director James Glaser informed the City at an August 1, 2013 meeting that initial concerns about the fiscal impact to the County were alleviated and additional analysis was no longer necessary. A copy of the Master Annexation Agreement is attached for the Commission's reference.

The following sections of this report reflect a revised fire governance implementation plan, discussing in more detail the feasibility approach, governance options and recommendations, and a preliminary review of fiscal impacts related to the proposed plan.

SECTION 2: BACKGROUND

The SCFA was created on September 16, 1999. Member agencies include the City, the TRFPD and Mountain House Community Services District (MHCS D) through a contract with TRFPD. This model has helped to streamline operations, resulting in reduced costs and increased purchasing power for equipment and fire apparatus.

The SCFA governance structure is made up of a Board of Directors, comprised of two members of the Tracy City Council and two members of the TRFPD Board. SCFA revenue is derived from the City of Tracy General Fund and funding from TRFPD and MHCS D. The City acts as the "Administering Agency;" the City Manager serves as the Executive Director and the City's Administrative Services Director acts as the Treasurer/Controller. All fire personnel are employees of the City and the SCFA contracts with City for personnel.

The SCFA is a consolidated fire service agency that operates under one set of policies and procedures led by one fire chief and administrative staff. Key efforts by this consolidated fire service agency to address current and future service needs include the development of the 2007 Standards of Cover report, which identifies the addition of resources/facilities necessary to maintain adequate resources throughout the service area as development occurs in the future. Additionally, the SCFA members have jointly funded a replacement station, Fire Station 92. Upon completion, the members will share the cost of staffing for the station. Fire Prevention services are provided by the SCFA to the entire service area.

At its October 2011 meeting, LAFCo requested that the SCFA to evaluate its fire services structure and explore the feasibility of implementing an alternative governance model. On July 19, 2013, LAFCo considered the SCFA's proposed Fire Governance Implementation Plan and requested that the plan expand its discussion on governance options and its recommended implementation approach and schedule. This Fire Governance Implementation Plan has been updated to address concerns and comments expressed at the July 19, 2013 Commission meeting.

SECTION 3: FIRE GOVERNANCE OVERSIGHT COMMITTEE PROCESS

A Fire Governance Steering Committee was formed to oversee the identification of fire governance model alternatives and was comprised of stakeholders including members of the public, SCFA, the City, and MHCS D, and fire personnel.

The following governance options were identified and evaluated by the Steering Committee:

- Option 1: Strengthen the Existing Joint Powers Authority (JPA);
- Option 2: Dissolve Existing JPA & Form a New JPA;
- Option 3: Have Existing Entities Contract Directly with the City of Tracy, and
- Option 4: Annex the City into the District to Form One Regional Fire District.

Three community workshops were held to discuss the governance options and to receive input from the public. Additionally, a Fire Department employee taskforce was formed to review the suggested governance options and identify concerns from fire personnel. Staff also met with the Interim County Administrator to obtain feedback about the proposed governance models and communicate on behalf of the County and Board of Supervisors.

SECTION 4: FIRE GOVERNANCE OPTIONS

Option 1: Strengthen the Existing Joint Powers Authority

The SCFA JPA was, organized in 1999 pursuant to California Government Code Sections 6500-6536. The JPA currently consists of two member agencies, the City and the TRFPD. The service area covered by the JPA includes the jurisdictional areas of the City, the adjacent rural areas, and MHCSD. Services are provided to MHCSD pursuant to a contract with TRFPD. The JPA is governed by a four member board of directors, two from each member agency. The City provides services through a contract with the SCFA. Costs, including indirect costs, are allocated through a formula based on the staffing needs within each member agency's jurisdictional area. Each member agency is responsible for the capital costs of replacement apparatus and major repair/renovation of facilities located within their respective jurisdictional boundaries.

The following is the cost allocation based on the Fiscal Year 2013/14 SCFA budget:

City of Tracy	TRFPD	MHCSD	Adopted FY 13/14 SCFA Budget
\$10M	\$4M	\$2.4M	\$16.5M

While several modifications ranging from the expansion of members to the establishment of a capital cost pool have been identified to strengthen the existing JPA, this option will require additional analysis. A feasibility study by a specialized consultant to further evaluate this option is recommended. This approach would ensure comprehensive evaluation of all applicable governance models, including a fiscal analysis of alternatives and best practices implementation approach and plan.

Option 2: Dissolve the SCFA and Form a New Joint Powers Authority

This option is allowed pursuant to California Administrative Code Sections 6500 – 6536. The new Joint Powers Authority would include the City, the TRFPD and the MHCSD. It would be governed by a Board of Directors, appointed by the City Council and Board of Directors of each member entity. A new contract and foundation documents would be developed, ensuring that the JPA is conducted as an independent body.

This option was not considered by the Fire Governance Steering Committee because it is duplicative of the existing governance structure from an operational and fiscal perspective. Additionally, it would create significant disruption to the organization, yet yield the same or similar results as Option 1 therefore this option will not be pursued.

Option 3: Outsource/Contract Fire Services

This option would require that the two member agencies negotiate a straight cash contract for services. All employees would be employed by the contractor. Ownership of facilities, apparatus, and equipment would be determined through the negotiation process.

This option was determined to not be viable because it does not meet the definition of consolidation and does not provide an opportunity for governance oversight or adequate representation for the contracting parties. More importantly, it does not resolve the concerns raised by LAFCo as part of its Municipal Services Review (MSR) of Fire Districts therefore this option will not be pursued.

Option 4: Annex the City into the Tracy Rural Fire Protection District

Annexations are subject to the Cortese-Knox-Hertzberg Local Government Reorganization Act and are subject to LAFCo procedures. The proceedings for annexation may be initiated by resolution of the affected local agency, the TRFPD in this case.

If the application proceeds, LAFCo will hold a public hearing and may either terminate the proceedings if a majority protest exists, order annexation subject to voter confirmation if the requisite number of protests are made, or order annexation without an election if the number of protests does not require an election.

All properties within the District's jurisdiction are subject to a benefit assessment based on the type of structure. Fire services would be funded through property tax and the benefit assessment. Residential and most commercial structures are assessed three cents per square foot in addition to the base property tax. The County, acting on behalf of the TRFPD, and the City would negotiate a property tax sharing agreement to determine the property tax to be transferred to the District.

Preliminary fiscal analysis revealed that the portion of the City of Tracy subject to annexation receives approximately nine million dollars as its share of secured property tax. While the City may negotiate a portion of this amount to be available for transfer to the District upon annexation, the City has not committed the entire nine million dollars for that purpose.

Like Option 1, given the complexity of this alternative, a consultant would need to conduct a comprehensive study to determine the operational and fiscal feasibility of annexing the City into the TRFPD. Therefore, a feasibility study by a specialized

consultant to further evaluate this option is recommended. This approach will ensure comprehensive evaluation of all applicable governance models, including a fiscal analysis of alternatives and a best practices implementation approach and plan.

SECTION 5: RECOMMENDED FIRE GOVERNANCE MODEL

In cooperation with the SCFA, City, and TRFPD, the Fire Governance Steering Committee recommended, that Options 1 and 4 be further evaluated. This proposal was presented to LAFCo for consideration on July 19, 2013.

Should this recommendation be accepted by LAFCo, the SCFA would engage a consultant experienced in conducting fire services consolidation feasibility studies to assess the JPA's existing structure and applicable implementation approaches, with an estimated timeframe for the option of annexing the City into the District.

SECTION 6: FIRE GOVERNANCE IMPLEMENTATION APPROACH

The City Council, the TRFPD Board of Directors and the SCFA Board of Directors recommend to LAFCo that the current governance structure be maintained while a regional stand-alone fire agency is further analyzed.

The City, the TRFPD and the SCFA plan to work with a consultant to complete a feasibility study of Options 1 and 4 listed above, pursuant to the Fire Services Steering Committee recommendations and the City Council's, the TRFPD Board of Directors' and the SCFA Board of Directors' concurrence. Additionally, while the consultant completes the feasibility study of Options 1 and 4, staff will also move forward with the following:

- Explore potential MHCSO membership in the SCFA;
- Explore adding one additional member to the SCFA Board of Directors. If the MHCSO becomes a member of the SCFA, that member could be one of the MHCSO Directors. If not, an at large member could be appointed by the SCFA Board of Directors;
- Work to establish a capital fund for apparatus replacement/repair and facility repair/replacement;
- Explore establishing the Fire Chief as Executive Director instead of the City Manager.

After completion of the feasibility study, identification of the various governance, fiscal and operational considerations, and the determination of an estimated timeframe for completion, either Option 1 or 4 will be pursued and an Implementation Plan and Schedule will be finalized.

To illustrate the anticipated complexity of the analysis required in obtaining sufficient information to determine the best service, governance, and fiscal model to pursue, several components to be considered have been identified. It is expected that the consultant will identify additional considerations inherent in Options 1 or 4, as the milestone are identified.

As an example, components that have already been identified include, but are not limited to, (1) determination of contract changes, (2) an employee transfer plan, (3) establishment of contracts for Human Resources and administrative services, (4) determination of a viable resolution to the District's current debt to the City, (currently resolved via a pre-paid services agreement); (5) resolution of ownership of existing assets, including resolution related to use and maintenance of facilities, apparatus, and equipment, and (6) determination of the amount of property tax sharing.

These critical components have been identified, and more will be noted after the consultant is on board. Additionally, staff recognizes that various factors (including the negotiation process, unforeseen annexation considerations, and involvement of various stakeholders, including LAFCo, San Joaquin County, the City, the TRFPD, and MHCS D) may impact estimated timelines.

SECTION 7: FIRE GOVERNANCE IMPLEMENTATION SCHEDULE

A consultant will be obtained to further evaluate Options 1 and 2 from a service, operational, fiscal, and legal standpoint. The goal is to obtain a clear understanding of all the requirements and milestones necessary and implications to various stakeholders before determining which Option to ultimately pursue. Staff plans to implement the four activities listed in the schedule simultaneously. Periodic updates on the implementation status will be provided to LAFCo and will continue until full implementation is realized.

Table 1: Fire Governance Implementation Schedule

ACTIVITY	DUE DATE
Contract Consultant for Feasibility Study	10/01/13
Explore MHCS D membership in the SCFA	10/17/13
Explore adding a member to the JPA Board of Directors	07/01/14
Work toward establishment of a capital fund for apparatus replacement/repair and facility repair/ replacement	07/01/15
Explore having the Fire Chief serve as the Executive Director instead of the City Manager	

**SECTION 8: MASTER ANNEXATION AGREEMENT REGARDING
DETACHMENT/NON-DETACHMENT FISCAL ISSUES**

The County and the City of Tracy currently have a Master Annexation Agreement that specifies the property tax allocation ratio with two annexation options that either 1) involve detachment from a fire district, or 2) do not involve detachment from a fire district. This Master Annexation agreement delineates different property tax sharing ratios between the County and the City.

Section 2 of the Agreement lists various property tax allocations that specify different property tax sharing ratio depending on:

- (1) When annexations involving detachment from a fire district occurred,
- (2) When annexations that do not involve detachment from a fire district occurred,
- (3) When the consolidated fire district was established/

This agreement also includes a specific provision for the Tracy 2003 Gateway annexation.

The agreement is attached for your reference (Attachment A: County of San Joaquin & City of Tracy Agreement for Property Tax Allocation upon Annexation). Per James Glaser, Executive Director, this Master Annexation Agreement satisfies fiscal concerns discussed at the July 19, 2013 LAFCo meeting.

SECTION 9: CONCLUSION

It is requested that LAFCo approve the Fire Governance Implementation Plan submitted by the South County Fire Authority. This action would demonstrate that LAFCo's direction to the South County Fire Authority and requirements of the Municipal Services Review (MSR) policy have been met.

It is also requested that the implementation language within the MSR listed below pertaining to the requirement of a plan regarding the governance model be deleted.

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

ATTACHMENT: County of San Joaquin & City of Tracy Agreement for Property Tax Allocation upon Annexation

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 be 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.

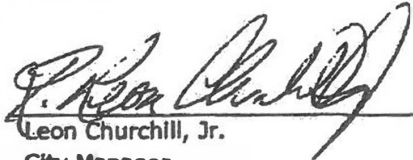
Time is of the essence of each and every provision hereof.

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

Approved as to Form



Daniel G. Sodergren
City Attorney




David Wooten
County Counsel

ATTEST: Sandra Edwards
City Clerk



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





**City of Tracy
Alternative Fire Governance Structures**

September 2014





September 18, 2014

Mr. Troy Brown
City Manager
City of Tracy
333 Civic Center Plaza
Tracy, CA 95376

Dear Mr. Brown:

Management Partners is pleased to transmit this 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 County Fire Protection District (Tracy Rural). The report also provides options for the City's consideration and discusses the governance implications and financial impacts at a threshold level associated with each one. Finally, the report lays out considerations for both the City and Tracy Rural as alternative strategies in response to the existing annexation policy are considered.

Sincerely,

A handwritten signature in blue ink, appearing to read "Andrew Belknap".

Andrew Belknap
Regional Vice President

Table of Contents

Executive Summary	1
Background	4
Fire Service Providers	4
<i>City of Tracy Fire Department</i>	4
<i>Tracy Rural Fire Protection District (Tracy Rural)</i>	5
<i>South County Fire Authority (SCFA)</i>	6
Annexation without Detachment	11
Municipal Services Review (October 2011)	13
Project Approach	17
Interviews	17
Document Review	18
Property Tax Analysis Methodology	18
<i>San Joaquin LAFCo Mitigation Fee Policy</i>	19
Alternative Fire Governance Structures	21
SCFA Budget and Tax Allocation Factors	21
<i>Tax Allocation Factors</i>	23
Alternative Fire Service Delivery and Governance Scenarios	24
<i>Scenario 1: No Change, Annexation without Detachment</i>	24
<i>Scenario 2: Annexation with Detachment</i>	25
<i>Scenario 3: City Annexation into Tracy Rural</i>	28
Sphere of Influence (SOI) Build-out Projections	31
<i>Financial and Governance Impact Summary</i>	36
Fire Service Delivery Alternatives and Considerations	37
General Considerations	37
Alternative Options	39
Possible Strategies	46
Conclusion	48
Appendix 1 – Property Tax Allocation Agreement	49
Appendix 2 – Tracy Sphere of Influence Map	50

Tables

Table 1.	City of Tracy Fire Department/SCFA Budget for FY 2013-14.....	9
Table 2.	SCFA Funding Sources in FY 2013-14	10
Table 3.	Estimated Future Expenses per Station.....	10
Table 4.	Annexed Areas by the City, but not Detached from Tracy Rural Since 1996	11
Table 5.	SCFA FY 2013-14 Budget Overview.....	22
Table 6.	Tracy Rural and City Fire Protection Service Fire Service Revenue Projections for FY 2013-14 22	
Table 7.	Tracy Rural’s FY 2013-14 Budget Overview	23
Table 8.	Scenario 1: FY 2013-14 Estimated Property Tax Revenue Based on Current Tax Allocation Factors (Annexation without Detachment)	24
Table 9.	Scenario 2: Estimated FY 2013-14 Property Tax Revenue under Annexation with Detachment	26
Table 10.	FY 2013-14 Property Tax Revenue Allocation Comparison under Scenarios 1 and 2 for Annexed Areas.....	27
Table 11.	Scenario 2: City and Tracy Rural FY 2013-14 Property Tax Revenue Impact.....	27
Table 12.	Fire Benefit Assessment Fee Impact under Scenario 3	29
Table 13.	Benefit Assessment Impact on Typical Properties in the City of Tracy	30
Table 14.	Build-out Potential of Annexed, but not Detached Properties.....	31
Table 15.	Scenario 1: Estimated Annual Additional Property Tax Revenue from Potential Build-out in 10 Years	34
Table 16.	Scenario 2: Estimated Annual Additional Property Tax Revenue from Potential Build-out in 10 Years	34
Table 17.	Estimated Annual Additional Property Tax Revenue Summary from 10 Year Projected Build-out	35
Table 18.	Estimated Total Property Tax Revenue, including Existing Property Tax from 10 Year Build-out	35

Figures

Figure 1. Current Fire Governance Structure.....	2
Figure 2. Fire Protection Service Structure	8
Figure 3. Property Tax and Governance Impacts of Three Scenarios Following 10-Year Build-Out	36
Figure 4. Fire Governance Structure Under Scenario 1.....	40
Figure 5. Fire Protection Service Structure Under Scenario 1.....	41
Figure 6. Fire Governance Structure Under Scenario 2.....	42
Figure 7. Fire Protection Service Structure Under Scenario 2.....	43
Figure 8. Fire Governance Structure Under Scenario 3.....	44
Figure 9. Fire Protection Service Structure Under Scenario 3 (Option 1)	45
Figure 10. Fire Protection Service Structure Under Scenario 3 (Option 2)	45
Figure 11. Fire Protection Service Structure Under Scenario 3 (Option 3).....	45

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 County Fire Protection District (Tracy Rural or District) 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.

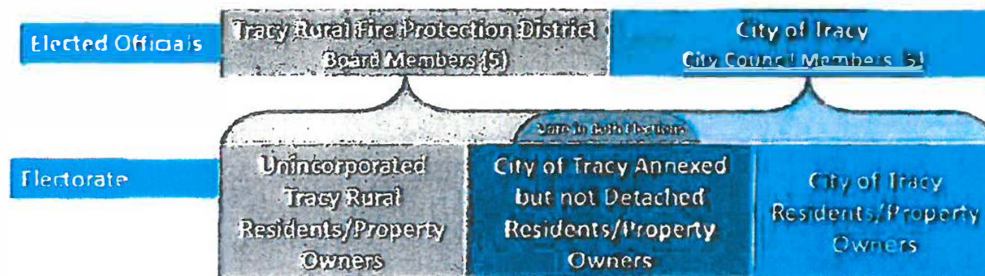
Established on September 7, 1999, the SCFA resulted from an agreement between the City of Tracy and Tracy Rural for the joint exercise of powers to provide fire protection services within the Authority's jurisdictional area by contracting for such services with the City of Tracy. The SCFA entered into 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.) According to San Joaquin LAFCo staff (Executive Officer's Report dated July 19, 2013), the record indicates that the reason provided for not detaching from Tracy Rural was because the City and Tracy Rural anticipated the formation of a consolidated district whereby Tracy Rural would be responsive for fire protection service to the City and District. While this may have been the original intent, such a consolidation has not yet occurred. The current no-detachment policy sustains Tracy Rural's property tax and fire benefit

assessment fee revenue sources, which in turn have been an important revenue source to the SCFA's ability to provide the current level of fire protection services enjoyed by residents today.

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 1264:

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 adopted Resolution 1299 to allow 24 months to complete the study. Management Partners was subsequently retained by the City of Tracy to analyze the property tax, fiscal implications at a threshold level 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 and budget analysis for a truly consolidated operation was beyond the scope of this project. Further analysis would be required before full implementation of any alternative option or strategies to the existing no detachment policy. The report also provides a discussion of the major issues that both Tracy Rural and the City should 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.

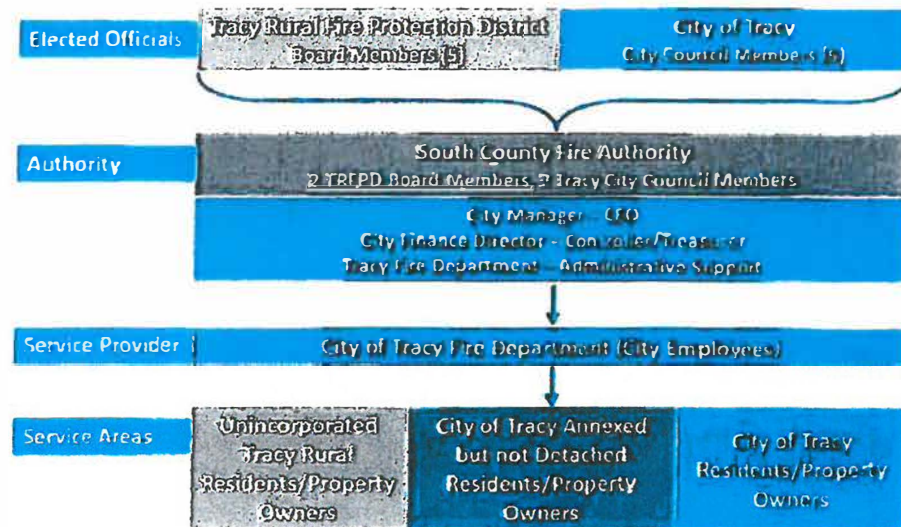
The Authority is prohibited from hiring employees or owning real and/or personal property except under specified conditions.

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)	Acres	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
Fillos-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. A July 19, 2013 staff report from the Executive Officer to the San Joaquin LAFCo, stated the following:

The record shows that the reason given for not detaching from the Tracy Rural FPD was that the City and the District anticipated the formation of a consolidated district whereby the City of Tracy would relinquish its authority to provide fire services and allow Tracy Rural FPD to be responsible for fire protection service for the City and District.

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.

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:

LAFCo's 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:

LAFCo's 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 were:

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, on October 21, 2011 the Commission adopted the following strategy in Resolution 1264:

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.

An Ad Hoc Committee of the Commission met with the City of Tracy and Tracy Rural in August 2011 to discuss the issues. City representatives requested an opportunity to perform a study regarding reorganization stating that about 18 months would be needed to complete it. 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 an 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. At its August 16 meeting, the Commission amended Resolution 1264 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 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
Elssagaray	\$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
Souчек	\$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
Filos 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.” The SCFA, a JPA, is technically the operational authority responsible for the delivery of fire 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. (Note: LAFCo cannot independently cause or initiate a detachment.)

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%
Fillos 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)	Increase/Decrease
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	Increase/Decrease
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 decrease 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 decrease of \$778,000 in revenue to support fire protection services. While these properties would no longer be part of Tracy Rural, as a partner in the JPA, Tracy Rural remains a fiscal partner in the delivery of service. 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 areas 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. 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 that the SCFA, or a JPA with some amendments to its authorities, could 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. All such revenue would flow directly to Tracy Rural as the governmental agency imposing the fee.

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 Foot	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 (likely) 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. Under this scenario, there is no change in property tax paid by City property owners except for the addition of the Fire Benefit Assessment (flat fee); rather, under a tax reallocation agreement, where a portion of the City's existing property tax goes would change.

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 14 is a summary of the information provided by City staff.

Table 14. 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

Annexation (Date)	Acreage	Development Status Upon Annexation	Current Development Status	Build out Development Potential
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.
Souчек (07/1998)	60	1 SFR, agricultural lands.	No change	Designated residential (approximately 250-350 SFRs) under the General Plan.
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 15 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 18.

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 15. Scenario 1: Estimated Annual 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
Souchek	\$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
Fillos-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 16, 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 16. Scenario 2: Estimated Annual Additional Property Tax Revenue from Potential Build-out in 10 Years

Property	Assessed Value 10 Year Projection	Property Tax	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
Souchek	\$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
Fillos-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

Property	Assessed Value 10 Year Projection	Property Tax ¹	County Revenue Share	City Revenue Share
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's would decrease by an estimated \$6.1 million in annual property tax revenue. Table 17 summarizes the varying levels of property tax revenue in the different scenarios.

Table 17. Estimated Annual Additional Property Tax Revenue Summary from 10 Year Projected Build-out

Agency	Scenario 1	Scenario 2	Difference
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 18 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 18. 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 through a modification of the City's share under current agreements.
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 operations, service and the budget as they are ultimately responsible for revenues and expenditures.

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. If fire staff remained employees of the City, the City would be the responsible agency for purposes of collective bargaining. The Tracy Rural Board; however, as the policy body responsible for the delivery of fire protection services and associated costs, would be responsible for the District budget. 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

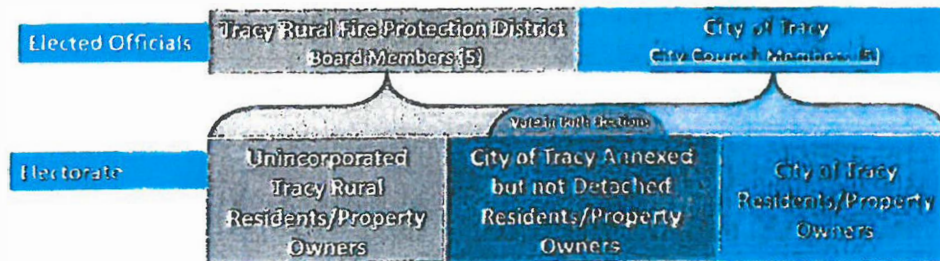
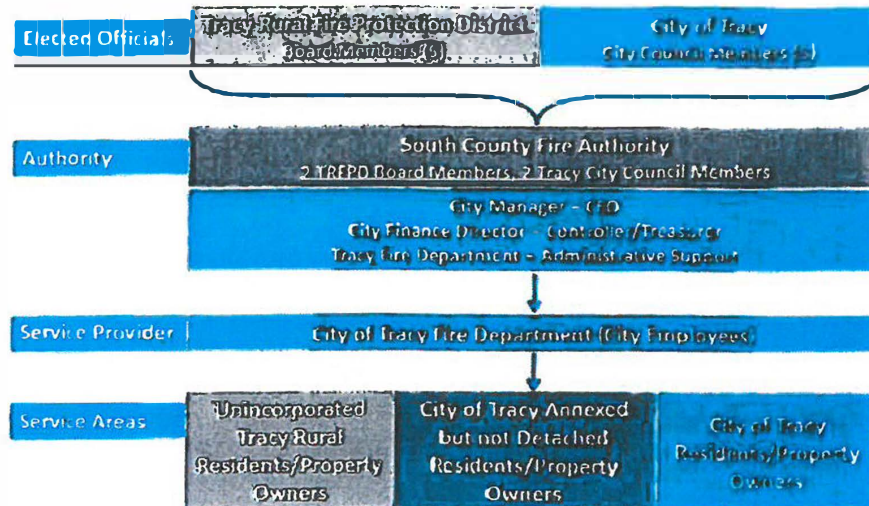


Figure 5 provides a description of the fire service structure under Scenario 1, which is the same structure described earlier in this report.

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

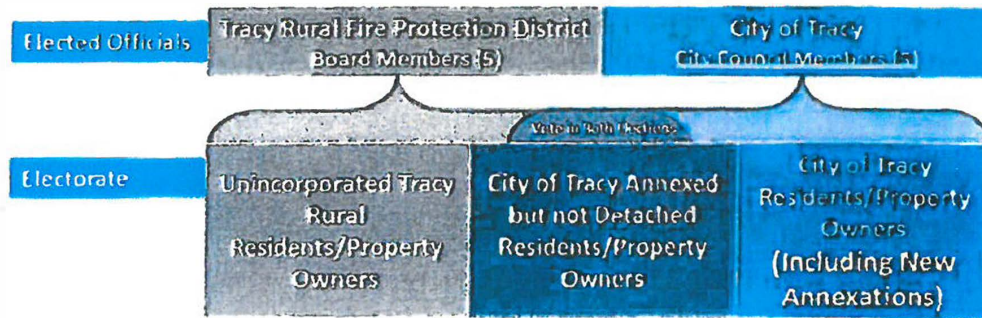
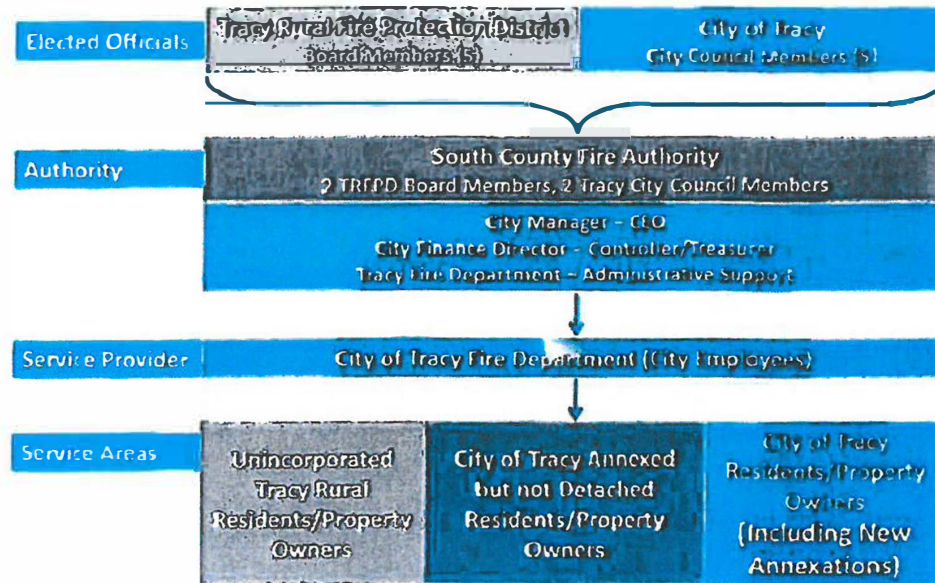


Figure 7 provides a description of the likely fire service structure under Scenario 2.

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)

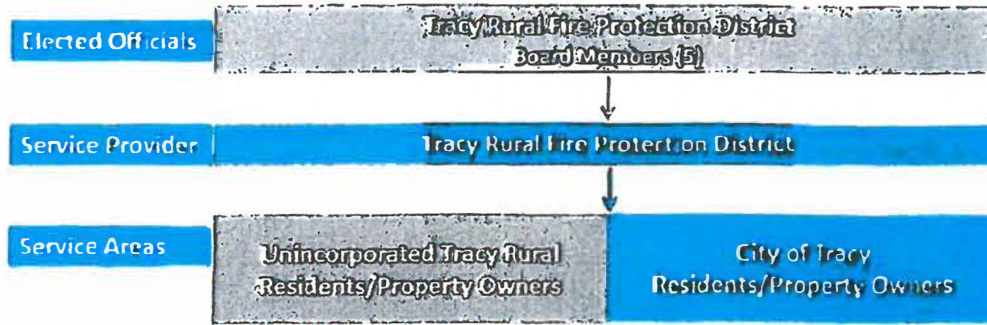


Figure 10. Fire Protection Service Structure Under Scenario 3 (Option 2)

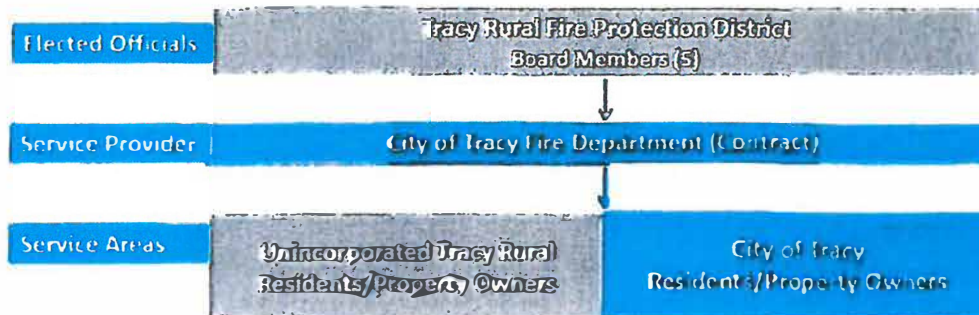
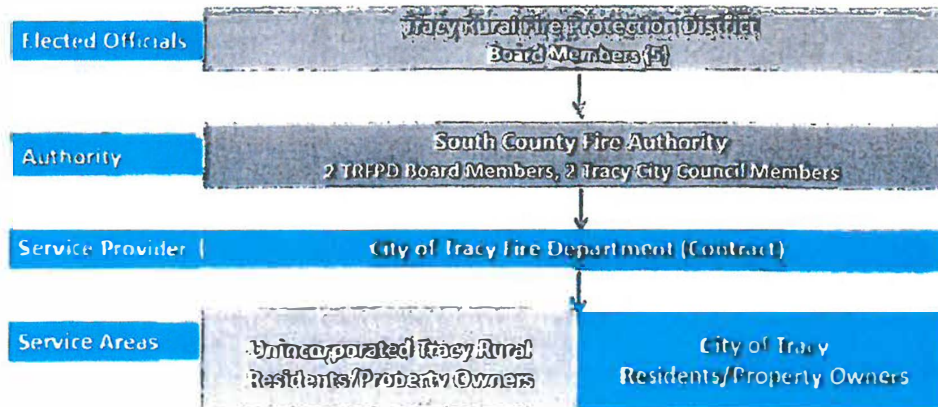


Figure 11. Fire Protection Service Structure Under Scenario 3 (Option 3)



Possible Strategies

The issues and choices are complex. An approach or agreed upon strategy depends, in part, on whether the objective is to ensure fire service delivery and governance is provided within an urban or municipal setting by one jurisdiction, or achieve financial stability for the SCFA and the residents it serves, although they are not at all mutually exclusive. Management Partners believes the City and Tracy Rural 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 consensus 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. 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 and this is typically what occurs unless the service is provided by another governmental agency or district. 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 over the long term. 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. Tracy Rural's financial obligations to the SCFA, though, continue to be a challenge for the District. 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.

Restructuring the SCFA may provide opportunities to address some of the operational and financial interests of Tracy Rural, but it will not address the current annexation policy. Another path to address long term operational and financial sustainability as well as the annexation policy may be annexation of the City into Tracy Rural. Under this approach, Tracy Rural may be able to sustain a reliable revenue stream and provide the level of service that the residents of incorporated and unincorporated area have come to rely upon.

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 would then be addressed on a district-wide basis regardless of municipal boundaries. The County would not benefit from any Tracy Rural property tax redistribution under this plan.

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 5,100 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.

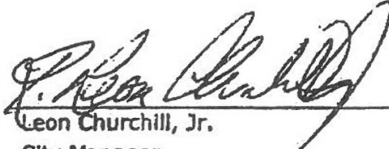
Time is of the essence of each and every provision hereof.

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

Approved as to Form

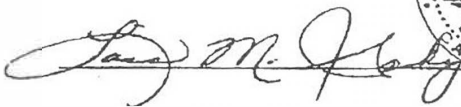



Daniel G. Sodergren
City Attorney

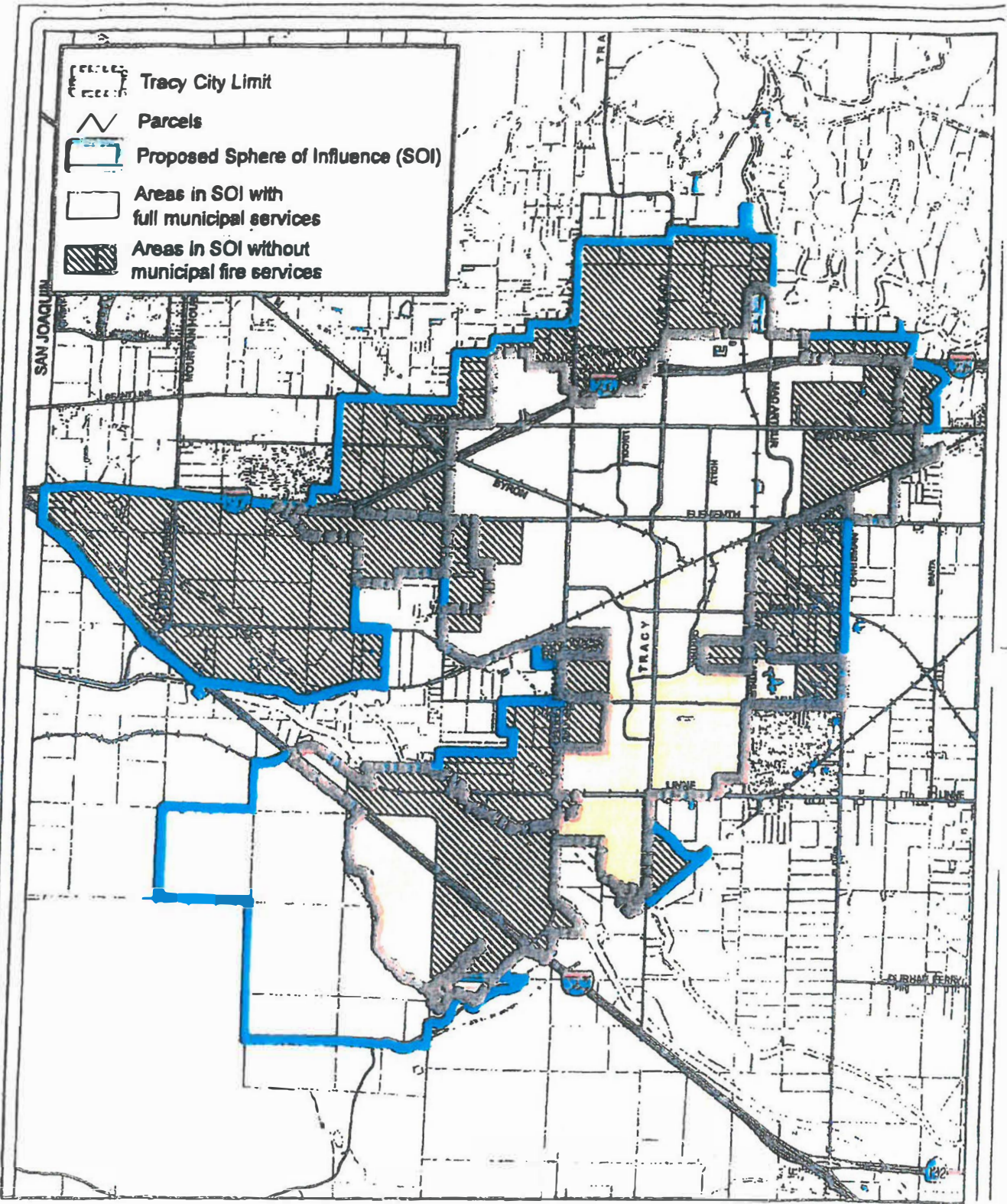


David Wooten
County Counsel

ATTEST: Sandra Edwards
City Clerk


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

_____ 

Appendix 2 – Tracy Sphere of Influence Map



PROPOSED TRACY SPHERE OF INFLUENCE

San Joaquin County Geographic Information Systems
 1810 Earl Warren Avenue, Stockton, CA 95215
The information on this map is based on the most current information available to the Geographic Information Systems Department.
 The information on this map is not intended to be used for legal purposes.
 The information on this map is not intended to be used for legal purposes.



July 4, 2000 GIS-100

SOUTH SAN JOAQUIN COUNTY FIRE AUTHORITY



Governance Review

A Review of Governance Transition and Evaluated Options
of the South San Joaquin County Fire Authority

Randall Bradley

Updated December 26, 2018

TABLE OF CONTENTS

EXECUTIVE SUMMARY 3

BACKGROUND..... 5

 Citizen’s Advisory Committee..... 5

 Creation of the South County Fire Authority 6

TRACY RURAL FIRE DISTRICT GOVERNANCE CONCERNS (Driver 1)..... 8

LAFCO GOVERNANCE CONCERNS (Driver 2)..... 8

 Fire Service Governance Oversight Committee..... 9

 Management Partners Report..... 10

 Table 1-Annexation with detachment impact..... 10

 Table 2-Annexation of the City into the District impact..... 11

SCFA EXPANSION POTENTIAL (Driver 3) 12

ANNEXATION WITHOUT DETACHMENT AND TAX SHARING AGREEMENT 12

GOVERNANCE OPTIONS 15

 Table 3-Housing assumptions..... 16

 Table 4-Housing price and size assumptions..... 17

 Table 5-Commercial assumptions-industrial (in million square feet)..... 17

 Table 6-Commercial assumptions-retail (in thousand square feet)..... 17

 Table 7-Commercial assumptions-office (in thousand square feet)..... 17

 Table 8-Commercial price per square foot assumptions 17

 Option 1-City of Tracy Detach from the Tracy Rural Fire Protection District 17

Service Level Impacts (Option 1)..... 18

Fiscal Impacts (Option 1): 18

 Table 9-Option 1-City Detach from the District..... 19

 Option 2-The City of Tracy Annex into the Tracy Rural Fire Protection District 19

Service Level Impacts (Option 2)..... 20

Fiscal Impacts (Option 2) 20

 Table 10-Option 2-City of Tracy Annex into the District..... 21

 Option 3-Reconstitute and Strengthen the Current JPA 22

 Figure 1-Map of South County Fire Authority 24

 24

Maintain or Improve Service Levels (Option 3) 25

<i>Fiscal Impacts (Option 3)</i>	25
Table 11-Option 3-Tracy Rural Fire District Projected Annual Revenues and Expenditures	27
Table 12-Option 3-JPA Projected Annual Expenditures	27
Table 13-Option 3-Future properties detach	28
<i>Fire Station Funding/Staffing and Ownership</i>	28
<i>Station 94 (IPC)</i>	28
<i>Station 95 (Tracy Hills)</i>	29
<i>Station 97 (Valpico)</i>	29
<i>Station 99 (Ellis/Avenues at Valpico)</i>	30
Table 14-Model Implementation Plan Status	31
Status of LAFCO Concerns	33
Table 15-LAFCO Concern Status	34
REFERENCES	35
ATTACHMENTS	35

EXECUTIVE SUMMARY

In February 2018, the City of Tracy (City) and the Tracy Rural Fire District (District) dissolved the South County Fire Authority (SCFA) through a dissolution agreement and entered into a new agreement that formed the South San Joaquin County Fire Authority. Since the formation of the original fire authority, three things occurred that prompted a reevaluation and the formation of a new governance:

- The District Board was concerned that they did not have the desired authority over fire protection policies and did not participate in financial, administrative and operational policy development, and approval and implementation for fire protection programs within their District boundaries. There were some discussions about dissolving the JPA and detaching from the City.
- In 2011, the San Joaquin Local Agency Formation Commission (LAFCO) conducted a Fire Service Municipal Service Review (MSR) of the District and expressed concerns about property not detaching from the District when annexations occur. Their concerns were focused on two primary areas: 1) A loss of revenue to the County due to their inability to impose a tax sharing agreement (taking part of the ad valorem tax generated by the District) when detachment does not occur; 2) A concern that the City is not providing full municipal services to its residents.
- An inability for the previous JPA to expand to include additional agencies and realize additional economies of scale.

In 2017, staff of the South County Fire Authority conducted a study to evaluate different fire governance options that would address concerns from the District Board and LAFCO and could also include additional agencies in the future. The study evaluated three primary options:

- Option 1-City of Tracy detach from the Tracy Rural Fire Protection District
- Option 2-The City of Tracy annex into the Tracy Rural Fire Protection District
- Option 3 Reconstitute and strengthen the current JPA

Staff utilized information from the study to develop a recommendation for the City and the District to approve Option 3 - Reconstitute and Strengthen the Current JPA. In February 2018, the City Council and the District Board approved the new JPA and it was successfully implemented on July 1, 2018. At the request of LAFCO's Executive

Officer an updated version of the study is being provided to City Council and the District Board for acceptance and approval. The study includes a status of the new JPA's implementation plan.

Option 1 - City detach from the District. The challenge with this model was the financial impact on the City and the District. The fiscal analysis assumed the existing County and City Tax Sharing Agreement (80% County 20% City) would apply when dividing District revenues after detachment. The City's 20 percent allocation would not cover the cost of providing fire protection in the area that would detach from the District. In the first year (FY 2019/20), there would be a \$3,044,021 shortfall that would require the City to utilize general operating funds. To keep the same service levels, the City would be required to increase General Fund expenditures annually in FY 2026/27 by \$8,640,314 with a cumulative General Fund augmentation of \$50,080,296 through FY 2026/27. During the same time frame, County revenues would increase \$2,592,421 in FY 2019/20 and continue to increase to \$7,165,906 in FY 2026/27 with a cumulative increased allocation of \$40,773,395. During the same time frame, the District would lose \$51,707,830 in revenues but would no longer be required to provide fire protection in the areas that were annexed and not detached. The District's special tax (.03 cents per sq. ft.) would be discontinued within the City boundaries and would create a cumulative revenue loss of \$10,934,434 through FY 2026/27.

Option 2 - City annex into the District. The challenge with this model would be the City's willingness to give up control of fire protection and 63% (\$13.8 Million of \$22 Million) of their property taxes. Under the JPA, the City Council continues to have significant authority over fiscal resources and service level determinations for fire protection within the core city that remains outside of the District. The model would also increase City property taxes (.03 per sq. ft.) without requiring a vote of the tax payers.

Option 3 - Reconstitute and strengthen the current JPA. This model was chosen and implemented based on the following considerations:

- The model only requires the approval of the two governing bodies (and the Secretary of State).
- The model provides the City with continued control over the City's budget and service levels in the core City areas.
- The model ensures the long term fiscal sustainability of the District.
- The model addressed the District's concern over a lack of authority over financial and administrative policies that impact fire protection within their jurisdiction.
- The model protects fire protection revenues from being reallocated from the District to the County.

- The model is reversible. At a later date, the Council could decide to operate a municipal fire department and the District could return to providing services as a Fire District.
- The JPA Board will have the authority to negotiate fire protection impacts with developers. This can be done through the City, but having an independent fire agency at the table always benefits the local government agency.
- There will be no confusion over who is the Authority Having Jurisdiction (AHJ) for fire protection matters. Fire protection authorities have been delegated to the JPA by both member agencies.
- This model is expandable. Other agencies could join and increase efficiencies which results in lower costs to the member agencies. The Lathrop-Manteca Fire District and Mountain House Community Services District have expressed an interest in joining the newly formed JPA.
- The new JPA eliminates additional agreements and amendments that were adopted under the previous JPA. The amendments were difficult to interpret, implement, and track. The Smoothing Agreement, the Pre-Paid Service Agreement (Amendments 4 and 6), and the Supplemental Services Agreement (Amendment 3) have all been eliminated and replaced with an intuitive, fair, and equitable cost allocation model.
- The model addresses many LAFCO concerns.
- The phased approach allows the new JPA to pursue additional model elements and to potentially migrate to a full fire District.

BACKGROUND

In the mid 1990's, the City of Tracy began to experience unprecedented growth and started the process of annexing properties into the city limits. As the City began to grow through annexations and the building of residential, commercial, and industrial occupancies, it became apparent that the annexation process would have a negative impact on the funding for fire protection services in the City and in the Tracy Rural Fire District. The primary impact was a requirement that the City enter into a tax sharing agreement with the County to reallocate Tracy Rural Fire District's property tax revenues to the County for non-fire protection services. This realization prompted staff from both the City and the District to evaluate the consolidation of the two agencies to preserve fire protection tax dollars and to maintain fire protection services in both jurisdictions.

Citizen's Advisory Committee

In 1996, a Citizen's Advisory Committee was formed to evaluate proposals for the consolidation of the City of Tracy Fire Department and the Tracy Rural Fire Protection

District. The committee utilized the services of Shannon, Davis & Associates and David Tausig & Associates to assist the committee in evaluating the proposal and to develop a report with final recommendations. The report "Fire Service Consolidation Assessment for the City of Tracy (City) and the Tracy Rural Fire Protection District (District)" was issued in July 1997 with the following summary of the committee's conclusions:

- It is in the long term interest of the City and District to merge the two agencies into one fire protection organization.
- The most effective method for achieving the proposed consolidation is a contractual service arrangement between the City and the District which results in complete consolidation of all fire suppression, prevention, and general management forces of the two departments.
- The Fire District will experience extraordinary cost increases when the departments are combined. This will occur due to the need to establish a single wage and benefit plan. As a result, District revenues are projected to not meet the District's actual expenditures during the first three years of the combined department. This is a temporary, start-up condition that will be corrected by the fourth year when Plan C revenue is adequate to balance total cost and income. This condition should also be balanced against the fact that there will be significant permanent annual losses of revenue under the existing tax sharing policies if areas are annexed by the City, and in the future are detached from the District.
- The Fire Chiefs from the City and the District need to develop a specific implementation plan for consideration and action by the City Council and District Board.
- There should be one pay and benefit plan that equally and fairly applies to all employees once the consolidation occurs.

Creation of the South County Fire Authority

Based on the Citizen's Advisory Committee's report, in 1999 the City and the District entered into a Joint Powers Agreement (JPA) that formed the South County Fire Authority (SCFA). On the same date, SCFA contracted with the City to provide fire protection services within the jurisdictional boundaries of the newly created SCFA (City and District jurisdictional boundaries). The SCFA was formed to accomplish the following goals:

- To improve fire protection services within the region through improved efficiencies by the elimination of redundant administrative and operational services.

- To limit the impact of annexations to the residents that live in the unincorporated areas.
- To maintain the District ad valorem property tax allocation increment (11% of each property tax dollar) and the special fire tax (.03 per square foot) in areas that are annexed into the City.
- To develop a regional model that could further improve efficiencies and service levels by expanding and including other fire agencies in South San Joaquin County.

These goals were partially achieved through the following administrative agreements between the City and the District:

- Future City annexations would not detach from the District.
- All employees would work for the City and redundant administrative and management staff would be eliminated through attrition which would increase efficiencies and overall service levels.
- The City would provide administrative services (Human Resources, Budget/Finance/Risk Management, and Legal) to SCFA.
- The City would fund any District financial shortfalls (with a Reimbursement Agreement) until revenues increased to sustainable funding levels through the annexation and development of land that would remain in the District.
- The City's City Manager would serve as the Chief Executive Officer of the JPA.

The SCFA governance was created with an initial limited scope, power, and authority. Two Tracy City Council Members and two District Board Members made up the SCFA Board of Directors. The role of the SCFA Board was limited due to the belief that the City was in a better position to provide services to the residents and property owners that were in the newly created agency and that the District lacked the resources to provide oversight to the new, larger organization. The SCFA Board was only required to meet once a year (it chose to meet quarterly), the new agency was prohibited from having employees and could not own property.

Since the formation of the SCFA three things have occurred that have prompted a reevaluation of SCFA's current governance (JPA): 1) Tracy Rural Fire District's concern about Governance; 2) Concerns identified by the San Joaquin Local Agency Formation Commission's (LAFCO) 2011 Municipal Service Review (MSR); and 3) SCFA's inability to expand to include additional agencies to obtain improved service levels through greater efficiencies. This was realized through the recent decision by Mountain House to withdraw from contracting with SCFA.

TRACY RURAL FIRE DISTRICT GOVERNANCE CONCERNS (Driver 1)

The primary driver for evaluating and implementing a new fire governance were the Fire District concerns with the previous model. These concerns led to the consideration of dissolving the JPA, which would result in a significant loss of tax revenues and service levels. The District Board was concerned that they did not have the desired authority over fire protection policies and did not participate in financial, administrative and operational policy development, as well as approval and implementation for fire protection programs within their District boundaries. Under the previous model, the District's Board authority was limited to budget approval and budget allocations for capital expenditures and maintenance of facilities within their District. Policy development, collective bargaining, personnel management, risk management, selection of a Fire Chief, and service level determinations were the responsibility of the City. The Chief Executive Officer for the JPA was the Tracy City Manager. This in turn impacted the District Board's ability to fulfill their fiduciary responsibilities to their constituents as elected officials of the District.

These concerns were further exacerbated by an early recognition that the District would not initially have the financial resources to maintain current service levels under the JPA. This was primarily due to the increase in personnel costs to the District based on District employees becoming City employees with greater pay and benefits. The JPA included a provision that allowed the City to partially fund the District deficit until annexations (without detachment) occurred to the level that allowed the District to maintain service levels and to begin repaying the accrued debt to the City. Initially, based on assumed growth and annexation expectations it was estimated that the revenue deficit would last approximately 18 months. Due to the passing of a limited growth initiative and a downturn in the housing market, the District's revenue deficit lasted nine years and the debt to the City grew from \$500,000 to in excess of \$6 million.

Another District concern was the previous cost allocation model. There have been six amendments to the JPA and the allocations have been blended with debt repayment and adding an additional fire company utilizing overtime (Supplemental Services Amendment). While the District agreed to each of the amendments as they were presented, the six amendments in their totality became convoluted and confusing and subject to discussion and debate.

LAFCO GOVERNANCE CONCERNS (Driver 2)

The second driver for governance evaluation was the San Joaquin Local Agency Formation Commission's (LAFCO) governance concerns. In 2011, LAFCO conducted a Fire Service Municipal Service Review (MSR) of the District and expressed concerns about property not detaching from the District when annexations occur. Their concerns

were focused on two primary areas:

- 1) A loss of revenue to the County due to their inability to impose a tax sharing agreement (taking part of the ad valorem tax generated by TRFD) when detachment does not occur.
- 2) A concern that the City is not providing full municipal services to its residents.

The City and the District were given until April 2013 (18 months from October 2011) to: *“Complete a plan regarding the governance model for Tracy City Fire Department and TRFD within 18 months subject to the approval of LAFCO. All subsequent annexation requests shall be consistent with the approved plan.”*

Fire Service Governance Oversight Committee

To address LAFCO concerns, in January 2013 the Fire Department established a Fire Service Governance Oversight Committee that was tasked with evaluating different governance models. This committee was tasked with making a recommendation to both governing agencies (Tracy City Council and the Tracy Rural Fire District Board of Directors) and to LAFCO. The committee ultimately recommended that the current JPA be strengthened with a commitment to transition to a full standalone fire agency by:

- 1) The City of Tracy annexing into the Tracy Rural Fire District or,
- 2) Further strengthening the JPA by creating a standalone agency with employees and operational and administrative oversight by the JPA Board.

This recommendation and the two choices were presented to LAFCO in July 2013 in the form of a report. No action was taken by LAFCO during the July meeting but the Executive Officer of LAFCO provided the following concerns to the Commission:

- Only focused on the alternatives selected by the committee.
- Needed to include a discussion of the alternatives which were rejected and for what reasons.
- A fiscal analysis as to the impact on the County needs to be conducted.
- The alternative that includes a traditional detachment from the District needs to be explored.
- A “move to full autonomy” is not possible under a Joint Powers Agreement.
- Report needs to explore the legal basis and process to relinquish fire service by the City and the financial feasibility of such action.
- Need to address the precedent this may set for other fire districts.

At the August 2013 LAFCO meeting, the Commissioners debated on whether to accept the report and consider the LAFCO request met, or reject the report and provide the

City and District another six months to address the concerns listed by the Executive Officer. On a split vote, and contrary to the Administrative Officer's recommendation for the City to detach from the District in future annexations, the Commission provided an additional six months for the City/District to address the concerns listed above. (Two Commissioners voted to accept the report, an action if adopted, would have resolved the issue).

Management Partners Report

In response to LAFCO's request, the City issued a Request for Proposals (RFP) for a consultant to help address LAFCO's concerns. The contract was awarded to Management Partners. Management Partners conducted a study that focused primarily on the financial implications of three governance scenarios: 1) No change; 2) Annexation with Detachment; 3) Annexation of the City of Tracy into the Tracy Rural Fire District. A synopsis of these scenarios is outlined below.

Scenario 1: No change, annexation without detachment. This represents the current condition where all 12 areas annexed by the City since 1996 have been annexed by the City but not detached from the District. The report states there would be no financial implications for members of SCFA.

The report identified Governance concerns that were similar to the concerns that LAFCO identified in the 2011 Municipal Service Review that was the nexus for the Management Partners Report: 1) JPA's are normally between two government agencies without overlapping boundaries for the common delivery of that service; 2) LAFCO "favors the provisions of services by a municipality over a single-service-district;" 3) 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. Based on the Management Partners assumptions, the following property tax impact is based on a 2012 property tax share agreement of 80% County and 20% City for property taxes the District currently receives and would be redistributed if the City detached from the District as identified in Table 1.

Table 1-Annexation with detachment impact

Agency	Scenario 1 Current	Scenario 2 Detachment	Gain/Loss
County	\$1,927,890	\$2,706,256	\$778,367
City	\$580,838	\$788,652	\$207,814
District	\$986,181	0	-\$986,181

Source: Management Partners Report

The Management Partner's report states that the governance concerns listed above would be addressed because there would no longer be an overlap and City residents and property owners would no longer be allowed to vote for or be represented by the Board of Directors of the District.

Scenario 3: Annexation of the City of Tracy into the Tracy Rural Fire District. The Management Partner's report provided the following financial impacts (Table 2) based on the SCFA 2013/14 budget year:

Table 2-Annexation of the City into the District impact

Revenue	District Current	District Scenario 3	City FY13/14	City Scenario 3
General Fund			\$9,052,090*	\$7,042,090
Property Tax	\$3,745,000	\$3,745,000		
Special Tax (.03)	\$1,007,518	\$3,017,518		\$2,010,000

*City property tax, sales tax and other revenues

The Management Partner's Report also contended that Scenario 3 would address the governance concerns that were identified by LAFCO due to the elimination of multiple political entities and a potential reconstituted Director representation that included the City of Tracy.

In July 2014, the Management Partner's report was submitted to the City Council, District's Board of Directors and LAFCO for review. A joint workshop between the City Council and the District's Board of Directors was scheduled in September to discuss the findings and the recommendations. Only two members of the District Board attended (no quorum) the workshop and the City Council voted to send the study to LAFCO without the recommendation or an implementation plan (LAFCO already had the report with the recommendations).

At the October 9, 2014 LAFCO meeting, the LAFCO Executive Officer recommended that the report be returned to the City and to set a policy that all future annexations would require detachment. This recommendation was based on the lack of a recommendation from the City and the District and a lack of a plan for implementation of a new governance model.

At the December 10, 2015 LAFCO meeting, City staff provided LAFCO with an update on the City and the District's progress towards providing the Commission with a governance recommendation and an implementation plan. LAFCO voted to provide the City and the District with additional time (six months) to address the governance concerns and to provide an implementation plan.

SCFA EXPANSION POTENTIAL (Driver 3)

The third driver for the governance evaluation was to determine if a different model would be more conducive to expansion to include additional fire agencies. A year after the SCFA was formed, Mountain House Community Services District (MHCS D) contracted with the Tracy Rural Fire District to provide fire protection to the newly formed and evolving community on the eastern edge of San Joaquin County. The contract was between the two agencies through a negotiated agreement that occurred when MHCS D was being formed with an expectation that the new community would detach from the Tracy Rural Fire District (for flexibility with property taxes). The District agreed to the detachment if they were afforded the opportunity to provide fire protection to Mountain House and if they were granted title to the fire station that was built by the Mountain House developer. The agreement came to fruition after the SCFA was formed but was an independent contract with the District (SCFA or City of Tracy were not included). Because the District was then part of the SCFA, the City of Tracy actually provided the fire protection for MHCS D through the contract to provide fire protection to the SCFA. In 2015, Mountain House decided to issue a Request for Proposal (RFP) for fire protection due to the following expressed concerns:

- They were not a member of the JPA and could not influence policy.
- They were paying for more than their pro-rata share of services.
- They wanted greater control over expenditures.
- They wanted their Fire Department to reflect their community identity.

After a contentious review and selection process, the Board of the MHCS D chose French Camp Fire District (almost 20 miles to the northeast) as their new Fire Protection contractor. Not having governance that allowed for Mountain House participation on the Board, not having the organizational dexterity and not having clearly defined roles and responsibilities (City Manager, Fire Chief, Tracy Rural Board, SCFA) limited the City, District and JPA's ability to effect productive negotiations that could have maintained the Mountain House contract. Rather than having governance that is designed to grow and become more efficient, the current governance actually had the inverse effect and was a root cause for the loss of efficiencies through the loss of a key stake-holder and fire protection partner. The new governance must provide the required representation from all member agencies and have the dexterity to react and address parent agency concerns to maintain organizational sustainability.

ANNEXATION WITHOUT DETACHMENT AND TAX SHARING AGREEMENT

One of the drivers for developing the original JPA was to allow City annexations to occur without detaching from the Fire District. Twelve annexations have occurred since the inception of the original JPA and all have included a non-detachment condition. The

primary driver for the City to migrate to an annexation-without-detachment model was the County's reluctance to negotiate a tax sharing agreement with a nexus for service level impacts on annexations.

The current tax sharing agreement between the City and the County allows 85 percent of the local ad valorem property tax dollars to be allocated to the County and 15 percent to be allocated to the City. Areas that are annexed into the City have estimated service level impacts of 60 percent City (city police, fire, public works) and 40 percent County (jail, hospital, probations, public works, etc.). Requiring the City to detach from the Fire District would slightly increase City ad valorem property tax revenues (the City would receive 20% of Fire District tax allocation), but would require the City to provide fire protection to the new annexed areas at a cost significantly higher than the additional revenue allocations.

Municipal annexations without detachment from Fire Districts actually create a more efficient fire protection system. The financial impact on the fire districts and the cities are positive due to the retention of the property tax dollars allocated for fire protection.

Currently, the County has entered into tax sharing agreements with most San Joaquin cities. Annexation-without-detachment has a negative financial impact on the County due to their lack of opportunity to reallocate property tax dollars from Special Fire Districts. While the County would argue that the reallocation is needed to provide County services to the increased population incurred through annexation; that argument must be weighed against the need for efficient fire protection services throughout the County, as there is no County Fire Department nor does the County provide fire protection. Annexation without detachment from Fire Districts could be used as the model to create a more efficient fire protection model in the County which should be weighed against the reallocation of tax dollars to other County services and/or unfunded liabilities. If LAFCO required the Fire District detachment from the City in order to reallocate tax dollars to the County, that practice should be applied to all cities within the County. If not, annexed areas of Tracy would pay a disproportionate share for County services. If LAFCO is looking for consistency concerning detachments, all cities should be required to detach.

There are three additional cities in San Joaquin County that do not detach from Fire Districts when annexations occur. Those same cities do not provide full municipal (fire protection) services to their cities (LAFCO MSR concerns about SCFA). The City of Escalon is protected by the Escalon Fire Protection District, the City of Ripon is protected by the Ripon Consolidated Fire District, and the City of Lathrop is protected by the Lathrop-Manteca Fire Protection District.

The reasons the three cities do not provide municipal fire services are the same reasons that the City of Tracy annexes without detachment from the Tracy Rural Fire District. Prior to Proposition 13, local taxing jurisdictions (Counties, Cities and Special Districts) annually approved a general tax rate. Proposition 13 (passed June 6, 1978) abolished local taxing jurisdiction's ability to set annual tax rates and limited the general tax rate to 1%, and required the 1% to be distributed amongst all jurisdictions that previously had authority to levy property taxes. Proposition 13 established that the State Legislature, rather than the local taxing jurisdictions, would have the power to determine how the 1% was divided. In 1979, Assembly Bill 8 (AB 8) was adopted and provided regulatory guidance for each County to allocate property taxes based on the share that each jurisdiction received the previous year. After the enactment of Proposition 13 and AB 8, a mechanism was needed to redistribute property tax allocations when annexations occurred. The Legislature added Section 99 to the Revenue and Taxation Code which requires a city, seeking to annex property, enter into a tax sharing agreement for the property taxes that are generated in the proposed annexed area.

Prior to Proposition 13 and AB 8, the City of Escalon (Incorporated in 1957) and the City of Ripon (City and Fire District Consolidated in 1963) had too small of populations prior to the enacting of Proposition 13/AB 8 to support a municipal fire protection model. Post Proposition 13/AB 8, the two cities would be required to enter into a tax sharing agreement with the County if they detached from the Fire Districts which would, in-turn, reallocate fire protection property tax revenues to the County. The second reason the cities would not create municipal fire protection services is due to the loss of efficiencies that are created by a single fire protection system providing services to a municipality and the surrounding unincorporated and rural areas. The same applies to the City of Lathrop, the key difference is the City of Lathrop incorporated post Proposition 13/AB 8. They realized early on that a detachment from the Lathrop-Manteca Fire District would be a loss in tax revenue (due to the required tax sharing agreement) in addition to being less efficient. It should also be noted that because the cities chose to remain in the Fire Districts, the cities are not providing full municipal services per LAFCO's MSR recommendation to SCFA.

In 1999, the City of Tracy and the Tracy Rural Fire District recognized that Proposition 13, AB 8 and Section 99 of the Revenue and Taxation Code's impact of annexation on fire protection to both agencies and developed a model that allowed tax dollars to remain in the communities and to operate as one agency which would optimize service levels to the residents and land owners within their respective jurisdictions.

Other cities in the County that do provide full municipal services (Lodi, Manteca and Stockton) would benefit from annexation without detachment if they provided fire

protection services to the contiguous Fire Protection Districts that are in their sphere-of-influence growth paths. French Camp-McKinley, Montezuma, Woodbridge Fire Protection Districts and even Lathrop-Manteca Fire District (surrounds the City of Manteca) could be good candidates for annexation without detachment if fire protection services were combined. While the City of Stockton does provide contractual fire protection services to several contiguous Special Fire Districts listed below, (with some exceptions) they are primarily older established, urbanized unincorporated areas of Stockton without significant growth and/or annexation potential and probably would not benefit from annexation without detachment. This is primarily due to the limited tax base, resident/property owner preference and the other services Stockton would be required to provide to established areas that lack traditional municipal services.

Stockton Contract Fire Agencies:

- Lincoln Fire Protection District*
- Eastside Fire Protection District*
- Tuxedo-County Club Fire Protection District*
- Boggs Tract Fire Protection District*

GOVERNANCE OPTIONS

The following governance options were evaluated:

- Option 1-City of Tracy detach from the Tracy Rural Fire Protection District
- Option 2-The City of Tracy annex into the Tracy Rural Fire Protection District
- Option 3-Reconstitute and strengthen the current JPA

The goal was: 1) Identify and analyze governance models that would be expandable while maintaining or improving efficiencies 2) Protect the City’s interest while addressing the governance concerns of the Fire District (also protecting their interest and 3) Address LAFCO’s concerns. The following assumptions were utilized to develop a model to assess current and future growth revenues and expenditures under each governance option:

Future property tax revenue assumptions were based on large entitled projects and other projects that have priority under the City’s Residential Growth Ordinance (Table 3). Table 4 identifies the assumptions that were used for size and price of residential units. Anticipated growth in the Northeast Industrial (NEI) and the International Park of Commerce projects were utilized to forecast industrial growth (Table 5) and known and anticipated commercial office (Table 6) and retail space (Table 7) were conservatively estimated to complete the assumptions. Table 8 identifies the assumptions that were used for price per square foot of commercial space. Future annexations of the Avenues

and Tracy Village were also included in the analysis based on an annexation with detachment and an annexation without detachment scenario. A conservative annual escalator of three percent was utilized to address economic growth. The following were the additional assumptions used to develop the model:

- The current (2012) Tax Sharing Agreement between the County and the City was used as an assumption for future annexations. The agreement includes a property tax split 80% County and 20% City for annexed areas that detach from the District. The agreement includes a property tax split of 85% for the County and 15% for the City if the annexations do not detach from the District.
- The actual property tax allocations for the City, County and District were utilized for the analysis in the twelve annexations that have occurred since the inception of the JPA.
- The Standards of Cover study that was completed in 2017 was utilized to determine the number of additional fire stations (and location) that will be required in the next six years to address growth projections.
- The Standards of Cover Implementation Plan was utilized to determine when new fire stations would be required to be built and staffed.
- The new JPA agreement that became effective on July 1, 2018 was used to determine which agency would own and staff future fire stations and the cost allocations for each agency.
- The current three year labor agreements and CalPERS anticipated cost increases were used as a basis to determine future labor costs.

Table 3-Housing assumptions

RESIDENTIAL	2019	2020	2021	2022	2023	2024	2025	2026
Primrose	83	44	62					
Ellis	75	65	75	75	75	75	75	75
Grantline Apartments	210	40						
Tracy Hills	60	406	406	300	300	200	200	200
Tracy Village			100	150	175	150		
Rockinghorse			36	50	50	50	50	50
Ellissagary Infill			23					
Assisted Living			50	50	50	50	50	50
Avenues				50	50	50	50	50
Bright				18				
Infill					15			15
Other Housing							150	150
Total Units	428	555	752	693	715	575	575	590

Table 4-Housing price and size assumptions

Housing Element	Average Square Feet	Average Price
Single Family Homes	2,697	\$574,590
Multi Family Homes	1,081	\$112,567

Table 5-Commercial assumptions-industrial (in million square feet)

INDUSTRIAL	2019	2020	2021	2022	2023	2024	2025	2026
Cordes Ranch	2.M	2M	2M	2M	2M	2M	2M	2M
NEI	2.4M	1.8M	1.5M	1.5M	.5M			
Scannell		.2M						
Total Sq. Ft.	4.4M	4M	3.5M	3.5M	7M	2M	2M	2M

Table 6-Commercial assumptions-retail (in thousand square feet)

RETAIL	2019	2020	2021	2022	2023	2024	2025	2026
New Hotel	75K	120K	60K		70K			
Cordes Retail		10K	10K	10K	10K	10K	10K	10k
Red Maple Village	11K		11K					
Tracy Hills Retail				5K	5K	5K	5K	5K
Total Sq Ft	86K	130K	81K	15K	85K	15K	15K	15K

Table 7-Commercial assumptions-office (in thousand square feet)

OFFICE	2019	2020	2021	2022	2023	2024	2025	2026
Cordes Office	7.6k		20K	10K	10K	10K	10K	10K
NEI - CHP			40K	10K				
Total Sq. Ft.	7.6K		60K	20K	10K	10K	10K	10K

Table 8-Commercial price per square foot assumptions

Commercial Element	Price Per Square Foot
Retail	\$250
Office	\$200
Industrial	\$125

After a thorough analysis, it was determined that the best option would be to reconstitute and strengthen the current JPA (Option 3). This option was implemented on July 9, 2018. Below is an overview of the analysis of each option and the implementation process and status of the chosen option:

Option 1-City of Tracy Detach from the Tracy Rural Fire Protection District

The City could petition LAFCO to detach from the District. A process similar to an annexation would occur that would include a protest process that could potentially lead to a vote of property owners concerning detachment. If the detachment were

successful, the City would revert back to a traditional municipal fire agency and the District would revert back to a traditional Fire District. The City would gain complete control over funds collected from new development and the City would have complete control over fire protection service levels within its municipal boundaries. The District would have the same control and authorities within its jurisdictional district boundaries. The District would be required to rebuild its fire service administrative functions and hire personnel or contract for those services.

Service Level Impacts (Option 1)

Detachment would negatively impact the efficiencies that have been realized and the overall fire protection service levels in both the District and the rural community. Fire stations have been relocated to the periphery of the city to allow for adequate coverage and response times to areas within the city limits and areas outside of the city limits. Currently, the closest fire stations respond to emergencies regardless of jurisdictional boundaries, administrative staff is shared and the savings lead to specialized programs (paramedic, hazardous material response, and specialized rescue) and overall improved services.

Theoretically, the City could contract with the District to provide fire services to the District's area. Many of the District's concerns would remain. As indicated below in the financial analysis, there would be a significant reduction in revenues (for overall fire protections) and therefore additional revenues would have to be realized or there would be a service level reduction.

Fiscal Impacts (Option 1):

The fiscal analysis assumed the existing County and City Tax Sharing Agreement (80% County 20% City) would apply when dividing District revenues after detachment. The City's 20 percent allocation would not cover the cost of providing fire protection in the area that would detach from the District. In the first year (FY 2019/20), there would be a \$3,044,021 shortfall that would require the City to utilize general operating funds. To keep the same service levels, the City would be required to increase General Fund expenditures annually in FY 2026/27 by \$8,640,314 with a cumulative General Fund augmentation of \$50,080,296 through FY 2026/27. During the same time frame, County revenues would increase \$2,592,421 in FY 2019/20 and continue to increase to \$7,165,906 in FY 2026/27 with a cumulative increased allocation of \$40,773,395. During the time frame, the District would lose \$51,707,830 in revenues but would no longer be required to provide fire protection in the areas that were annexed and not detached. The District's special tax (.03 cents per sq. ft.) would be

discontinued within the City boundaries and would create a cumulative revenue loss of \$10,934,434 through FY 2026/27 (Table 9).

A representative from LAFCO has suggested that the shortfall could be reduced through the formation of one or more Community Facilities Districts (Mello Roos). This strategy would be problematic for the City. Eighty to ninety percent of the building that will occur in the City over the next 10-15 years has already been entitled under development agreements. Retrospectively negotiating and creating Community Facilities District for entitled properties with Development Agreements would be extremely difficult and not recommended.

Table 9-Option 1-City Detach from the District

Agency Revenue	Gain/Loss In FY 2019/20	Gain/Loss In FY 2026/27	Cumulative Loss/Gain 2019/20 Thru 2026/27
County	\$2,529,421	\$7,165,906	\$40,773,395
City	\$733,007	\$2,873,376	\$15,153,052
District Ad Valorem	-\$3,262,428	-\$10,039,282	-\$55,926,447
District Special Assessment	-\$775,768	-\$1,733,290	-\$10,934,434
City General Fund Shortfall	-\$3,044,021	-\$8,640,314	-\$50,080,296

*District .03 per sq. ft. tax would be eliminated in the City area if the City detached from the District

Option 2-The City of Tracy Annex into the Tracy Rural Fire Protection District

The City of Tracy could fully annex into the Tracy Rural Fire District. There would be one governing body that would include members from throughout the City and the District area. The expanded District could include other special districts and cities to gain additional efficiencies. There would be a dedicated revenue stream to support fire protection. There would be a single agency (governance) responsible for fire protection which would address LAFCO’s concern. The City would have very limited, if any, influence over fire protection within its municipal boundaries.

The process would be for the District to petition LAFCO for inclusion of the remainder of the City into the District and the Tracy City Council would pass a resolution supporting (or opposing) the annexation. If the City Council opposed the annexation, the annexation would not move forward. As part of the application process, the District would be required to develop and submit a service plan (how they plan to provide service to the rest of the city). A CEQA study may also be required. After the application is accepted, the City, County and District would have a 60-day negotiation

period to determine how the current City property taxes would be split between the District, City and the County. The City currently receives, on the average, 12.5% of each property tax dollar to support the City's General Fund programs. The current annexation tax sharing agreement between the City and the County would not apply, because the City is being annexed, not annexing an area. If the application is accepted and the property tax agreement is reached, LAFCO would consider and approve, conditionally approve, or deny the application. If approved or conditionally approved, then a protest hearing would be held. If 25% of the registered voters in the proposed annexed area sign a petition, the annexation must go to a vote. If 50% of the registered parties within the proposed annexation area sign a petition the annexation will be denied.

Based on case law, (*Citizen's Association of Sunset Beach v. Orange County LAFCO and City of Huntington Beach*), and confirmed by the City Attorney, the current special tax assessment of .03 per square foot would apply to the newly annexed City areas without voter approval. On July 1, 2016, the City of San Bernardino chose to be annexed into the San Bernardino County Fire District. The City of San Bernardino was in bankruptcy and they were able to maintain and slightly improve fire protection services within their municipality and save between \$7-8 million annually. The savings are due to the elimination of duplicative overhead services and the overlaying of a special County Fire District tax (\$148 per parcel) to property owners of the City of San Bernardino. The City mailed a flyer to each property owner that explained the tax would be overlaid on the City property owners and outlined the appeals process (25% of property owners sign a petition). A petition was circulated but failed to gain the required 25% and the annexation was approved.

Service Level Impacts (Option 2)

If the City of Tracy annexed into the Rural Fire District, levels could remain unchanged and could become more "consistent" due to the guaranteed revenue streams. Currently, the City still prioritizes funding for each City program (Fire, Police, Parks and Public Works) based on political and public preference. Annexing into the District would remove that option for fire protection to compete for funding against other City priorities. Property tax dollars would go to the District which could lead to more "consistent" and standardized service levels.

Fiscal Impacts (Option 2)

The analysis indicates the District's special tax would generate approximately \$2,096,679 in additional taxes in the annexed area. The Management Partners Report assumed that the County and the District would agree to a property tax

sharing agreement that would allow the City to remain whole (at previous fire protection funding levels) and to allocate the additional revenue from the special tax to the County. Based on this assumption, the County would receive \$2,096,679 in revenue. The City, District and County have not negotiated a tax sharing agreement and therefore the fiscal impact is speculative.

The District's revenues would remain whole in the areas that have been annexed and not detached and therefore, based upon the fiscal analysis that is provided in Option 3, revenues would be available to support growth in Option 2 (Table 10).

Table 10-Option 2-City Annex into the District

Revenue	2018/19 District Revenues	2018/19 City General Fund/New Special Tax	Special Tax Applied to Core City Annexation	District Total After Annexation
City General Fund		\$13,802,254		\$13,802,254
District Property Tax	\$5,658,746			\$ 5,658,746
District Special Tax	\$1,292,844		\$2,096,679	\$ 3,389,523
Total	\$6,951,591	\$13,802,254	\$2,096,679	\$22,850,523

The real challenge with this model for the City of Tracy would be the increased property tax (.03 per sq. ft.) revenues in the core city that would be assessed without requiring a vote of the tax payers. San Bernardino was successful because they were in bankruptcy. If the County allowed the City to retain the additional revenues through a tax sharing agreement, there would still be a new tax, without a vote, applied to approximately 35,000 homes and businesses that are not currently in the District.

The additional challenge would be the City's willingness to give up control of fire protection and 63% (\$13.8 Million of \$22 Million) of property taxes. Under the JPA, the City Council continues to have significant authority over fiscal resources and service level determinations for fire protection within the core city that remains outside of the District.

This would assume that the County would allow all current allocated property taxes to remain in the City. Based upon current and previous tax exchange negotiated agreements with the County, it would be unlikely that the County would not require some of the taxes to be allocated to the County. The Management Partners Report assumed that the County would require the additional revenues that would be created from the special assessment (\$2,096,679) be allocated to the County.

Option 3-Reconstitute and Strengthen the Current JPA

The original South County Fire Authority was created through a Joint Powers Agreement (JPA) between the District and the City that was in effect from January 1999 through June 30, 2018. The JPA was the legal mechanism used to form the South County Fire Authority (SCFA). The previous model limited the District Board's authorities and made them dependent upon the City to provide administrative and operational services to the District. The four-person Board (2 City Council Members and 2 District Board Members) met quarterly with limited agenda items to consider due to a governance limitation of the JPA agreement.

After evaluation of each model, staff determined that it would be in the best interest of the City of Tracy and the Tracy Rural Fire Protection District to recommend to the City Council and the Tracy Rural Fire Protection District Board to reconstitute and strengthen the current JPA. This recommendation was based on the following:

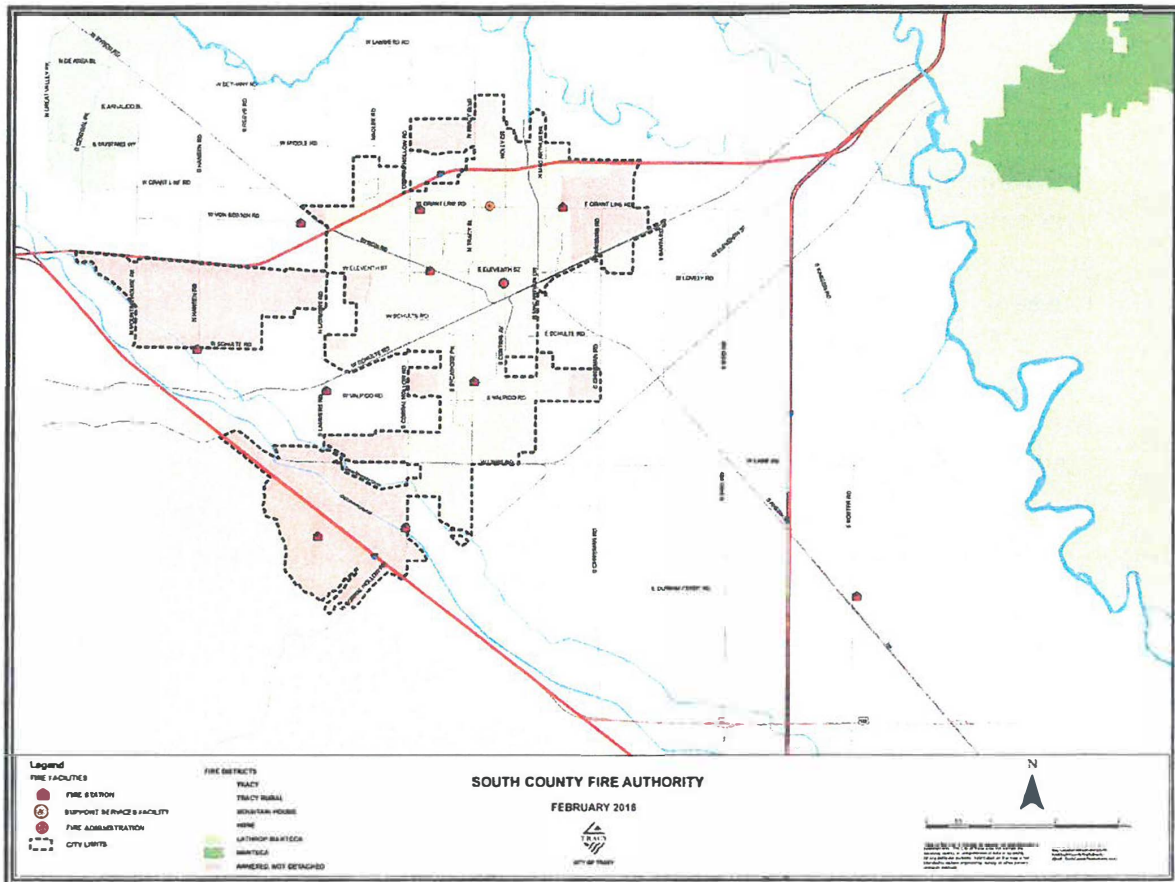
- The model only requires the approval of the two governing bodies (and the Secretary of State).
- The model provides the City with continued control over the City's budget and service levels in the core City areas.
- The model ensures the long term fiscal sustainability of the District.
- The model addressed the District's concern over a lack of authority over financial and administrative policies that impact fire protection within their jurisdiction.
- The model protects fire protection revenues from being reallocated from the District to the County.
- This model is reversible. At a later date, the Council could decide to operate a municipal fire department and the District could return to providing services as a Fire District.
- The JPA Board will have the authority to negotiate fire protection impacts with developers. This can be done through the City, but having an independent fire agency at the table always benefits the local government agency.
- There will be no confusion over who is the Authority Having Jurisdiction (AHJ) for fire protection matters. Fire protection authorities have been delegated to the JPA by both member agencies.
- This model is expandable. Other agencies could join and increase efficiencies which results in lower costs to the City. The Lathrop-Manteca Fire District and Mountain House Community Services District have expressed an interest in joining the newly formed JPA.

- The new JPA eliminates additional agreements and amendments that were adopted under the previous JPA. The amendments were difficult to interpret, implement and track. The Smoothing Agreement, the Pre-Paid Service Agreement (Amendment 4 and 6), and the Supplemental Services Agreement (Amendment 3) have all been eliminated and replaced with an intuitive, fair and equitable cost allocation model.
- The new JPA attempted to address LAFCO concerns.
- The phased approach allows the new JPA to pursue additional model elements or to migrate to a full fire district.

On February 20, 2018, the Tracy City Council approved the formation of the South San Joaquin County Fire Authority with an effective date of July 1, 2018 (Attachment A). At the same meeting, the Tracy City Council approved a Dissolution Agreement between the City and the District that dissolved the South County Fire Authority effective July 1, 2018 (Attachment B).

One of the primary drivers of the creation of the JPA was the strategy for the City to not detach from the District when annexations occurred. This allowed the areas that were annexed by the City to maintain the District taxing authorities at their current levels in perpetuity. The annexation without detachment creates three distinctive areas within SCFA. Figure 1 illustrates the core City area (yellow) the District area grey, and the overlapping zone that is the area of the City that has been annexed without detachment from the District (salmon).

Figure 1-Map of South County Fire Authority



Operationally, the creation of SCFA has been extremely successful. By combining the two agencies there are more resources during emergencies, better training, better equipment and new stations have been located in areas that efficiently serve the District, the overlapping jurisdiction, and the City. There is a shared administration that has the capacity to provide the required leadership, management, and supervision of SCFA eliminating duplicative positions and provided efficiencies through economies-of-scale. Both agencies share a Fire Prevention Bureau, and the larger organization has the capacity to provide specialized services such as hazardous material response, specialized rescue programs, and a dedicated ladder truck company. The closest fire engine(s) always respond to the emergencies and the overall savings that occurred through shared overhead has enabled the SCFA to provide life-saving paramedic services to the City and the rural communities.

The new JPA is a semi-autonomous agency that utilizes one of the member agencies as the “employer of record.” Because the City of Tracy was the current employer of all

SCFA personnel, the agreement is to maintain the City of Tracy as the employer of record until the new JPA is in a position to consider transitioning all employees to the new JPA. This will require a new CalPERS account, labor agreements, and personnel policies and procedures.

Maintain or Improve Service Levels (Option 3)

The new JPA allows for sustainability and potential enhancement of future service levels through potential expansion to other agencies that would create increased economies of scale. The new JPA also utilized the Standards of Cover Study that was completed by CityGate in 2017 as a basis to ensure services levels were maintained through the relocation and continued staffing of two current fire stations, and the building and staffing of two additional fire stations. Fire station funding, ownership, staffing, and timing is discussed/addressed later in this section.

Fiscal Impacts (Option 3)

Initially, after SCFA was created, the District experienced revenue shortfalls that required the City to fund a portion of their annual operating expenses that were attributed to the District. With recent growth in the undetached areas, the District is no longer operating under a structural deficit and has repaid or settled previous debts to the City.

In 2015, Susan Goodwin Consulting Group Inc. conducted a comprehensive study concerning the financial impact of growth on Tracy's public safety organizations including Fire, Police, and Public Works. The analysis was based on an annexation without detachment model that anticipated residential, commercial, and industrial growth over the next 13 years. In 2017, staff updated the analysis and scaled back the number of years to seven. The analysis was further updated in December 2018 to reflect updated growth assumptions that were identified earlier in this report. The analysis was updated utilizing the growth assumptions and the Standards of Cover Study that identified the need for additional three-person fire companies in 2021 (Station 99-Ellis project), a three-person fire company in 2023 (Station 95-Tracy Hills) and a third three-person company in 2026 (second truck company located in International Park of Commerce fire station). The analysis determined that the District will be able to fund the three additional companies while maintaining significant reserves (Table 11). The analysis indicates that the District will maintain \$2-\$6 million in reserves based upon growth projections and timing of additional companies. This estimate does not include current reserves that are in excess of \$3 million. The analysis

also showed the City's costs would actually stabilize over the seven-year period due the requirement under the JPA's cost allocation formula that the District pay a greater share of the overhead as additional companies are added in the District areas (Table 12). If the growth assumptions are not met, the District has indicated that they will only fund fire protection based on revenues that are generated by the project that requires fire protection and the initiation of additional fire companies would be delayed.

In 2017, staff updated the assumption with growth data and scaled back the term of the analysis to seven years. Another potential financial concern under the current model would be a LAFCO decision to not allow future annexations without detachment. While there would be some financial impact, the impact would be limited because annexations have already occurred for most of the growth that is anticipated over the next 13 years. There are only two future annexations that were included in the fiscal analysis of future projects that would be annexed without detaching from the District. The Avenues with 250 homes and Tracy Village with 575 homes. The impact of detaching these future residential annexations and the impact of detaching future commercial annexations are identified in Table 13. Reallocations of the projected revenues to the County and the City could delay the opening of future fire stations and impact service levels. However, future impacts outside of this seven year forecast would be significant if these and future annexations included detachment from the District.

Table 11-Option 3-Tracy Rural Fire District Projected Annual Revenues and Expenditures

	FY 2018 / 2019	FY 2019 / 2020	FY 2020 / 2021	FY 2021 / 2022	FY 2022 / 2023	FY 2023 / 2024	FY 2024 / 2025	FY 2025 / 2026	FY 2026 / 2027
Tax Revenue	\$6,951,590.00	\$7,160,137.70	\$7,374,941.83	\$7,596,190.09	\$7,824,075.79	\$8,058,798.06	\$8,300,562.00	\$8,549,578.86	\$8,806,066.23
Investment Earnings	\$40,000.00	\$41,200.00	\$42,436.00	\$43,709.08	\$45,020.35	\$46,370.96	\$47,762.09	\$49,194.95	\$50,670.80
Rental Income	\$33,600.00	\$34,608.00	\$35,646.24	\$36,715.63	\$37,817.10	\$38,951.61	\$40,120.16	\$41,323.76	\$42,563.47
Miscellaneous Income	\$95,391.63	\$98,253.38	\$101,200.98	\$104,237.01	\$107,364.12	\$110,585.04	\$113,902.59	\$117,319.67	\$120,839.26
Total Existing Revenue	\$7,120,581.63	\$7,334,199.08	\$7,554,225.05	\$7,780,851.80	\$8,014,277.36	\$8,254,705.68	\$8,502,346.85	\$8,757,417.25	\$9,020,139.77
Additional Revenue Projected from Growth	\$ 1,300,914.74	\$ 2,413,765.83	\$ 3,564,118.33	\$ 4,648,036.09	\$ 5,728,737.63	\$ 6,639,258.64	\$ 7,586,356.33	\$ 8,571,184.77	
Total Projected TRFD	\$7,120,581.63	\$8,635,113.82	\$9,967,990.88	\$11,344,970.13	\$12,662,313.45	\$13,983,443.31	\$15,141,605.48	\$16,343,773.58	\$17,591,324.54
JPA Projected Operating	(\$5,367,543.16)	(\$6,130,171.85)	(\$6,314,077.01)	(\$9,450,638.87)	(\$12,440,854.55)	(\$12,814,080.19)	(\$13,198,502.59)	(\$16,405,160.02)	(\$16,897,314.82)
Non-JPA TRFD Suppression	(\$166,118.80)	(\$171,102.36)	(\$176,235.43)	(\$181,522.50)	(\$186,968.17)	(\$192,577.22)	(\$198,354.53)	(\$204,305.17)	(\$210,434.33)
Other TRFD Operating	(\$986,129.00)	(\$750,173.66)	(\$772,678.87)	(\$795,859.24)	(\$819,735.01)	(\$844,327.06)	(\$869,656.88)	(\$895,746.58)	(\$922,618.98)
Annual Surplus /(Deficit)	\$600,790.67	\$1,583,665.94	\$2,704,999.56	\$916,949.53	(\$785,244.29)	\$132,458.83	\$875,091.48	(\$1,161,438.19)	(\$439,043.59)
Cumulative Surplus	\$600,790.67	\$2,184,456.61	\$4,889,456.17	\$5,806,405.70	\$5,021,161.41	\$5,153,620.25	\$6,028,711.73	\$4,867,273.54	\$4,428,229.95

Table 12-Option 3-JPA Projected Annual Expenditures

	FY 2018 / 2019	FY 2019 / 2020	FY 2020 / 2021	FY 2021 / 2022	FY 2022 / 2023	FY 2023 / 2024	FY 2024 / 2025	FY 2025 / 2026	FY 2026 / 2027
Fire Suppression	\$17,509,580.00	\$18,034,867.40	\$18,575,913.42	\$19,133,190.82	\$19,707,186.55	\$20,298,402.15	\$20,907,354.21	\$21,534,574.84	\$22,180,612.08
Administration	\$727,133.00	\$748,946.99	\$771,415.40	\$794,557.86	\$818,394.60	\$842,946.44	\$868,234.83	\$894,281.87	\$921,110.33
Community Risk Reduction	\$1,405,228.00	\$1,447,384.84	\$1,490,806.39	\$1,535,530.58	\$1,581,596.49	\$1,629,044.39	\$1,677,915.72	\$1,728,253.19	\$1,780,100.79
Training	\$408,956.00	\$421,224.68	\$433,861.42	\$446,877.26	\$460,283.58	\$474,092.09	\$488,314.85	\$502,964.30	\$518,053.23
Replacement Equipment	\$161,900.00	\$166,757.00	\$171,759.71	\$176,912.50	\$182,219.88	\$187,686.47	\$193,317.07	\$199,116.58	\$205,090.08
Subtotal Expenses	\$20,212,797.00	\$20,819,180.91	\$21,443,756.34	\$22,087,069.03	\$22,749,681.10	\$23,432,171.53	\$24,135,136.68	\$24,859,190.78	\$25,604,966.50
Community Risk Reduction	(\$1,043,000.00)	(\$1,074,290.00)	(\$1,106,518.70)	(\$1,139,714.26)	(\$1,173,905.69)	(\$1,209,122.86)	(\$1,245,396.55)	(\$1,282,758.44)	(\$1,321,241.19)
Existing Staffing Net Operating	\$19,169,797.00	\$21,893,470.91	\$22,550,275.04	\$23,226,783.29	\$23,923,586.79	\$24,641,294.39	\$25,380,533.22	\$26,141,949.22	\$26,926,207.70
New Staffing/Operating Costs to	\$0.00	\$0.00	\$0.00	\$1,974,920.37	\$4,068,335.96	\$4,190,386.04	\$4,316,097.62	\$6,668,370.82	\$6,868,421.94
Total Estimated JPA	\$19,169,797.00	\$21,893,470.91	\$22,550,275.04	\$25,201,703.66	\$27,991,922.74	\$28,831,680.43	\$29,696,630.84	\$32,810,320.04	\$33,794,629.64
City Responsibility (% Cost)	72%	72%	72%	62.5%	56%	56%	56%	50%	50%
City Of Tracy Cost Allocation	\$ 13,802,254	\$ 15,763,299	\$ 16,236,198	\$ 15,751,065	\$ 15,551,068	\$ 16,017,600	\$ 16,498,128	\$ 16,405,160	\$ 16,897,315
TRFD Responsibility (% Cost)	28%	28%	28%	37.5%	44%	44%	44%	50%	50%
TRFD JPA Cost Allocation	\$ 5,367,543	\$ 6,130,172	\$ 6,314,077	\$ 9,450,639	\$ 12,440,855	\$ 12,814,080	\$ 13,198,503	\$ 16,405,160	\$ 16,897,315

Table 13-Option 3-Future annual fiscal impacts of annexations with detachment

Agency	*Future fiscal impact-Per 1 million square feet of commercial	*Future fiscal impact-Per100 single family detached homes	*Fiscal Impact-Tracy Village and The Avenues (825 homes)
District Property Tax	-\$131,578	-\$60,375	-\$498,094
District Special Tax	-\$30,000	-\$8,092	-\$66,759
City Allocation	\$43,652	\$20,105	\$165,866
County Allocation	\$87,926	\$40,270	\$332,227

*Future annual fiscal impacts at 2019 tax rates

Fire Station Funding/Staffing and Ownership

The City has the ability to collect Development Impact Fees, enter into Development Agreements (with conditions) and form Community Facilities Districts to fund infrastructure, services and public facilities. The statutory limitations of the Fire District is limited to the collection of development impact fees and to impose voter approved special taxes (requires 66% approval) within their jurisdictional boundary. Therefore, as part of the new JPA, it was determined that the City would fund fire stations through the City’s Public Safety Facilities Master Plan that imposes Public Safety Facility Fees for new development. Because the District has maintained their taxing authority in the portions of the City that annexed but did not detach, as development occurs, the District will have the funding to staff the stations. The new JPA codified the funding and ownership of new fire stations. Construction of new fire stations in City limits that are within the District boundaries will be funded by the City and owned by the District.

Station 94 (IPC)

Station 94 is a pre-existing station located at W. Schulte Road owned and operated by the Rural District that will be relocated north of its current location to optimally serve the Prologis International Park of Commerce (IPC) and the Patterson Pass Business Park under the new standards of coverage contained in the Study. Prologis has agreed to advance their payment of Public Safety Fees for this project of \$4.25M. The estimated total cost of construction is \$5M. The difference between the fees and construction costs should come from contributions from the Rural District

related to the prior coverage assumption of the existing fire station. Design and construction is estimated to start in 2019 and is expected to take two years to complete. The existing Station 94 will remain open during this period. Once open, the apparatus and equipment from the existing station would move over from the current station. The Fire Station will be owned by the Rural District with a stipulation that the ownership of the station will revert back to the City if the District detached from the City.

Station 95 (Tracy Hills)

Station 95 is a new station located within Tracy Hills north of I-580 that will be owned and funded by the District. This station will cover the south developing area of the City. Tracy Hills will advance \$5.5M of their Master Plan Safety Fees to design and construct the building. The total cost of Station 95 is estimated at \$6.6M, which includes the purchase of new apparatus and equipment for this station. The purchase of the apparatus will be funded through an advance (loan) from the City's Equipment Fund and repaid from future Master Plan Public Safety Fees from development. Design of Station 95 has been completed and is under review. Construction is estimated to start in 2021 and is expected to take one year to complete.

Station 97 (Valpico)

Station 97 is a preexisting station located on Central Avenue, but is planned to be relocated along Valpico Road, southeast of its current location. It will be owned and funded by the City. The relocation of Station 97 will better serve development to the south as well as existing rural areas currently within the Rural Fire District. The City has collected \$4.5M in Public Safety Fees from various core areas of the City. The estimated total cost of land and construction is \$5.5M. The difference between the fees and construction costs will come from contributions from the City's General Fund related to the prior coverage assumption of the existing fire station. Design and construction is estimated to start in 2019 and is expected to take two years to complete. The existing Station 97 will remain open during this period. Once open, the apparatus and equipment from the existing station would move over from the current station. Staff has considered the sale of the existing station as part of the City's contribution to funding Station 97.

Station 99 (Ellis/Avenues at Valpico)

Station 99 is a new station located near Ellis and the proposed development of the Avenues that will be owned and funded by the District. This station will cover the middle developing area of the City's sphere of influence, west of Coral Hollow and east of Lammers Road. The total cost of Station 95 is estimated at \$6.6M, which includes the purchase of new apparatus and equipment for this station. The City has entered into an agreement for the developer of Ellis and Avenues to advance \$3.2M in Public Safety fees and the remaining fees will be collected from various developments located within the geographical area of coverage under a long horizon period. The purchase of the apparatus will be funded by the District. Design and construction is estimated to start in 2019 and is expected to take two years to complete.

Table 14-Model Implementation Plan Status

Task	Date Completed	Expected Completion	Mechanism of Completion
Approval of Dissolution Agreement of former SCFA *Resolved debt between City/District *Addressed Fire Station ownership concerns *Addressed unfunded liabilities	2/20/2018		City Council & Rural Board Resolution
Adoption of SSJCFA JPA Agreement: *Establish Fire Chief as CEO *Designate all fire protection responsibilities to SSJCFA *Operate under powers of a Special Fire District *Implement streamlined cost allocation	2/20/2018		City Council & Rural Board Resolution
Designate Two Board Members from each member agency	2/20/2018		City Council & Rural Board Appointment
File JPA Agreement with Secretary of State	3/21/2018		Returned Acknowledgement from SOS
Establish Meeting Dates/Times for SSJCFA Board of Directors	4/24/2018		SSJCFA Resolution
Assign Existing Contracts from SCFA to SSJCFA	4/24/2018		SSJCFA Resolution
Appoint a Board Clerk for the SSJCFA	4/24/2018		SSJCFA Resolution
Procure Financial Management Software Contract	5/9/2018		SSJCFA Resolution
Obtain Federal Employer Identification Number (EIN) with Internal Revenue Service	6/11/2018		Application to IRS
Adopt SSJCFA Personnel Agreement	6/13/2018		City Council & SSJCFA Board Resolution

Task	Date Completed	Expected Completion	Mechanism of Completion
Select Financial Institution (Bank)	6/13/2018		SSJCFA Resolution
Adopt Purchasing & Contracting Ordinance of the SSJCFA	6/13/2018		SSJCFA Ordinance
Adopt Finance Policy of SSJCFA	6/13/2018		SSJCFA Resolution
Hire Independent Legal Counsel for SSJCFA	7/20/2018		SSJCFA Resolution
Adopt Conflict of Interest Policy	9/12/2018		SSJCFA Resolution
Approve Dispatching Services JPA (SJCRFDA)	11/14/2018		SSJCFA Resolution
Approve Employment Agreement for Fire Chief	11/14/2018		SSJCFA Resolution
Adopt 1st Amendment to Personnel Agreement to allow Fire Chief to serve at the will of the SSJCFA Board	11/14/2018		City Council & SSJCFA Board Resolution
Fire Station funding, staffing and sequencing plan	11/16/2018		
Submit Employer Questionnaire Application to CalPERS (step for SSJCFA to become employer of record)		2/1/2019	Staff Submittal
Appoint Independent Treasurer/Controller		2/20/2019	SSJCFA Resolution
Procure Independent Public Accountant (Auditor)		5/1/2019	Staff Selection
Establish Lease Agreements for SSJCFA use of member agency Facilities		6/1/2019	Staff Development / Council and Board Approvals
Establish Revised Fee Structure for Fire Prevention Services		6/30/2019	SSJCFA Resolution
Establish SSJCFA as Employer of Record		2/1/2020	Governing Bodies/Labor Unions

Status of LAFCO Concerns

Initially, the governance discussion and evaluation was driven by LAFCO's 2011 MSR that had the following concerns with the current governance:

- 1) A loss of revenue to the County due to their inability to impose a tax sharing agreement (taking part of the ad valorem tax generated by TRFD) when detachment does not occur.
- 2) A concern that the City is not providing full municipal services to its residents.

LAFCO's concern about "a loss of revenue to the County due to a loss of opportunity for the County to redistribute (to itself) ad valorem property taxes" does not fall within LAFCO's purview. The same applies for their second concern, requiring a General Law municipality to provide full municipal services (fire protection) to its residents is something that does not fall within their purpose, authority, or purview. With that said, LAFCO does have the authority to require detachment from Special Districts when annexations occur, but they should need to have different "findings" under their authority to pursue such a policy.

Management Partner's report failed (at the City's request) to recommend an option to develop an Implementation Plan which appears to be a primary reason the report was rejected by LAFCO. LAFCO's Executive Officer has indicated that he will continue to pursue a resolution to the concern based on his previous direction from the Commission. Based on that perspective, and the concern the City may be forced to detach from the District in future annexations, it is important that this matter is resolved with LAFCO.

When LAFCO rejected the report that was developed and presented by the Fire Service Governance Oversight Committee in 2013, the LAFCO Executive Officer listed the following concerns (Table 15) when recommending rejection of the report:

Table 15-LAFCO Concern Status

LAFCO Concern	Status
<i>Only focused on the alternatives selected by the committee</i>	<p>The Management Partners report provided a comprehensive analysis of three scenarios that are viable governance options for SCFA.</p> <p>This report provides further analysis with updated financial impacts for each scenario.</p>
<i>Needed to include a discussion of the alternatives which were rejected and for what reasons</i>	<p>The Management Partners report provided a strong analysis of each of the three options. None of the options (scenarios) were actually rejected by the Management Partners' report due to the actual viability of each option.</p> <p>Further analysis of each option is provided in this report.</p>
<i>A fiscal analysis as to the impact on the County needs to be conducted</i>	<p>The fiscal analysis on the County impact was completed by the subsequent Management Partners report.</p> <p>Further analysis of each option is provided in this report.</p>
<i>The alternative that includes a traditional detachment from the district needs to be explored</i>	<p>The alternative of a traditional detachment was completed by the subsequent Management Partners report.</p> <p>Further analysis of that option is provided in this report.</p>
<i>A "move to full autonomy" is not possible under a Joint Powers Agreement</i>	<p>A standalone JPA is a JPA that functions as a "separate entity", issue bonds, provide personnel, personnel management, and administrative, legal and financial services. There are many examples of "separate entity" JPA's including the Orange County Fire Authority with 71 fire stations in 23 cities. JPA that function as separate entities are allowed under California's Joint Exercise of Powers Act (Government Code Section 6500-6538)</p>
<i>Report needs to explore the legal basis and process to relinquish fire service by the City and the financial feasibility of such action</i>	<p>California's Joint Exercise of Powers Act (Government Code Section 6500-6538). City Attorney could not identify any legal prohibition from the chosen model.</p>
<i>Need to address the precedent this may set for other Fire Districts</i>	<p>See discussion in this Chapter on page 19-20 of this report.</p>

LAFCO's most compelling argument against the previous governance was the potential confusion that was created for residents and homeowners in the overlapping areas that were annexed without detaching due to their inclusion in both City government

representation and District government representation. Although cities that are fully embedded in Special Fire Districts have the potential for similar governance confusion, the SCFA model is exacerbated because a portion of the city is in the Fire District and a portion of the city is not in the Fire District. Because the current JPA model was developed as a limited scope model and both the City and the District continue to make decisions that impact fire protection in their respective and overlapping jurisdictions, a change was needed to codify the fire protection responsibilities. Because the City and the District have delegated full responsibility for fire protection to the new JPA, the new model provides a clear pathway for residents and property owners to identify and access appointed or elected public officials (Fire Chief and JPA Board Members) that have the responsibility and authority to set policy and to provide oversight to fire protection services within their community.

REFERENCES

Shannon, Davis & Associates (1997). *Fire Service Consolidation Assessment for the City of Tracy and the Tracy Rural Fire Protection District*

City of Tracy (2013). *Fire Governance Implementation Plan*

Management Partners (2014). *City of Tracy Alternative Fire Governance Structures*

Goodwin Consulting Group (2016). *Citywide New Development Impact Analysis Anticipated New Development through FY 2029-2030*

ATTACHMENTS

Attachment A - Joint Powers Agreement of the South San Joaquin County Fire Authority

Attachment B – South County Fire Authority Dissolution Agreement between City of Tracy and Tracy Rural Fire District

**JOINT POWERS AGREEMENT OF THE SOUTH
SAN JOAQUIN COUNTY FIRE AUTHORITY**

THIS AGREEMENT is entered into on this 20th day of February 2018, by and between the City of Tracy, a municipal corporation ("City") and the Tracy Rural Fire Protection District, a Fire Protection District ("District").

RÉCITALS

WHEREAS, pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California the City and District ("**Initial Member Agencies**") previously entered into an agreement for the joint exercise of any power common to them; and

WHEREAS, the Initial Member Agencies desire to enter this Agreement to exercise the power to provide fire protection services within their jurisdictions under a new joint powers authority (hereinafter "**the South San Joaquin County Fire Authority**" or "**Authority**"); and

WHEREAS, this Agreement sets forth the terms and conditions by which they will exercise their powers for the purpose of improving the provision of fire service with the Authority's jurisdiction.

AGREEMENT

NOW THEREFORE, for and in consideration of the mutual advantages to be derived therefrom and in consideration of the mutual covenants herein contained, it is agreed by and between the parties hereto as follows:

SECTION 1. PURPOSE AND POWERS

1.1 Authority.

South San Joaquin County Fire Authority ("Authority") is formed by this Agreement pursuant to the provisions of Article 1, Chapter 5, Division 7, Title 1 (commencing with section 6500) of the Government Code of the State of California ("Act"). As provided in Government Code section 6507, the Authority shall be a public entity separate from the parties hereto and its debts, liabilities and obligations shall not be the debts, liabilities and obligations of its Member Agencies. The terms "Members" or "Member Agencies" shall mean any public entity or agency that has agreed to this Agreement, including Initial Member Agencies. The term "Initial Member Agencies" shall only mean City and District.

1.2 Purpose.

The purpose of this Agreement is to provide for the joint exercise of powers to provide a full range of fire services ("Fire Protection Services") within the Authority's jurisdictional area including:

- (a) Administer and direct the personnel that provides the Fire Protection Services and provide the necessary administrative support for its programs and operations, which shall include, but not be limited to,
 - (i.) Provide fire safety plan checks and inspections for all commercial, residential and industrial buildings.
 - (ii.) Coordinate abatement activities for hazardous materials and nuisances.
 - (iii.) Promote fire prevention.
 - (iv.) Respond to fire and emergency calls to provide fire suppression, rescue, emergency medical advanced life support, and hazardous materials response services.
 - (v.) Provide and manage a training program involving all facets of departmental functions and operations, for career, reserve, and volunteer personnel.
 - (vi.) Contract for or provide fire dispatch services ("Fire Dispatch Services") within the Authority's jurisdictional area.
- (b) Adopt performance objectives of the Authority.

1.3 General Powers.

The Authority shall exercise in the manner herein provided the powers common to each of the Member Agencies, and/or inherent to any one Member Agency, as provided by the laws of the State of California, e.g. Fire Protection District Law of 1987, and all incidental, implied, expressed, or necessary powers for the accomplishment of the purposes of this Agreement, subject to the restrictions set forth in this Agreement and shall have the power to manage, maintain, and operate facilities.

1.4 Specified Powers.

The Authority is hereby authorized, in its own name, to do all acts necessary for the exercise of the foregoing powers, including but not limited to, any of the following:

- (a) Initiate, alter and otherwise exercise the common powers of its Members in providing fire suppression, protection, prevention and related services, and those powers that may be conferred upon it by subsequently enacted legislation, and to be the exclusive

body to make policy concerning the administration of the provision of fire service by the Authority for Member Agencies including determining if, when and where to place facilities and staff said facilities within the Authority's jurisdiction for services.

- (b) Make and enter into contracts, including contracts with its Members; provided, however, the Authority may not enter into real property development agreements pursuant to Government Code Section 65865.
- (c) To hire and employ personnel or to contract for personnel to fulfil its mission.
- (d) Assume existing contracts relating to fire suppression, protection, prevention and related services.
- (e) Lease, acquire, hold and dispose of real and personal property.
- (f) Invest reserve funds.
- (g) Incur debts, liabilities, or obligations, provided that all long term bonded indebtedness, certificates of participation or other long-term debt financing require the prior consent of the Member Agencies.
- (h) Sue and be sued in its own name.
- (i) Apply for grants, loans, or other assistance from persons, firms, corporations, or governmental entities.
- (j) Use any and all financing mechanisms available to the Authority, subject to the provisions of this Agreement.
- (k) Prepare and support legislation related to the purposes of the Agreement.
- (l) Lease, acquire, construct, operate, maintain, repair and manage new or existing facilities, apparatus and equipment as well as to close or discontinue the use of such facilities, apparatus and equipment.
- (m) Levy and collect payments and fees for Fire Protection Services.
- (n) Impose new special taxes or assessments as authorized by law to the extent allowed by law, and in coordination with the underlying jurisdiction(s).
- (o) Provide related services as authorized by law including, but not limited to, emergency medical services, emergency preparedness, mitigation of hazardous materials incidents and confined space rescue.

- (p) Contract for the services of attorneys, accountants, consultants and other services as needed.
- (q) Purchase insurance or to self-insure and to contract for risk management services.
- (r) Adopt rules, regulations, policies, bylaws and procedures governing the operation of the Authority, including the determination of compensation of Directors.
- (s) Exercise the power of eminent domain.
- (t) Advise its Members of the impact of land development on the provision of fire suppression, protection, prevention and related services.
- (u) Recommend approval of an annual fire department budget to the Member Agencies, including, but not limited to, staffing levels at each fire station and all related costs for each fire station and the administrative, training and fire prevention budget activities.
- (v) Develop finance, procurement and conflict of interest policies.
- (w) Establish fire department operational policies for fire protection.
- (x) Receive, accept, and utilize the service of personnel offered by the Member Agencies, or their representatives or agents and to receive, accept and utilize real or personal property from the Member Agencies.
- (y) Mitigate fire protection impacts caused by development within the jurisdiction of the Authority.

1.5 Restrictions on Exercise of Powers.

The power of the Authority shall be exercised in the manner provided in the Act and, in accordance with §6509 of the Act, shall be subject to the restrictions upon the manner of exercising such powers that are imposed upon general law cities in the State of California in the exercise of similar powers.

1.6 Employment of Personnel and Administration of Services.

Initially, the Authority will contract with a Member Agency to serve as the “Employer of Record” and provide all employees and employee services to the Authority. The Initial Member Agencies desire to transition to having the Authority employ its own personnel to provide any or all of the services the Authority elects to provide. In the event that the Authority elects to employ its own personnel, the Chief Executive Officer shall, with the assistance of the staffs and consultants of the Member Agencies, prepare a personnel plan (“the Personnel Plan”) detailing how the Authority would employ its own personnel. The Personnel Plan shall detail the treatment of matters such as transfer of employees from the Member Agencies to the Authority (and the transfer’s effect on

existing collective bargaining agreements, the allocation of pension liabilities and obligations, the treatment of accrued leave, civil service and seniority rights, and other employee benefits and rights), risk management, and other administrative matters required at the start-up of new organizations. The Personnel Plan shall be presented to the legislative bodies of the Member Agencies. Upon their receipt of the Personnel Plan, the Member Agencies agree to meet in good faith and negotiate the terms of the Authority employing personnel. Thereafter, Member Agencies and Authority shall enter into an agreement regarding the terms of employing personnel ("the Personnel Agreement").

Until such time as personnel are transferred to the Authority, the Authority's Chief Executive Officer shall be hired as the Fire Chief of the Member Agency that is the "Employer of Record." Until such time as personnel are transferred to the Authority pursuant to this Section, Employer of Record shall assign the functions of its personnel to the Authority.

All of the privileges and immunities from liability, exemptions from laws, ordinances and rules, all wages and benefits, disability, workers compensation, and other benefits which apply to the activities of the officers, agents, or employees of the Member Agencies when performing their respective functions shall apply to them to the same degree and extent while engage in the performance of any of the functions or duties under this Agreement.

1.7 Obligations of Authority.

The debts, liabilities, and obligations of the Authority shall not be the debts, liabilities, and obligations of any Member Agency.

1.8 Conflict of Interest.

The Authority Board shall adopt and, thereafter, maintain a conflict of interest code in compliance with applicable provisions of the Political Reform Act (Gov. Code, §87300 et seq.) and the regulations adopted by the Fair Political Practices Commission (Cal. Code Regs., Title 2, §1870 et seq.).

1.9 Identification.

The Authority's fire stations fire apparatus, vehicles and personnel will be identified as "South County Fire."

SECTION 2. GOVERNANCE.

2.1 Governing Board.

The Authority shall be administered by a Board of Directors (hereinafter, "Authority Board" or "Board") consisting of members of the legislative bodies of the Member Agencies. The initial Member Agencies, as identified in this agreement, shall each indefinitely be allocated a minimum of two Board positions. Any additional Member Agency that becomes party to this agreement shall be allocated a minimum of one Board position and may not exceed two Board positions.

Each Legislative Body shall appoint an alternate Board member from the Legislative Body who may act in the absence of a member appointed by that Legislative Body. The Board of Directors shall be called the "Board of Directors of the South San Joaquin County Fire Authority." All voting power of the Authority shall reside with the Board of Directors who shall be responsible for setting policy for the Authority including the provision of all Fire Protection Services for its Member Agencies.

All Board members shall serve at the pleasure of the Member Agency that appointed such Board member.

All vacancies on the Board of seats appointed by Member Agencies shall be filled by the appointing Member Agency within thirty (30) calendar days of the vacancy. Each board member shall cease to be member of the Board of Directors when such member ceases to hold office as a member of the Legislative Body appointing entity.

2.2 Officers.

(a) Chief Executive Officer.

The Authority Board of Directors shall select an Chief Executive Officer and the Chief Executive Officer shall serve as the Authority Fire Chief and shall serve at the will of the Authority Board. The Chief Executive Officer shall be responsible for implementing the Authority's policies as well as administration of the Authority's affairs and property as directed by the Authority's Board of Directors.

Initially, as stated in Section 1.6, a Member Agency shall serve as the "Employer of Record" of the Authority's and the Chief Executive Officer shall be employed by the said Member Agency. Although employed by a Member Agency, the Chief Executive Officer shall be selected by and serve at the "will" of the Authority Board of Directors.

The Chief Executive Officer shall have the power:

- To prepare and submit, in consultation with the Member Agencies, to the Board of Directors, an annual budget for the succeeding Fiscal Year;
- To expend funds of the Authority whenever authorized by the Authority's annual budget or the Member Agencies for additional services;
- To retain any consultants, or contractors, as authorized in the Authority's budget, or as may be directed by the Board of Directors;
- To supervise the operation of the Authority's Fire Protection Services and Leased Facilities;

- To make recommendations to the Member Agencies for the purchase or construction of new fire station(s) apparatus and equipment, the replacement of existing property and/or the acquisition of new property; and
- To perform such other duties as directed by the Board of Directors.

The Chief Executive Office shall provide the Authority's Board of Directors a report each quarter of the staffing levels at each fire station and such other details of operational performance of the Authority's services as well as any other reports concerning the Authority as may be requested by the Board of Directors.

(b) Secretary/Clerk.

The Secretary/Clerk shall be appointed by the Board. The Secretary shall countersign all contracts signed by the Chairperson, Vice-Chairperson and/or the Chief Executive Officer on behalf of the Authority, as well as perform such other duties as may be imposed by the Board of Directors.

The Secretary/Clerk shall be responsible for providing notice of, preparing and posting agendas after consulting the Member Agencies, and keeping minutes of regular, adjourned regular, and special meetings of the Board, and shall cause a copy of the minutes to be forwarded to each Director. The Secretary/Clerk shall have charge of, handle and have access to all other records of the Authority. The Secretary/Clerk shall be directed by the Chief Executive Officer.

(c) Controller/Treasurer.

The Controller Treasurer shall be appointed by the Board. The Controller/Treasurer shall be depository and shall have custody of all of the accounts, funds and money of the Authority from whatever source. The Controller/Treasurer shall have the duties and obligations set forth in §§6505 and 6505.5 of the Act, and shall assure that there shall be strict accountability of all funds and reporting of all receipts and disbursements of the Authority.

The Controller/Treasurer shall provide monthly reports of Member Agencies' expenditures and revenue for fire prevention and fire protection services and of the Authority to the Board of Directors in such form as may be specified by the Board.

(d) Officers in Charge of Property.

Pursuant to §6505.6 of the Act, the Controller/Treasurer shall have charge of, handle, and have access to all accounts, funds, and money of the Authority and all records of the Authority relating thereto; the Secretary shall have charge of, handle and have access to all other records of the Authority; and the Chief Executive Officer shall

have charge of, handle, and have access to physical properties of the Authority, in such a manner as may be specified by the Authority's Board of Directors.

(e) Official Bonds.

The Chief Executive Office, Secretary/Clerk, and Controller/Treasurer shall each file an official bond in the penal sum of \$25,000 pursuant to §6505.1 of the Act.

(f) Legal Counsel.

The Board of Directors shall have the power to appoint one or more general and/or special legal counsel to the Authority who shall perform such duties as may be prescribed by the Board of Directors. Neither legal counsel, nor his/her firm, shall represent any Member Agency, unless a conflict waiver has been granted by the Authority.

2.3 Meetings of the Board of Directors.

The Board of Directors shall provide for regular meetings at a date, time, and place fixed by resolution of the Board of Directors which shall occur at least monthly. All meetings of the Board of Directors shall be called, noticed, held, and conducted in accordance with the provisions of §§54950, et seq. of the California Government Code (The Ralph M. Brown Act). A proposed agenda shall be sent to all Member Agencies prior to a board meeting, as directed, by resolution of the Board.

A minimum of half of the Board of Directors, plus one Board member, shall constitute quorum for purposes of conducting meetings and transacting business.

2.4 Chairperson and Vice-Chairperson.

The Board of Directors shall elect a Chairperson and Vice-Chairperson from among its members. The Chairperson and Vice-Chairperson shall rotate from each Member Agency annually such that the Chairperson and Vice-Chairperson shall not be appointed from the same Member Agency. In the event of the disqualification or permanent inability to serve as the Chairperson during the year, another member from the same Agency shall be appointed Chairperson to fulfill the one-year term.

The Chairperson shall preside at all Authority Board meetings, may sign all contracts on behalf of the Authority and shall perform such other duties as may be imposed by the Board of Directors.

The Vice-Chairperson shall act, sign contracts, and perform all of the Chairperson's duties in the temporary absence of the Chairperson.

2.5 Required Votes.

The affirmative votes of a majority of members of the Board of Directors shall be required to take any action, provided however, that any vote to incur a debt or to issue bonds respectively, shall require a unanimous vote of all Board members.

2.6 Voting.

Each member of the Board of Directors shall have one vote.

2.7 Minutes.

The Secretary/Clerk shall keep minutes of the meetings of the Board of Directors and forward a copy of the minutes to each Member Agency following board approval.

2.8 Bylaws.

The Board of Directors may adopt Bylaws for the conduct of its meetings and affairs as are necessary for the purposes herein.

2.9 Appointment of Officers/Employees.

Initially, an officer or employee of a Member Agency as specified in Section 2.2(c) may hold the office of Controller/Treasurer of the Authority. Within one (1) year of the Effective Date of this Agreement, the Authority shall select an independent Controller/Treasurer who shall assume the responsibilities within a reasonable period of time. Such person or persons shall possess the powers of and shall perform the Controller/Treasurer functions for the Authority required by Government Code Sections 6505, 6505.5, and 6505.6, including any subsequent amendments thereto. The Controller/Treasurer shall assure that there shall be strict accountability of all funds and reporting of all receipts and disbursements of Authority.

2.10 Expenditures for the Approved Budget.

All expenditures within the amount of the approved general budget shall be made in accordance with the authorization of the Board. Expenditures in excess of any amount approved in the general budget by the Board shall not be made without the approval of a majority of all of the Directors of the Board. A Member Agency incurring obligations to the Authority without Board approval shall be fully liable for said obligation and shall indemnify the Authority and the other Member Agencies from said obligations.

2.11 Termination of Authority.

(a) Notice Required.

This Agreement may be terminated by an affirmative vote of Member Agencies constituting 50% or more of the membership of the Authority. A written Notice of

Termination shall be sent all other Member Agencies following that vote and shall state that the termination date is effective at least twenty four (24) months from the date of the Notice.

(b) Continued Liabilities.

Upon termination of this Agreement, unless otherwise determined by a court of competent jurisdiction, any continuing obligations of the Authority shall be borne by the Member Agencies in proportion to their total monetary responsibility for costs of maintenance and operations for the life of the Authority.

(c) Disposition of Leased Facilities.

Upon termination of this agreement, Authority shall return all Leased Facilities, including any replacements, to the Member Agency on title, reasonable wear and tear excepted.

(d) Surplus Money.

Upon termination of this Agreement, any surplus money on hand shall be returned to the Member Agencies in accordance with the proportion to their total monetary responsibility for costs of maintenance and operations for the life of the Authority

(e) Obligations Survive Termination.

The obligations of Section 2.11 survive termination of this Agreement.

2.13 Dispute Resolution.

In the event the Member Agencies disagree regarding the interpretation or application of this Agreement or cannot agree on the distribution of Leased Facilities and/or other assets of the Authority upon termination, they shall meet during a ninety (90) day period in a good faith effort to resolve the disagreement informally. If the Member Agencies cannot informally resolve the dispute, they shall then attempt to resolve such dispute through either non-binding mediation or arbitration for a period not to exceed sixty (60) calendar days. If the Member Agencies cannot mutually agree upon a mediator, then the presiding judge to the San Joaquin County Superior Court shall designate a mediator. The Member Agency shall contribute equally to the cost of mediation. If mediation is unsuccessful, the disputing Member Agency may pursue litigation or any other remedies to resolve the dispute.

The arbitration shall be conducted in accordance with the California Arbitration Act (Code of Civil Procedure §1280 et seq.). The costs of mediation or arbitration (excluding each Agency's own costs) shall be borne by the Agencies equally.

2.14 Cooperation and Disclosure.

Unless and until the Authority employs its own personnel, the Employer of Record shall keep the Authority informed of any negotiations, agreements or other circumstances that have a significant impact on the operations and/or jurisdiction of the Authority. Member Agencies shall keep the Authority informed of their negotiations with developers and, prior to entering into any agreements with same, shall advise the Authority of any significant impacts to the Authority. Members shall promptly notify the Authority of all annexation or new land development applications that impact the Authority's jurisdiction before filing with any city or county. Members shall consult with the Authority other Members before seeking to raise new revenue (ballot, tax or bond) that impact the provision of fire services. Upon written request, Member Agencies shall, within a reasonable time period, provide the Authority with records necessary to conduct audits of funds used for the provision of fire services.

All Member Agencies shall be notified before any Member Agency approves a formal action by any Member Agency to pursue, financing, purchasing and/or building facilities to be used for Fire Protection Services.

SECTION 3. LEVEL OF SERVICE.

3.1 Basic Services.

A. *List of Services.* The Authority shall provide a uniform, minimum set of basic services to each Member Agency, which shall consist of the following:

1. Responding to fire and emergency calls to provide fire suppression, rescue, emergency medical, and hazardous materials response service.

2. Providing a fire prevention program that includes fire safety plan checks, issuance of fire safety permits and inspections as required by the California Fire Code.

a. The Member Agencies will each adopt the California Fire Code with such modification and amendments deemed appropriate by each Agency. As part of the code adoption process, each Agency will assign the Authority as the "Authority Having Jurisdiction" for all fire protection matters within the Member Agency jurisdictions.

b. The Authority by Member agreement may charge user fees for its fire protection program to the greatest extent possible to fully recover its cost for services. By agreement with the Authority, a Member Agency may elect to fund the aspects of the Authority fire protection program otherwise required to be funded by Authority user fees, in which case the Authority user fees shall not be charged in the territory of the Member Agency as specified in the agreement between the Authority and the Member Agency.

3. Coordinating abatement activities for hazardous materials and nuisances. So as to avoid the inequitable use of Authority resources, the Authority and Member Agencies shall

take commercially reasonable steps to recover the costs of abatement from the parties responsible for the conditions requiring abatement.

4. Ensuring that personnel are trained to provide all facets of Authority functions and operations.

5. Provide or contract for dispatch services within the Authority's jurisdiction area.

B. *Level of Service.* The Member Agencies will indirectly control the level of services, in terms of response times, through their station siting and staffing level decisions. Member Agencies shall also retain the right to elect to close stations within their jurisdictions. Nothing in this Agreement is intended to or shall limit or control the land use power of a municipal corporation or any other Member Agency that is a party to this Agreement.

3.2 Additional Services.

So long as it would be consistent with the Authority's powers set out in Section 1 above, the Authority may perform additional or higher level services within the territory of all or a particular Member Agency, pursuant to an agreement between the Authority and the Member Agencies.

SECTION 4. FACILITIES AND EQUIPMENT.

4.1 Member Agency Ownership

Member Agencies shall, as a condition of membership, make available all its stations, apparatus and equipment to provide fire protection services. Member Agencies shall be responsible for constructing and replacing fire stations within their respective jurisdiction.

Member Agencies that have overlapping jurisdictional boundaries shall enter into a separate agreement to establish ownership of facilities within the overlapped areas.

4.2 Lease of Facilities.

Each Member Agency hereby agrees to lease, by separate agreement, in consideration of the services provided herein, to the Authority the following real and personal property, together with any replacements or new property of a similar nature.

(a) All existing operational fire stations, together with all furniture, computers and furnishings in such stations.

(b) All fire apparatus, together with all equipment located on the apparatus, which consists of existing fire trucks, engines, and vehicles together with all equipment physically located on each piece of apparatus;

- (c) All personal protective equipment listed, such as turnout gear and all other personal protective equipment.

Each Member Agency warrants that its property provided is in good and workable condition.

4.4 New Facilities.

All new station constructed by a Member Agency that are within the Member Agency's jurisdictional boundaries shall be leased to the Authority upon being placed in service in accordance with this Section. Such leases shall be separately negotiated between the Authority and the Member Agency.

4.5 Improvements and Maintenance of Facilities and Apparatus.

A. *Maintenance and Repair.* The Authority shall be responsible for maintenance and ordinary repair of all facilities leased in the provision of services pursuant to this Agreement.

B. *Station Structural Repairs; Replacement.* Member Agencies shall be responsible for capital improvements to the real property owned by each, as used herein, "capital improvements" refers to structural repairs and similar improvements which are the type of improvements that would be added to the tax "basis" if the property were owned by a non-governmental entity. Member Agencies shall be responsible for ensuring that the facilities are replaced at the end of the facility's useful life, including ensuring that financial resources are available for replacement. To facilitate the Member Agencies' duty to replace facilities, the Authority shall maintain and annually update a replacement schedule for all of the leased facilities.

C. *Property Insurance.* The Authority shall maintain in full force and effect, fire insurance and a standard "all risk" policy covering all Leased Facilities. This coverage must (i) name the titled Member Agencies as an additional insureds, (ii) contain a waiver of subrogation endorsement in favor of the titled Member Agencies, (iii) cover loss or damage to the station and any Member Agency-owned personal property in the amount of the full replacement value, (iv) include a deductible no greater than \$25,000. Covered perils are to include fire, all risk, vandalism, malicious mischief and sprinkler leakage. The Parties intend that insurance proceeds paid as a result of real property damage be passed through the Authority to the effected Member Agency.

4.6 Authority-Owned Facilities.

With the approval of the legislative bodies of all of the Member Agencies, the Authority may acquire by lease or purchase real and personal property such as administration buildings, training, and other facilities as necessary..

4.7 Authority's Assumption of Liability.

The Authority shall assume responsibility for any and all loss, litigation, liability, injury, damage, claim, demand, and tort or workers compensation incidents that occur for any personnel or contracts assigned to and accepted by the Authority. The Member Agency shall retain responsibility and liability for any and all such incidents not assigned or accepted by the Authority and shall retain all risk management reserves that have been set aside for such prior incidents. The Authority may contract to receive risk management services on such terms as agreed to by the Authority.

4.8 Indemnification and Insurance.

Pursuant to Government Code section 820.9, as may be amended, members of the Board of Directors of the Authority are not vicariously liable for injuries caused by the act or omission of the Authority or any of its Members.

Except as provided herein, the Authority shall defend, indemnify and hold harmless Member Agencies and their officers, employees, agents and representatives with respect to any loss, damage, injury, claim, demand, litigation or liability and all expenses and costs relating thereto (including attorneys' fees) arising out of or in any way related to the performance of services pursuant to this Agreement or an agreement assumed by or otherwise transferred to the Authority or any Member assets to be transferred to the Authority, including but not limited to real property, personal property, equipment and apparatus.

Notwithstanding this Agreement the Members agree that no immunity or defense available to the Member Agencies under State or federal law or regulation shall be waived with respect to any third party claim.

SECTION 5. FINANCES.

5.1 Accounting Procedures.

Full books and accounts shall be maintained for the Authority in accordance with practices established by, or consistent with, those utilized by the Controller of the State of California for like public entities. In particular, the Authority's auditor and treasurer shall comply strictly with requirements governing joint powers agencies, Article 1, Chapter 5, Division 7, Title 1 (commencing with Section 6500) of the Government of Code of the State of California.

The Authority shall keep accurate and correct books of account, showing the cost of providing Fire Protection Services and Fire Dispatch Services within the jurisdictional area, broken down by: jurisdictional areas; Member Agency; locations of calls; number of units sent; cancellation of units; and the identity of responding stations. Said books and records shall be open to inspection at all times during normal business hours by a Member Agency or its designee.

The Controller/Treasurer shall provide monthly reports of expenditures and revenue of all Member Agencies relating to the fire protection and fire prevention services and of the Authority to

the Authority Board and Member Agencies in such form as may be specified by the Board or requested by a Member.

5.2 Audits.

The Controller/Treasurer shall cause the books of account and other financial records of the Authority to be audited by an independent public accountant or certified public accountant in accordance with §§6505 and 6505.6 of the Act.

The records and accounts of the Authority shall be audited annually by an independent certified public accountant and copies of the audited financial reports, with the opinion of the independent certified public accountant, shall be filed with the County Auditor, the State Controller and each Member Agency within six (6) months of the end of the fiscal year under examination.

5.3 Annual Budget.

It shall be the policy of the Authority to approve only those budgets that do not exceed available revenues and neither the Authority nor the Employer of Record shall disburse funds outside of approved budgets or without the prior written approval of all Member Agencies.

At least sixty (60) days prior to the commencement of each fiscal year, the Chief Executive Officer shall meet with each Member Agency to prepare a preliminary budget for the Authority based on the formula identified in Section 5.4. Each Member Agency must approve the preliminary budget prior to May 15th of each year. On or before May 15th, of each year, the Authority Board of Directors shall adopt a preliminary annual budget for maintenance and operation costs of the Authority. On or before September 1, of each fiscal year, the Authority Board shall adopt a final annual budget for maintenance and operation costs of the Authority.

Following approval of the annual budget by the Authority, Member Agencies shall pay their pro rata share 120 days in advance of their expenses as estimated within the current approved budget.

The Chief Executive Officer and the Treasurer shall provide quarterly budget updates to the Authority Board.

5.4 Responsibility for Maintenance and Operations Costs.

The Member Agencies shall share responsibility for the annual costs of maintenance and operations for Fire Protection Services, Fire Dispatch Services, any expenses of the Member Agency pursuant to this Agreement, and any insurance premiums paid by the Member Agency to insure itself against liability arising out of the contract with the Authority for the provision of fire services. Based on the formula in the paragraph below, each Member Agency shall be responsible for all such costs within their jurisdictional fire protection boundaries. Member Agencies with overlapping boundaries shall enter into a separate agreement that establishes fire protection responsibilities.

Prior to December 31 of each year, the Chief Executive Officer and Treasurer shall meet with each Member Agency to provide an accounting of the previous fiscal year. Except as otherwise provided in this Agreement, or pursuant to a resolution adopted by each Member Agency, the cost allocation shall be determined by the following formula:

Divide the total number of daily staffed positions within each Member Agency by the total number of daily staffed positions within the Authority.

Example: If the Authority has a total number of seven (7) daily staffed fire companies, each staffed with three (3) personnel, the total staffed positions for the Authority would be twenty-one (21). If a Member Agency had four (4) companies within their jurisdictional boundaries, the Member Agency would be responsible for twelve (12) daily staffed positions of the total twenty-one (21) daily staffed positions. Twelve (12) divided by twenty-one (21) equals 57.14 percent. The Member Agency with four (4) of the seven (7) companies would be responsible for 57.14 percent of the operating cost of the Authority.

The formula used for cost allocation shall be used for all fire protection and fire prevention services provided by the Authority. Formula shall not apply to:

Station Repairs; Replacement. Member Agencies shall be responsible for capital improvements to the real property owned by each Member Agency. As used herein, "capital improvements" refers to structural repairs and similar improvements which are the type of improvements that would be added to the tax "basis" if the property were owned by a non-governmental entity. Member Agencies shall also be responsible for all facility repairs and replacements costs that exceed \$5,000 per occurrence.

5.5 Limitations on Exceeding Budget Allocations

Unless and until such time as the Authority employs its own personnel, expenditures by the Employer of Record, shall not exceed the approved Authority annual budget without prior written consent of all Member Agencies. Any expenditures not pre-approved in writing by all Member Agencies, shall be an expense paid by the Member Agency incurring the unauthorized expenditure and shall not be a debt owed by the other Member Agency(s) of the Authority.

5.6 Funding.

Unless otherwise agreed, the Member Agencies agree to each be responsible to fund the replacement of the apparatus and facilities owned by Member Agency, respectively.

The Authority Board shall adopt an "emergency funding" policy for the funding of unforeseen emergencies that must be addressed prior to formal Board approval.

To the extent authorized by law, the Member Agencies agree to impose fire impact fees and/or special taxes necessary to provide funding for the Member Agency's obligations under this Agreement.

5.7 Additional Services.

Either Member Agency may request the Authority to perform additional services in addition to Fire Protection Services, provided such Member Agency provides funding for such additional services or other agreement between the Members.

SECTION 6. MEMBERSHIP.

6.1 Adding Member Agencies.

Any "public agency," as that term is defined in Section 6500 of the Government Code, that is authorized to provide the common powers jointly exercised pursuant to this Agreement is eligible to become an additional party to this Agreement. Member Agencies other than the Initial Member Agencies are referred to herein as "Additional Member Agencies." Eligible agencies may become members by executing this Agreement, satisfying any terms and conditions established by the Board, and upon unanimous approval of the membership of the Board. Upon such approval, this Agreement will then become effective as to that signatory.

6.2 Withdrawal of a Member Agency.

This Agreement shall remain in effect as to all Member Agencies, unless and until it is terminated as to a particular Member Agency by written notice ("Withdrawal Notice") to all other Members. The Withdrawal Notice must be given by the withdrawing Member at least two (2) years in advance of the effective date of such withdrawal. A withdrawing Member Agency shall not be liable for commitments made by the Authority after the Withdrawal Notice is given except that the departing Member Agency shall be liable for its pro rata share up to the Date of Withdrawal. A withdrawing Member Agency shall also be liable for its pro rata share of the Authority's approval contractual commitments made prior to the Withdrawal Notice, excluding automatic renewals, amendments or restatements made subsequent to the Withdrawal Notice. The withdrawing Member Agency may pay the Authority the present value of its pro rata share of all obligations as of the Date of Withdrawal or otherwise refinance its obligations, but in no event pay less than owed at the time payment is due under agreements made before the Withdrawal Notice. Upon termination of this Agreement as to a withdrawing party, the Authority shall return to the Member Agency all of the leased facilities identified in Sections 4.2 above, unless otherwise specified in an agreement between Member Agencies that share territory. A withdrawing agency shall not be entitled to any agency funds upon withdrawal.

SECTION 7. MISCELLANEOUS.

7.1 Conflict of Interest.

The Authority Board shall adopt and, thereafter, maintain a conflict of interest code in compliance with applicable provisions of the Political Reform Act (Gov. Code, §87300 et seq.) and the regulations adopted by the Fair Political Practices Commission (Cal. Code Regs., Title 2, §1870 et seq.).

7.2 Recitals.

The foregoing recitals are true and correct and are made a part hereof.

7.3 Effective Date of Agreement.

This Agreement shall become effective when signed and executed by both Member Agencies.

7.4 Operational Date of Authority.

This Agreement shall become operational on March 1, 2018, following approval and execution by the Initial Member Agencies.

7.5 Term.

This Agreement shall be effective on the effective date and shall continue in effect until terminated pursuant to Sub-section 2.11.

7.6 Headings.

All section headings in this Agreement are for convenience of reference only and are not to be construed as modifying or governing language in the section referred to or to define or limit the scope of any provision of this Agreement.

7.7 Consent.

Whenever in this Agreement any consent or approval is required, the same shall not be unreasonably withheld.

7.8 Law Governing.

This agreement is made under the Constitution and laws of the State of California.

7.9 Amendments.

This Agreement may not be amended or modified except by vote of all Members.

7.10 Severability.

In the event any provision of this Agreement is determined to be illegal or invalid for any reason, all other provisions and sections of this Agreement shall remain in full force and effect unless and until otherwise determined. The illegality of any provision of this Agreement shall in no way affect the legality and enforceability of any other provisions of this Agreement.

7.11 Non-Liability of Agents.

None of the officers or agents of the Authority shall be deemed, by reason of such status, to be officers, agents or employees of either Member Agency or to be subject to any of the requirements of either Member Agency.

7.12 Successors.

This Agreement shall be binding upon and all inure to the benefit of the successors of the Member Agencies. Member Agencies may not assign any right or obligation hereunder without written consent of the Authority.

7.13 Notice.

All notices, demands, or other communications which this Agreement contemplates or authorizes shall be in writing and shall be personally delivered or mailed to the other party at the mailing or electronic addresses listed herein.

To City: City of Tracy
333 Civic Center Plaza
Tracy, California 95376
Manager@cityoftracy.org

With copy to: City Attorney
333 Civic Center Plaza
Tracy, California 95376
attorney@cityoftracy.org

To District: Bowman & Berreth
Tracy Rural Fire Protection District
1820 Kettleman Lane, Suite F
Lodi, California 95242

Communications shall be deemed to have been received on the first to occur of: (1) actual receipt at the physical address designated above, or (2) three working days after the deposit of a written

7.14 No Continuing Waiver.

No waiver of any term or condition of this Agreement shall be considered a continuing waiver thereof.

7.15 No Third-Party Beneficiary.

The Members agree that the provisions of this Agreement are not intended to directly benefit, and shall not be enforceable by, any person or entity not a party to this Agreement.

7.16 Entire Agreement.


This Agreement contains all the terms agreed to by the Parties relating to its subject matter.

7.17 Construction of Agreement.


Each Member Agency has had an equivalent opportunity to participate in the drafting of this Agreement and to consult with legal counsel. Therefore, the usual construction of an agreement against the drafting party shall not apply hereto.

[SIGNATURES ON NEXT PAGE]

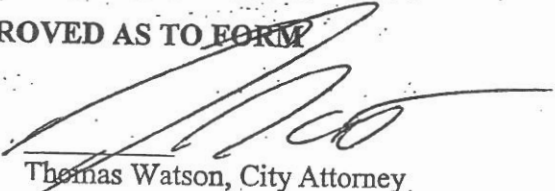
CITY OF TRACY

By: 
Robert Rickman
Mayor

ATTEST

By: 
Adrienne Richardson, City Clerk

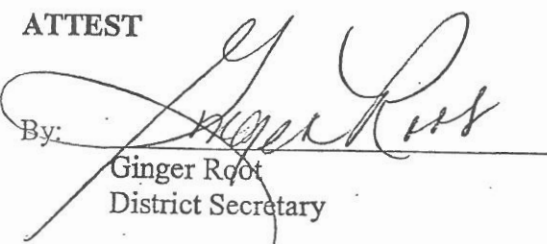
APPROVED AS TO FORM

By: 
Thomas Watson, City Attorney

TRACY RURAL FIRE PROTECTION DISTRICT

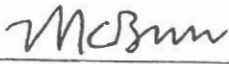
By:  Vice Chair for
Tim Smith
District Chair

ATTEST

By: 
Ginger Root
District Secretary

APPROVED AS TO FORM

BOWMAN & BERRETH, LLP

By: 
Mark Charles Bowman
District Counsel

SOUTH COUNTY FIRE AUTHORITY DISSOLUTION AGREEMENT BETWEEN CITY OF TRACY AND TRACY RURAL FIRE DISTRICT

This SOUTH COUNTY FIRE AUTHORITY DISSOLUTION AGREEMENT (“**Agreement**”) is made and entered into as of 2/20/2018 by and between the City of Tracy, a municipal corporation (“**City**”), and the Tracy Rural Fire Protection District, a special district formed pursuant to Health and Safety Code (“**District**”). City and District are collectively referred to as “**Parties.**”

RECITALS

WHEREAS, on September 7, 1999, the Parties entered into the JOINT EXERCISE OF POWERS AGREEMENT FOR THE SOUTH COUNTY FIRE AUTHORITY (“**Original JPA Agreement**”) thereby forming the South County Fire Authority (“**SFCA**”) pursuant to Government Code Section 6500 *et seq.* to jointly provide fire protection services in their respective jurisdictions; and

WHEREAS, on September 7, 1999, the Parties also entered into another agreement titled “AGREEMENT BETWEEN THE CITY OF TRACY AND TRACY RURAL FIRE PROTECTION DISTRICT REGARDING THE CITY OF TRACY’S EMPLOYMENT OF THE TRACY RURAL FIRE PROTECTION DISTRICT’S PERSONNEL” (“**Employment Agreement**”); and

WHEREAS, Original JPA Agreement was amended various times to address changes in the financial obligations of the Parties in light of operational and administrative needs (“**Amendments**”); and

WHEREAS, the Employment Agreement was also amended to reflect the Parties’ changing needs; and

WHEREAS, the Parties are in the process of forming a new joint exercise of powers authority (“**New JPA Authority**”) and now wish to dissolve the SCFA by terminating the Original JPA Agreement; and

WHEREAS, the financial obligations that are the subject of the Original JPA Agreement, Amendments and the Employment Agreement are still outstanding and the Parties wish to enter into this Agreement to terminate the Original JPA Agreement thereby dissolving the SCFA and to reach a mutually agreeable resolution regarding those outstanding financial obligations; and

WHEREAS, it is the Parties’ mutual intention that this Agreement resolve all outstanding issues thereby allowing them to participate in the New JPA Authority without further obligations under the Original JPA Agreement, Amendments and the Employment Agreement; and

NOW, THEREFORE, in consideration of the recitals above, the mutual advantages to be derived, and the mutual covenants contained herein, it is agreed by and among the Parties hereto as follows:

AGREEMENT

1. Termination of Original JPA Agreement and Dissolution of SCFA. The Parties mutually agree to waive the notice requirement under Section 8.1 of the Original JPA Agreement and agree to terminate the Original JPA Agreement and dissolve SCFA, effective July 1, 2018.

a. Assignment of Existing Contracts. All existing contracts for goods, services, and/or equipment entered into by SCFA are hereby assigned to the South San Joaquin County Fire Authority, subject to their acceptance by Board resolution.

2. Obligations Regarding Accumulated Leave of Personnel Previously Employed by District. Concurrently with the establishment of the SCFA, the Parties entered into the Employment Agreement to address their respective obligations regarding the costs of all sick leave and vacation leave accumulated (“**Accumulated Leave**”) but not paid for employees who were still employed by District as of September 15, 1999 (“**District’s Former Employees**”) and subsequently hired by City.

- a. **Existing Retirees’ Accumulated Sick Leave.** The current value of the Accumulated Sick Leave of District’s Former Employees who retired while employed by the City prior to the effective date of this Agreement (“**Existing Retirees**”), is \$1,612, 026.01 and as further described in Exhibit A. District remains responsible for the total cost of Existing Retirees’ Accumulated Sick Leave, including interest at the Local Agency Investment Fund rate earned by City, compounded annually. District shall remit payment to the City for its share of the current value of Existing Retirees’ Accumulated Sick Leave by the Effective Date of this Agreement in the amount of \$233,214.73. City shall also remit payment for its share of sick leave accumulated by Existing Retirees during their employment with City by the Effective Date of this Agreement in the amount of \$957,168.10. District’s and City’s payments shall be deposited and maintained in a trust by City to pay for Existing Retirees’ medical premiums. The district shall have no liability or responsibility for vacation accrual on behalf of any existing retirees.
- b. **Accumulated Leave and Other Accruals of District’s Former Employees.** City and District shall jointly fund the cost of Accumulated Leave and any other accruals due to District’s Former Employees who separate from City. The amount of Accumulated Leave and accruals, and the value of the Accumulated Leave and accruals shall be determined in accordance with the Memorandum of Understanding with the Tracy Firefighters Association (“MOU”) in effect at the date of separation of each employee. The City’s and District’s respective contributions to cover the cost of the Accumulated Leave and accruals shall be in accordance with the MOU or any other agreement entered into by the District and City, in effect at the date of separation of each employee.
- c. **Termination of Employment Agreement.** The Parties further agree to terminate the Employment Agreement, effective July 1, 2018, and to release both Parties from its obligations, except for Section 5 of the Employment Agreement.

3. Pre-Paid Services and Cost-Split for Maintenance and Operations. The Parties amended Sections 6.2 and 6.6 of the Original JPA Agreement by executing Amendment No. 6 on January 2, 2013, to reflect District’s repayment of a loan from City and Parties’ joint cost-sharing of the maintenance and operations for Fire Protection Services, Fire Dispatch Services, and other costs (“**Financial Obligations**”). The City’s calculation of the outstanding loan amount as of June 30, 2017 was \$4,372,897. Following District’s request that City reconsider the amount owed by District to City under the loan, and in consideration of District’s contribution to the funding of Station 92’s maintenance and operations (totaling \$731,718), City’s receipt of Fire Prevention revenues, and past calculations of interest, the City agrees to reduce the outstanding loan amount owed by District to \$1,025,487 (“**Outstanding Balance**”).

SCFA Dissolution Agreement

- a. As consideration for City's reconsideration of Financial Obligations, District agrees that this Agreement is a full and final release of and from any such claims, demands, actions, and causes of action, in law or in equity, and all suits, debts, liens, claims, liabilities, obligations, demands, damages, losses, audit responsibilities, fiduciary responsibilities, present and future, known or unknown, contemplated or un contemplated, arising out of or in connection with the Original JPA Agreement, Amendments, and Employment Agreement, and for any and all damages of any kind whatsoever which have been or which might hereafter be incurred or sustained by the undersigned in connection with Original JPA Agreement, Amendments, and Employment Agreement, and which might exist against the undersigned herein or any other person in favor of the undersigned.
- b. District's obligations to repay City in and all amounts owed pursuant to the Amendments of the Original JPA Agreement and, in particular, the Outstanding Balance shall be deemed to be satisfied at the close of business on June 30, 2018.

4. Ownership of Fire Stations.

- a. Station 92. District hereby agrees that the resolution of Financial Obligations as set forth in Paragraph 4 entitles City to full ownership of Station 92 and District thereby relinquishes, releases, and waives any right to claim ownership of Station 92 now and in the future.
- b. Fire Stations in Overlapping Jurisdiction Areas. The Parties agree that the District shall own and operate all Fire Stations that are currently located or will be located in overlapping jurisdictions areas. If District ceases to operate a Fire Station, the Fire Station will revert back to City at no cost.

5. Public Safety Facilities Fee. City collects a Public Safety Facilities Fees ("PSF Fees"), also known as Fire Facilities Fees from all new development within the City to mitigate the impact of new development on public safety facilities in accordance with the City of Tracy's Citywide Public Safety Master Plan, adopted in 2013. City shall disburse to District PSF Fees collected after the execution of this Agreement that are attributable to mitigating the impact of new development on fire facilities located in District's jurisdictional boundaries. There are no PSF Fees for fire facilities being held by the City. Prior to City's disbursement of any PSF Fees to District, District shall execute an agreement indemnifying and holding City harmless for the District's maintenance, reporting, and use of the PSF Fee. In the event District adopts an impact fee in accordance with the Mitigation Fee Act (Government Code Section 66000, et seq), City shall reasonably cooperate with the collection of that fee. The City shall separate Fire PSF fees generated in the Fire District boundaries and report that amount to the Fire District quarterly and will not co-mingle said funds.

6. Effective Date. This Agreement shall take effect on July 1, 2018, unless otherwise agreed to in writing by City and District.

7. Termination. This Agreement may be terminated by either Party by giving written notice to the other Party sixty (60) days in advance of the proposed termination date.

SCFA Dissolution Agreement

8. Dispute Resolution. Each Party to this Agreement shall, in good faith, cooperate and assist the other in meeting the obligations contained herein. The Parties shall resolve their disputes informally to the maximum extent possible. The following process shall apply in the event either Party disputes any invoice, charge or obligation under this Agreement:

- a. If a Party disputes any obligation under the Agreement, the disputing Party shall notify the other Party, in writing, within fifteen (15) calendar days of the required payment or performance of the disputed obligation. The Parties shall endeavor to first informally resolve the dispute during those fifteen (15) days. If the Parties cannot informally resolve the dispute, they shall then attempt to resolve such dispute through non-binding mediation for a period not to exceed thirty (30) calendar days. If the Parties cannot mutually agree upon a mediator, then the presiding judge to the San Joaquin County Superior Court shall designate a mediator. The Parties shall contribute equally to the cost of mediation. If mediation is unsuccessful, the disputing Party may pursue litigation or any other remedies to resolve the dispute.

9. Miscellaneous.

- a. Notices. All notices, demands, or other communications which this Agreement contemplates or authorizes shall be in writing and shall be personally delivered or mailed to the other party. Communications shall be deemed to have been received on the first to occur of: (1) actual receipt at the address designated below, or (2) three working days after the deposit in the U.S. Mail of registered or certified mail, sent to the address below.

To City:
City of Tracy
City Manager
333 Civic Center Plaza
Tracy, California 95376

To District:
Tracy Rural Fire Protection District
c/o Bowman & Berreth
1820 Kettleman Lane Suite F
Lodi, California 95242

With a copy to:
City Attorney
City of Tracy
333 Civic Center Plaza
Tracy, CA 95376

- b. Modifications. This Agreement may not be modified orally or in any manner other than by an agreement in writing signed by both parties.
- c. Waivers. Waiver of a breach or default under this Agreement shall not constitute a continuing waiver or a waiver of a subsequent breach of the same or any other provision of this Agreement.
- d. Construction of Agreement. The Parties have each had an equivalent opportunity to participate in the drafting of this Agreement and to consult with legal counsel.

SCFA Dissolution Agreement

Therefore, the usual construction of an agreement against the drafting party shall not apply hereto.

- e. **Jurisdiction and Venue.** The interpretation, validity, and enforcement of the Agreement shall be governed by and construed under the laws of the State of California. Any suit, claim, or legal proceeding of any kind related to this Agreement shall be filed and heard in a court of competent jurisdiction in the County of San Joaquin.

10. Signatures. The individuals executing this Agreement represent and warrant that they have the right, power, legal capacity and authority to enter into and to execute this Agreement on behalf of the respective legal entities. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

CITY OF TRACY

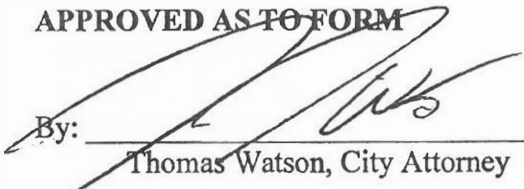
By: 
Robert Rickman, Mayor

Date:


ATTEST

By: 
Adrienne Richardson, City Clerk

APPROVED AS TO FORM

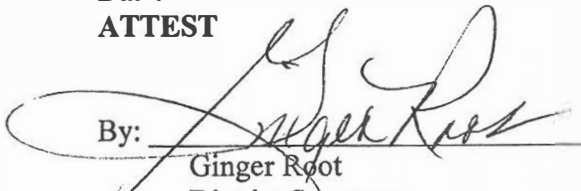
By: 
Thomas Watson, City Attorney

TRACY RURAL FIRE PROTECTION DISTRICT

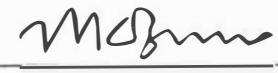
By: 
Chair

Date:

ATTEST

By: 
Ginger Root
District Secretary

**APPROVED AS TO FORM
BOWMAN & BERRETH, LLP**

By: 
Mark Charles Bowman
District Counsel