

CITY OF TRACY, CA
BUDGET SOLUTION STRATEGIES

December 2008



MANAGEMENT PARTNERS
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December 5, 2008

Mr. Leon Churchill
City Manager
333 Civic Center Plaza
Tracy, CA 95376

Dear Mr. Churchill:

Management Partners is pleased to submit our project report for the Tracy Budget Solutions Project. The report represents our analysis and recommendations following review of dozens of potential financial strategies to eliminate the City's projected General Fund deficit.

The report provides a variety of choices that will require discussion among the staff, Council and community. Some of the strategies will require additional analysis as you work to find a combination of strategies that achieves the City's goal to balance the budget in a five-year timeframe.

Our report has benefited greatly from the assistance and collaboration of your Budget Solutions Team. All of them have been responsive and provided the background and documents necessary to help us develop this comprehensive analysis of your financial options. You are fortunate to have finance staff with such a long and committed tenure with the City of Tracy.

Sincerely,

Gerald E. Newfarmer
President and CEO

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EXECUTIVE SUMMARY

In April 2008, the Tracy City Council adopted a fiscal strategy to guide the City's response to a General Fund structural budget deficit identified in the City's long-range financial projections. The City has a long history of financial stability and its practice of maintaining prudent General Fund reserves will serve the City well as it creates a strategy for solving the deficit. For the first time in many years, the fiscal year 2007-2008 budget was adopted with an imbalance between revenues and expenditures. The budget was balanced with a transfer from the Economic Uncertainty Reserve. As the fiscal year 2008-2009 budget was prepared and the long-range financial projection updated, the structural deficit was projected to continue throughout the five-year timeframe (see Figure 8 later in this report).

The primary cause of the projected structural deficit is the reduction in the rate of population growth and the City's General Fund revenues (see Figure 9 later in this report). When the City's revenues were growing at an average rate of 10% to 12% per year, the City was able to increase expenditures in order to respond to population growth and the increased demand for services. The collapses of the regional real estate market and the slowdown in the national and global economy have impacted the City's revenue picture. As a result, a fundamental change has occurred in the City's General Fund budget, creating a gap between available revenues and the cost of services. While Tracy has healthy reserves, they will not solve the basic problem of expenditures being higher than revenues on an annual basis. Some revenues can be used as bridging strategies while longer term solutions are put into place, but the City will need to take steps now to bring revenues and expenditures into balance. The choices that must be made to provide fiscal stability for City government are difficult.

This report is a result of a process initiated in May 2008. The City recognized that solutions to the persistent problem of revenues not matching expenditures require difficult political choices. The City determined that a deliberate and strategic approach to solving the projected budget shortfalls was the best way to ensure that the City achieved fiscal health and maintained its ability to provide valued services. The strategy that the City Council adopted in April 2008 has evolved into the Budget Solutions Project which was the basis for this report.

Management Partners, a national consulting firm specializing in local government with offices in San Jose and Cincinnati, was hired in May

2008 to work with the City Manager's staff and the Budget Solutions Team to design a process and produce a report that will provide the City of Tracy with options to achieve the City's balanced budget and policy reserve goals. This report summarizes the causes of the structural deficit and strategies for increasing revenue and reducing expenditures. This Executive Summary provides an overview of budget challenges and solutions. The balance of the report provides more detailed descriptions of the problem and each of the recommended budget balancing solutions.

Developing a Budget Strategy

Creating a sound long-term budget balancing strategy requires considering many ideas before settling upon an approach. Management Partners gathered input from various internal stakeholders about potential strategies, conducted data analysis including peer benchmarking comparisons, and reviewed best practices in high-performing cities nation-wide. The recommendations draw upon not only the City of Tracy's experience, but on professional management practices followed by other similar sized cities.

Throughout the strategy development process, we sought the answers to four basic questions:

1. What are the priorities and suggestions from the stakeholder groups?
2. Is the City "at market" with peer jurisdictions in terms of revenues, expenditures and other key variables?
3. Are there good ideas being used in other jurisdictions that can be replicated in Tracy?
4. Can a strategy have a significant impact on the deficit within a five-year timeframe?

As a result of the stakeholder process, benchmarking and best practices research, over 900 suggested ideas were identified for consideration. The suggestions were screened against refined qualifications criteria in order to determine which would help address the City's projected structural deficit.

The criteria used to *qualify* a suggestion for further consideration were:

1. Preliminary benchmarking information shows that Tracy is below market for revenues or above market for expenditures.
2. Strategy is being used in a best practice jurisdiction or another peer jurisdiction.
3. Prior work by the Finance Department or other City departments has made a convincing argument for change.
4. Practice is out of alignment with current City objectives or planning.

The criteria used to *disqualify* a suggestion for further consideration were:

1. Strategy cannot be effectively implemented in the five-year timeframe.
2. Strategy would not reduce the deficit or if it did it would have greater long-run costs.
3. Strategy would have a limited impact, and cannot logically be aggregated with similar strategies.
4. Strategy would not produce a return on investment within three years.

The initial screening of ideas resulted in approximately 45 strategies qualifying for further analysis. Following the analysis of these potential strategies and review with the City of Tracy staff, Management Partners identified 28 priority strategies for the City Council to consider as solutions to the structural budget deficit. Some of the strategies will contribute a substantial amount to the projected deficit reduction, while others will make smaller contributions. All strategies have their advantages and disadvantages. Unfortunately, there are few easy choices between the strategies because most of the less painful budget balancing strategies have already been implemented by the City.

Based on our analysis and information, the City Council can consider various combinations that will eliminate the General Fund structural deficit over the next five years. In the “Alternative Five-Year General Fund Projections” section of this report, we provide three scenarios using different combinations of strategies as examples of how the City might achieve its balanced budget goals. One of the strategies emphasizes expenditure reductions, while another emphasizes revenue increases, and a third a combination of the two. However, in reality there could be an almost unlimited number of strategy combinations developed to achieve the City’s goals. The priority strategies could have a positive fiscal impact of approximately \$31 million annually. Revenue and cost estimates for strategies were developed from existing information and will need further analysis prior to final implementation.

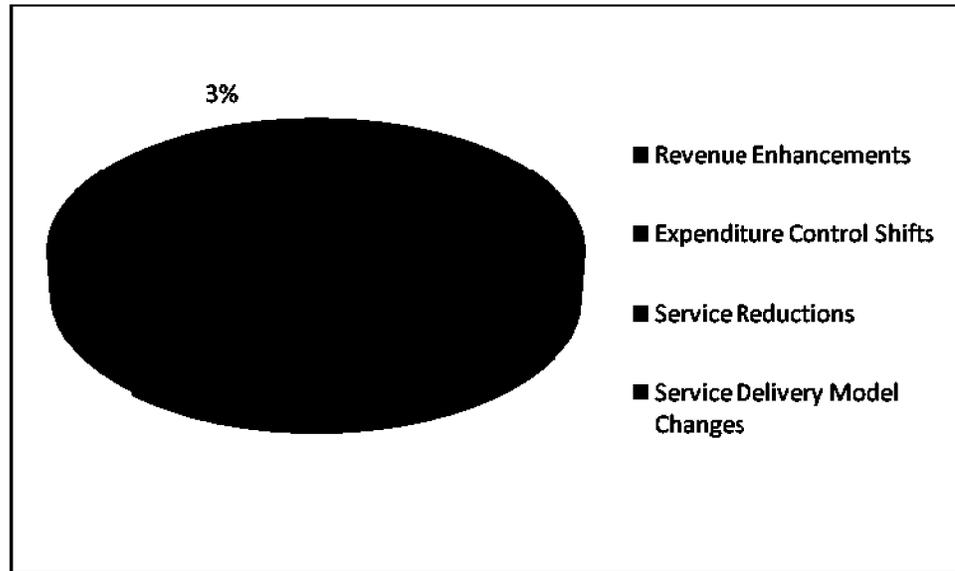
Summary of Recommended Strategies

The strategies identified as meeting the basic qualification criteria are grouped in the following categories:

1. Expenditure Control Shifts
2. Service Delivery Model Changes
3. Service Reduction Strategies
4. Revenue Strategies

The aggregate budget deficit reduction strategies developed under each category are shown in Figure 1 below.

FIGURE 1: RELATIVE CONTRIBUTION OF BUDGET REDUCTION STRATEGIES



Approximately 71% of the City's General Fund operating expenditures are for personal services (salaries and benefits). Therefore, most of the expenditure reduction strategies involve reducing the total cost of personal services in the next several years and then keeping its growth below projected future revenues.

Several strategies involve elimination of a number of General Fund positions which, in turn, will reduce service levels. As shown in Figure 1 above, 39% of the strategies involve service delivery model changes, expenditure controls and shifts, and service reductions. The remaining 61% of the strategies involve revenue increases. The expenditure reductions involve difficult choices regarding eliminating positions, freezing salaries and engaging in meet and confer discussions with employee groups, including reopening current memorandums of understanding (MOUs) to effect cost savings.

Possible revenue increases are equally difficult for the City. Should the City Council decide that some increase in taxes is required in order to achieve a balanced budget, new taxes or increased taxes will need to be submitted to the voters in November 2010. Unless the regional economy has recovered significantly in the next two years, voters may be unlikely to embrace tax increases. It is possible, however, that given the service reductions that will have been required prior to an election on tax increases, voters will decide to reinstate some of the highest priority services through increases in selective taxes.

Specific strategies and their contribution to solving the General Fund structural budget deficit are briefly summarized below by category. Further descriptions and explanations of each strategy are provided in the body of this report.

Strategies for Expenditure Controls and Shifts

Another way to improve the City's fiscal condition is to reduce the growth and amount of spending so that it falls below the level of revenue growth. The following strategies offer opportunities to control City expenditures. Not surprisingly, most of the expenditure reductions are related to the personal services expenses. The intent is not to implement all of the strategies, but to provide options for the City and its employees to consider and choose from.

Reduce City Staffing (\$4.5 Million)

Personnel services (e.g., employee salaries and benefits) represent 71% of the General Fund budget. Since 2004-05, the City has added a total of 77 new positions to the budget. The average cost per employee has increased dramatically since the year 2000. While the need for the positions has been established by the City, and the current staffing is in alignment with comparable cities, given its current revenue trends, Tracy can no longer afford 412 General Fund positions. Eliminating 40 positions will provide annual savings of approximately \$4.5 million.

Request an Employee Contribution for PERS Costs (\$1.625 Million)

The current total annual General Fund contribution to fund the PERS (Public Employee Retirement System) is \$8.6 million. This contribution is divided between an employee share (\$2.8 million) and an employer share (\$5.8 million). In past compensation agreements the City has agreed to "pick up" the entire employee share of the contribution. The cost of these retirement contributions represents a significant and increasing portion of the City's operating costs. Given the value of the benefits to employees it would be appropriate for the City to request employees pay a portion of the employee share of the annual contribution. Each 1% of the employees' share of the contribution represents \$325,000 annually, so if employees picked up 5% it would reduce the City's costs by \$1,625,000 annually.

Reduce or Eliminate Grand Theatre Subsidy (\$600,000)

The Grand Theatre Center for Performing Arts is a new arts complex that has been open for only a year. The theater has been more expensive to run than anticipated, with the City losing money on certain productions. The General Fund is subsidizing this operation. The City can change the business model to reduce the subsidy.

Reduce the Non-Personal Services Budget (\$1.3 Million)

The City staff has already identified \$1.3 million in savings in the non-personal services accounts of the current budget. These savings could be continued in future budgets.

Implement 10-Day Employee Furlough (\$500,000)

At least three Bay Area cities have implemented mandatory work furloughs. This requires unpaid time off for non-public safety employees and is an alternative to lay-offs. A 10 day furlough for the next three years would result in annual savings of \$500,000.

Health and Safety Insurance Cost Sharing and Design Changes (\$700,000)

The cost of healthcare is one of the City's most rapidly growing expenses. The City also provides an unlimited "cash out" policy that provides cash payments to employees in lieu of accepting City healthcare. This cash out program is being phased out for new employees but could be terminated, along with the City's contribution. Additionally, the employee's sharing the cost of health insurance could be increased. A combination of these two changes could save an estimated \$700,000 per year.

Slow the Rate of Pay Step Increases for New and Existing Staff (\$40,000)

Traditional public sector salary schedules, such as in place in the City of Tracy, have an average of five steps in the range, with 5% pay increases at each step. Such salary schedules were developed before the onset of collective bargaining. Most City of Tracy employees are at the top of their salary range. By increasing the number of salary steps and the amount of time required to reach maximum salary levels, and by requiring greater justification to hire new employees above the first (lowest) pay step, the City will save costs.

Eliminate Tracy Municipal Airport's General Fund Subsidy (\$80,000)

While Tracy Municipal Airport pays the City's General Fund for indirect costs and overhead, and is paying a loan from the Water Fund, the City's General Fund is paying the \$80,000 cost of the airport coordinator. The Federal Aviation Administration (FAA) is unlikely to allow the airport to close and the City has applied for a state loan to develop new hangars. The demand for general aviation hangars in the region is strong and provides a source for increased revenue streams to allow the airport to become self-sufficient. The City could eliminate its subsidy to the Tracy Municipal Airport.

Conduct a Fleet Utilization Study (\$70,000)

Cities can control expenditures by identifying inefficiencies in use of fleet (City-owned) vehicles and equipment. A thorough fleet utilization study can identify 5% to 15% savings in fleet annual costs. The analysis is complex and requires an upfront cost of between \$15,000 and \$20,000. Based on the City's existing fleet, we would anticipate the City could realize one-time revenues of approximately \$100,000 from the sale of surplus equipment, and ongoing annual savings of an estimated \$70,000.

Shift General Fund Expenses to CDBG Funding (\$40,000)

The City contracts with nonprofit organizations to provide services to low and moderate income residents; a total of \$73,000 in Community Development Block Grant (CDBG) funds are budgeted for these contracts in FY 2008-2009. The City should discontinue the funding for the lowest priority services and shift the CDBG funding to support General Fund programs that provide services to low and moderate income residents.

Reduce the Subsidy for Community Events (\$40,000)

Like many communities, Tracy sponsors community events that are an important aspect of the sense of community and the City's external image. However, these events can be costly and require a significant amount of staff time. In 2007-08 the City supported 11 community events that were estimated to cost \$265,000 in direct and indirect costs. There is no fee revenue from any of the events. Sponsorship for some of these events could generate an estimated \$40,000 to offset some of the City's costs for these events. This would represent a 15% cost recovery.

Strategies for Service Delivery Model Changes

Spending can be controlled by changing ways in which services are provided and by adopting new business models. The following is a list of strategies for changing the way services are provided in the City of Tracy.

Implement Competitive Sourcing (\$1.4 Million)

The City could control costs through competitive sourcing of services. The City provides some services with City employees that are also provided through the private sector at potentially lower costs. The City currently contracts out some services, such as part of the City's custodial needs and tree trimming. Estimating potential cost savings from contracting is difficult. One way is to assume 25% personnel cost savings of the areas for which private vendors could provide the service. The potential annual savings to the City is \$1.6 million.

Revise Cost Allocation Plan (\$150,000)

Fully allocating the cost of services provided by the General Fund to funds with other funding sources is a best practice in municipal finance. The City of Tracy is already allocating most costs to various funding sources. Ensuring that all costs, including leave accruals, are included would save the City's General Fund approximately \$150,000 per year.

Combine Positions (\$50,000)

Consolidating departments and divisions can reduce the number of supervisors required, streamline administrative overhead, and increase effectiveness by having similar operations within the same department. Because the City has previously reorganized many departments, there is only minimal opportunity to benefit from doing so now. However, the consolidation of Economic Development and Redevelopment, two fairly similar activities, into one work unit could result in potential annual savings of \$50,000 per year.

Replace Three Sworn Police Positions with Non-Sworn Positions (\$40,000)

Civilianization of appropriate tasks enables police departments to reduce costs while freeing capacity of highly-trained sworn officers to carry out duties for which sworn personnel are required. Job duties that do not require sworn authority could be considered for non-sworn positions, enabling the City to save money in salary and benefits. Because sworn positions have a specific and detailed technical skill set based upon extensive training, and because sworn retirement packages are generous, they are more costly positions than non-sworn ones. If the City were to civilianize three specific positions which are currently assigned administrative tasks (a Lieutenant and two Sergeants), annual ongoing savings are estimated to be \$40,000 (the difference between civilian and sworn salaries and benefits).

Relocate Building Inspector Offices to an Office Trailer (\$36,000)

The City's building inspectors are currently operating out of a leased building, which costs the City \$36,000 annually in rent. If the City could move the inspectors to a City-owned facility, this cost could be reduced. Coincidentally, the City has a vacant office trailer at the former annex facility which was created during construction of the new City Hall that is available for such use. In discussions for this review, building inspectors expressed some interest in working at the annex location. The net savings of such a move could be \$36,000.

Strategies for Service Delivery Reductions

Potential opportunities for service delivery reductions were among the areas identified in the stakeholder input process. It is important to note that if the City reduces the number of positions substantially as recommended in other strategies, there will likely be service reductions. The service reductions will need to be considered and prioritized as a part of the strategy of reducing the number of total General Fund positions. The following service reduction strategies represent a potential \$860,000 savings to the General Fund.

Reduce Street Tree Maintenance (\$550,000)

Currently, the City of Tracy is providing a higher tree maintenance service level than in many cities nationwide as most do not maintain all street trees in the public right of way. The annual budget for street trees maintenance is \$716,000. Based upon current annual costs, potential savings of \$550,000 are possible if the City discontinued maintenance of 80% of the street trees and transferred that responsibility to adjacent property owners.

Reduce Parks Maintenance (\$140,000)

The level of park maintenance services can be scaled to affordability in lean times, limiting maintenance to preventing hazards and safety

problems. Park Maintenance activities are currently located within the Public Works Department and are largely conducted in-house by City employees. In order to control costs, the City could review the level of service provided and adjust downward. Ongoing cost savings are estimated at \$140,000

Close Joe Wilson Pool (\$100,000)

The City of Tracy operates two public pools, the Joe Wilson Pool at Dr. Powers Park, and West High Pool, a new facility opened in the summer of 2008. The two pools are located one-half mile apart from each other. The City estimates that Joe Wilson Pool will cost approximately \$120,000 per year to operate and this does not include future repair costs, which are known to be significant and which the City has previously declared it cannot afford. If the pool were closed, a loss of \$20,000 in revenue is anticipated resulting in net annual savings of \$100,000.

Reduce Library Service Hours (\$70,000)

The City of Tracy library services are part of the San Joaquin County Library System. The City contracts for a higher level of service than the base level offered by the County. If the City were to reduce library hours, the budget could be reduced by \$67,170 per year.

Strategies for Revenue Enhancement

One way to improve the City's fiscal condition is to find new money by either enhancing existing revenue sources or implementing new ones. The following strategies are ways in which the City can enhance its revenues.

Increase the Sales Tax (\$6.2 Million)

The City of Tracy has a sales tax already in place with a rate of 7.75% which is the same as two peer cities but lower than several others. Only one City (Fairfield) has a lower rate than Tracy. A one-half cent sales tax would result in new revenues of \$6.2 million per year.

Adopt a Utility User Tax (\$5.5 Million)

One hundred forty-seven (147) California cities have implemented a Utility User Tax (UUT), ranging from 1% to 11% of utility charges. In San Joaquin County, only the City of Stockton has implemented one so far. Implementation of a modest 5.0% UUT in Tracy would result in \$5.5 million in new revenues.

Levy a Parcel Tax for Public Safety (\$3 Million)

Cities use parcel taxes, a tax on each parcel of land owned, for public safety, schools, libraries and parks. Most parcel taxes are designated for a special purpose and require a 2/3 vote. Tracy could put a public safety parcel tax on the ballot in 2010. A tax of \$10 per month (\$120 per year) can raise \$3 million per year.

Ensure Full Cost Recovery for User Fees and Establish New Fees (\$2.13 Million)

The City's fees have not kept pace with program costs and are not fully cost covering. Cost recovery percentages for City of Tracy development fee revenue and Parks and Recreation fee revenue is substantially below best practice cost recovery and, in the case of Parks and Recreation, below the City's own goal of 50%. Fire service and EMS fees also have potential to recover some Fire Department non-fire suppression costs. The City should establish cost recovery policies for various services and regularly increase existing fees to keep pace with program costs. The City should implement new fees that are commonly charged by peers.

Create a City-wide Landscaping and Maintenance District (\$700,000)

The City has a landscaping and maintenance district (LMD) with 40 separate zones, each zone with different levels of maintenance requirements and with different assessment rates. Service is provided by a contractor. Approximately 30% of the City is not covered by an LMD. The Public Works Department believes in many zones the costs are not fully recovered by the rates charged. By merging the zones into one, City-wide district, administrative costs could be significantly reduced and more revenues made available for service.

Increase and/or Restructure the Business License Tax (\$800,000)

The City's business license tax has not been increased nor adjusted for inflation since 1993. The current structure of the tax is a \$100 charge per employee/owner plus \$20 per employee/owner above one with a cap of \$2,000. There is a one-time \$75 application fee and a \$15 annual renewal fee. When initially adopted, the tax was intended to generate 3% of General Fund revenues, which is equivalent to approximately \$1.5 million for the current budget. Currently the tax generates \$700,000, approximately 1.5% of General Fund revenues, representing less than half the goal. Additional revenues could be raised if the cap and tax rate are increased.

Increase Transit Occupancy Tax (\$160,000)

The Transit Occupancy Tax is a tax charged on hotel and overnight stays. The City's existing 10% rate is the same as in two peer cities and higher than three peer cities. An increase from 10% to 12% would provide an additional \$160,000 increase in revenues. The first year revenues from an increase would be offset by election costs, but in subsequent years, this additional 2% tax would be added revenues to the General Fund.

Implement a Corporate Sponsorship and Advertising Program (\$150,000)

Some cities have generated additional non-tax revenue through corporate sponsorships and advertising programs. The City of Tracy is already

investigating the possibility of implementing these strategies. In addition to opportunities for the General Fund, advertising on buses and other facilities may generate non-General Fund revenue. The estimated annual General Fund revenue for such programs is approximately \$150,000.

Long-range strategies

In addition to these strategies for implementation in the next five years, Management Partners has also identified strategies that over a longer period of time will improve the City's financial condition. These include an emphasis on economic development, implementing a rigorous asset management program, and implementing a two-tier retirement system.

Executive Summary Conclusion

The array of choices will require substantial additional analysis and policy discussions to arrive at a combination of strategies that will accomplish the desired fiscal stability for the City. Given the tough choices facing the City, it will be important for the City Council and the community to understand the consequences of taking actions or of inaction. Because of the City's history of financial stability, many in the community may be surprised to learn of the serious issues facing the community in the future. In order to increase awareness, it will be necessary to have an effective community dialogue regarding the ultimate financial strategies selected.

A complete summary of recommended strategies can be found in Attachment A.

PROJECT APPROACH

Management Partners, working in conjunction with the City Manager's Budget Solutions Team, used a number of analytical and management techniques for this project, as described below. The combined steps enabled Management Partners to receive high-quality stakeholder input and suggestions on potential strategies, gain full understanding of the context of the City's financial challenges, and compare and contrast the City of Tracy against other peer jurisdictions. With this information in hand, we were then able to consider each proposed strategy against specific qualification criteria in order to determine which were viable as recommended strategies for deficit reduction.

Document Review

Management Partners acquired background information relevant to understanding the City's current fiscal status and history. We have thoroughly reviewed the current budget as well as 10 year historical trends for revenues and expenditures. This included information about the City's budgeting methods revenue sources and trends, expenditure allocations and trends, and labor environment. We also reviewed several consultant studies that recently evaluated many of the City's operations and made recommendations for improvement. City staff was responsive to our requests for data related to major expenditure trends and provided us with a 10-year history for personal services costs as well as data relating to the employee bargaining units and current agreements.

Interviews

As a part of the idea and strategy gathering process at the beginning of the project, Management Partners interviewed 15 City employees, including the City Manager, his staff and department heads. The purpose of the interviews was to identify opportunities for new revenue or expenditure reductions in individual departments. Many ideas were identified and have been included in the list of potential strategies.

Table 1 below lists those persons who were interviewed for this project.

TABLE 1: EMPLOYEES INTERVIEWED

NAME	TITLE	DEPARTMENT
Kevin Tobeck	Director	Public Works
Maria Olvera	Director	Human Resources
Rod Buchanan	Acting Director	Parks & Community Services
Ursula Luna-Reynosa	Director	Economic Development
Rick Golphin	Acting Chief	Police
Dave Bramell	Fire Division Chief	Fire
Maria Hurtado	Assistant City Manager	City Manager's Office
Leon Churchill, Jr.	City Manager	City Manager's Office
Andrew Malik	Director	Development & Engineering Services
Kul Sharma	Assistant Director	Development & Engineering Services
Allan Borwick	Budget Officer	Finance & Administrative Services
Debra Corbett/ Dan Sodergren	City Attorney/ Acting City Attorney	City Attorney's Office
Steve Bayley	Deputy Director, (Utilities)	Public Works
Zane Johnston	Director, Finance & Admin Svc	Finance & Administrative Services

Focus Groups

In order to gain many opinions and suggestions regarding potential deficit reduction strategies, all City employees were provided the opportunity to participate in either an electronic survey or in focus groups. All focus groups were conducted to inform stakeholders about the scale and nature of the structural deficit, listen to stakeholder opinions, and solicit structural deficit solution ideas to be explored further. More than 100 employees attended the 11 focus groups.

City staff trained in facilitation skills were utilized to facilitate nine, two-hour focus groups held at the departmental level over a three week period. These focus groups were held at various locations within the City, and invitations were provided to all City staff, inviting them to attend one of the nine focus groups. Management Partners provided specific subject-matter training to 17 focus group facilitators to enhance the facilitators' understanding of the City's structural budget deficit, and to provide a structure for the focus groups to enable the gathering of as many ideas as possible from the focus group attendees. Management Partners identified learning objectives, prepared materials to help guide the focus group discussions, and developed the scripted questions to be used for these focus groups, including educational materials about the structural deficit.

Additionally, two 90-minute stakeholder focus group sessions comprised of representatives of the City's six bargaining units were facilitated by Management Partners. The bargaining units invited included:

- Tracy Firefighters Association
- Tracy Mid Managers Bargaining Unit
- Tracy Police Officers' Association-Police Management Unit
- Tracy Police Officers' Association
- General Teamsters Local No. 439, IBT
- Technical and Support Services Unit

Each focus group was created to include a broad cross-section of the bargaining unit representatives and to be inclusive of diverse perspectives. Management Partners identified learning objectives and prepared materials to help guide the focus group discussions.

During the focus group discussions, each group responded to the same questions posed by the facilitators. Opinions expressed by individuals in the focus groups were considered confidential and not reported for individual attribution, but are shared anonymously. The employees who attended the focus groups provided thoughtful, considered comments and suggestions, and we thank them for their contribution to the assessment process.

The following questions were posed in the focus groups in order to stimulate ideas:

1. From a spending and revenue standpoint, what works well in Tracy and should not be changed?
2. If you had to find ways to save money for the City, what would you recommend? Where can the City save money without negatively impacting our customers?
3. Are there areas where the City could conduct business more efficiently?
4. From your knowledge of the existing City budget, are there any areas you can think of for which the City could shift expenditures to increase money available in the General Fund? For example, some cities have hotel tax revenues going into something like a convention center and the General Fund.
5. What are some ways in which the City could take advantage of new or increased sources of revenue?
6. Are there any areas where the City could reasonably eliminate or further reduce services in order to reduce costs?
7. Overall, what would you most like to see done to help the City resolve its budget issues?

Employee suggestions provided are summarized below by the categories used in this analysis.

- Revenue enhancement: full cost recovery; added taxes or special assessments; and more grants.
- Expenditure controls and cost shifts: changes to work schedules; changes to employee salaries; classification assessments; assessments of how enterprise funds are used; the use of the City fleet; shift changes; review of internal service charges; and changes to facility designs to reduce operational costs.
- Service delivery model changes: automation; online reporting; review of the animal shelter; combining departments; centralizing internal services; review of the use of volunteers; and outsourcing.
- Service delivery reduction: changes to frequency and use of street sweeping and spring/fall clean-ups; community stage; recreation classes and programs with low attendance; traffic accident responses; and priority or need for City task forces and committees.

In many cases, the suggestions made would not result in actual dollar savings, but could result in enhancements to service effectiveness or efficiency. Those ideas have been provided to City management in order to be utilized as a part of the City's service improvement efforts. The City has begun implementation on 25 specific improvements suggested by employees in the focus groups. The major themes discussed during the focus groups were summarized by the City of Tracy and are included as Attachment B to this report.

Online Employee Survey

Management Partners designed and deployed an online survey and invited all Tracy employees to access the website and respond to the questions. Apparently the employees prefer providing their feedback through the focus groups since only 22 responded by way of the survey. In addition, all strategy ideas presented in the survey responses were added to the initial list of ideas for consideration. The questions asked in the survey were similar to the focus group questions.

Peer City Benchmarking

As part of the review, Management Partners, in consultation with the City, created a list of peer jurisdictions with which to compare and contrast the City of Tracy. Benchmarking provides general comparisons which are useful in pointing out any significant variances from the experiences of peers.

An examination of the City against its peers allows for an initial finding of whether the City is in alignment with its peers. For the current study,

revenue, expenditure and personnel number were examined to determine where the City falls in comparison to its peers.

To establish a list of peer cities similar to the City of Tracy, Management Partners began by narrowing potential cities to ones within the following counties:

- Alameda
- Contra Costa
- Fresno
- Merced
- Monterey
- Napa
- Sacramento
- San Bernardino
- San Joaquin
- Santa Clara
- Solano
- Stanislaus
- Yolo

Within the 13 counties, the list of potential peer cities was narrowed down further to cities matching at least three of the following four criteria:

1. Population between 55,000 to 105,000
2. At least 10% population growth between 2000 and 2006
3. Median household income between \$60,000 and \$100,000
4. Low to moderate population density, defined as 50% to 75% of state average (5,570) for cities in this population class.

A total of 22 cities matched at least three of the four criteria, and four cities matched all four. In addition to the four cities that matched all the criteria, Management Partners added in the City of Brentwood based on the fact that it is within Contra Costa County and just barely missed the population threshold. The cities of Fairfield and Livermore were also added based on the fact that they had growth rates of close to 10% and may be good proxies for the City of Tracy when growth slows. Table 2 lists the eight cities that are good peer jurisdictions for the City of Tracy and how they compare.

TABLE 2: PEER CITIES

City	County	2006 Population
Antioch	Contra Costa	100,586
Brentwood	Contra Costa	47,547
Fairfield	Solano	104,897
Folsom	Sacramento	66,123
Livermore	Alameda	79,438
Manteca	San Joaquin	63,709
Pittsburg	Contra Costa	63,017
Tracy	San Joaquin	80,308
San Leandro	Alameda	78,030

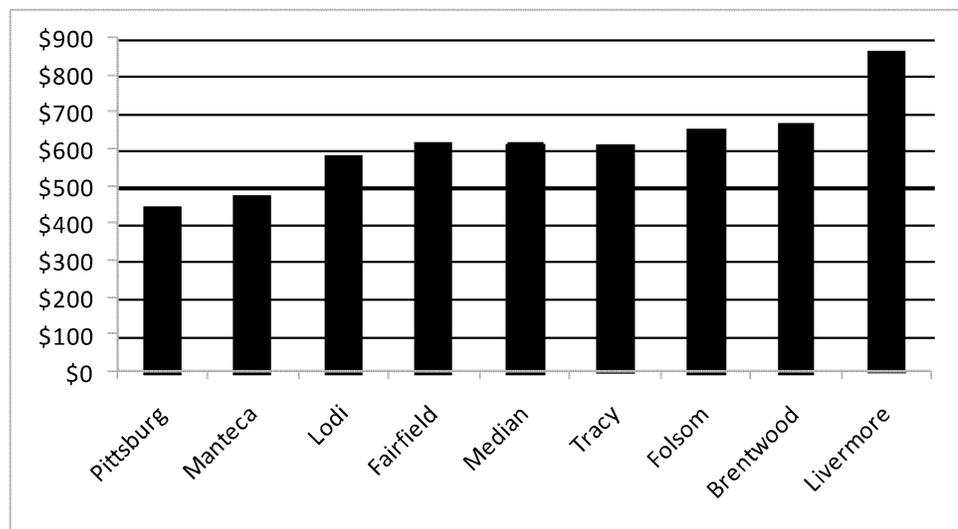
Working with City staff, Management Partners created a survey to ask the peer cities key information about revenues, expenditures and FTEs by department. City staff in the Department of Finance and Administration then sent the survey out to the peer cities. It is the experience of Management Partners that higher response rates for similar surveys are

possible when a City requests data from other cities; this was the result for the current survey. Of the eight peer cities surveyed, all but the City of San Leandro responded and provided data. The following tables highlight the data collected and comparisons with the City of Tracy.

As with all the revenue, the current economic challenges will affect future revenues totals. The data provided to the City of Tracy is based on FY 2007-2008 figures and considerable changes in the current and future fiscal years should be a factor in future projections.

Figure 2 shows General Fund revenue per capita.

FIGURE 2: GENERAL FUND REVENUE PER CAPITA



The City of Tracy is in alignment with the median of its peers for General Fund revenues per capita. The median is \$619 while Tracy is \$617. The City of Livermore has the highest revenue per capita at \$870 which is made apparent when reviewing the sources of revenue in subsequent charts which generally show Livermore with the highest tax revenues. Correspondingly, the City of Pittsburg, with the lowest General Fund revenues per capita at \$443, receives some of the lowest tax revenues.

Figure 3 shows General Fund expenditures per capita. As this chart shows, at \$667 per capital spent, the City of Tracy is slightly below the median of \$618.

FIGURE 3: GENERAL FUND EXPENDITURES PER CAPITA

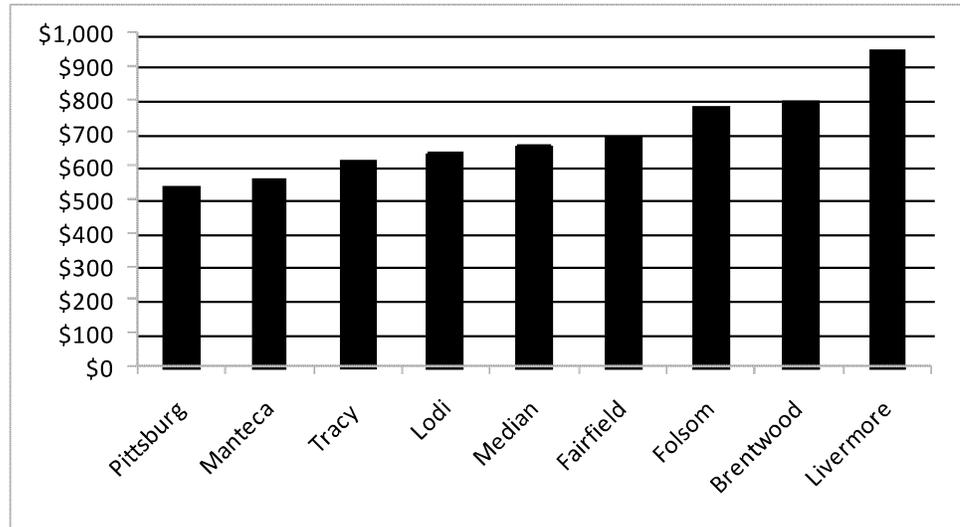
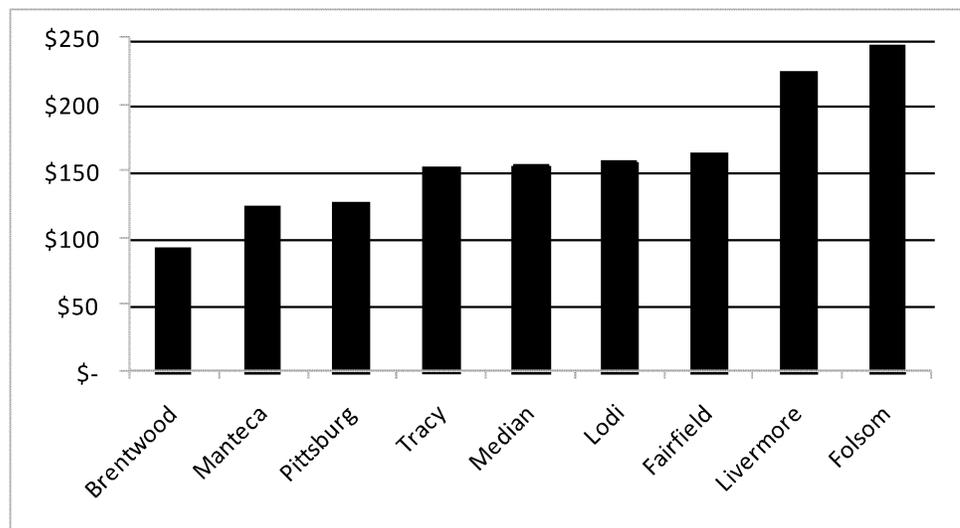


Figure 4 shows sales tax revenue per capita.

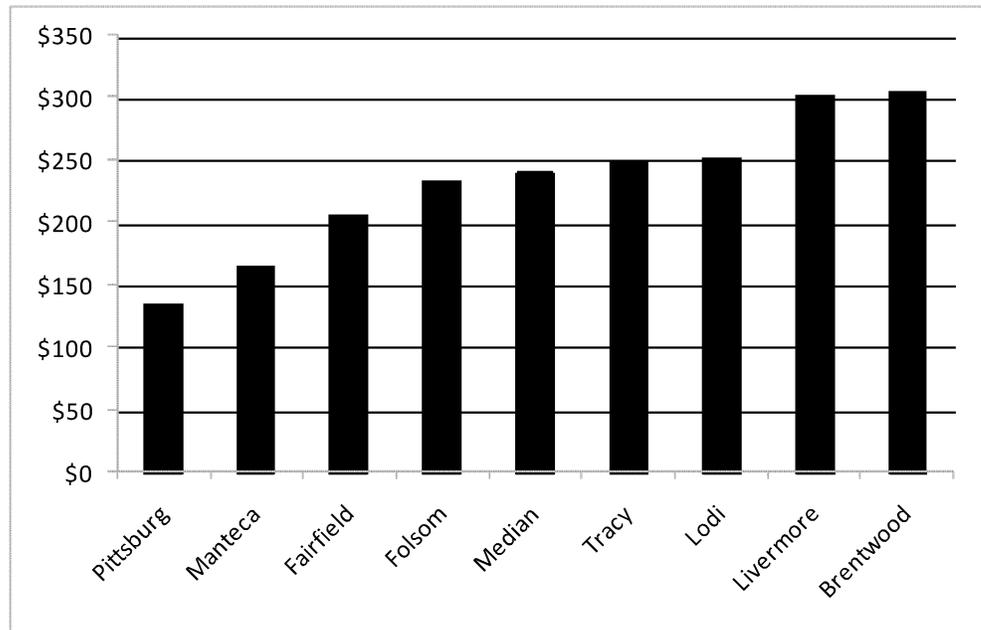
FIGURE 4: SALES TAX REVENUE PER CAPITA



Again the City of Tracy, at \$153, is equivalent to its peers with \$155 in sales tax revenue per capita. The strong revenue for the cities of Fairfield and Folsom can be partially attributed to outlet shopping centers in each City. The City of Livermore is also a top revenue producer again. The City of Livermore's place as a regional hub in the Livermore Valley, similar to that of Tracy, tends to concentrate sales tax revenue.

Figure 5 below shows property tax revenue per capita.

FIGURE 5: PROPERTY TAX REVENUE PER CAPITA

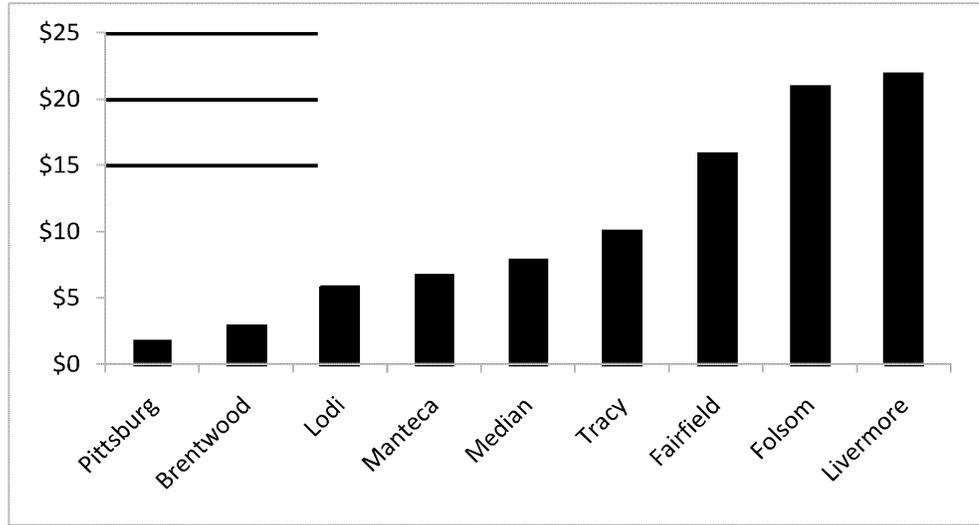


The City of Tracy is only marginally higher than its peers in property tax revenue of \$248 and the peer median of \$241 per capita. Property tax revenues are the largest form of revenue that any peer City receives. For the City of Tracy, the next closest source of revenues is sales tax at \$153 per capita. For the City of Brentwood, the significance of property tax is even higher and can be directly correlated to the housing boom the City has experienced.

Property tax revenues will significantly reduce in coming fiscal years. As real estate values decline, the current economic environment will take a toll on property tax revenues for all peer cities. Although cities in California do not have control over the property tax allocations to cities, the reduction in revenues will place a focus on revenues which cities do control.

Figure 6 below shows Transient Occupancy Tax (TOT) revenue per capita.

FIGURE 6: TRANSIENT OCCUPANCY TAX REVENUE PER CAPITA

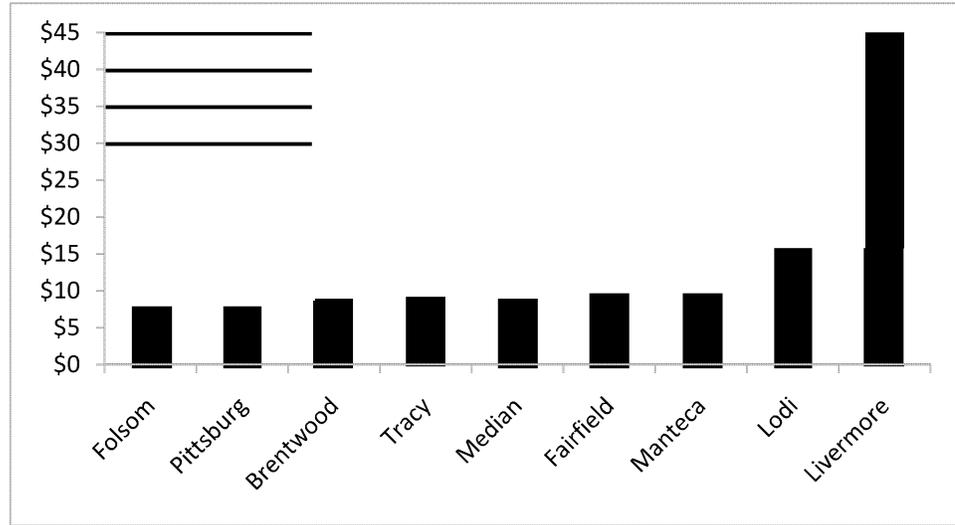


When examining the TOT, sometimes called a “bed tax,” or “hotel tax,” the City of Tracy is just above its peers. The City collects \$10 per capita while the peer median is \$8 per capita. As illustrated in the chart above, TOT revenues are not significant sources of funds for any peer City. Although the Cities of Livermore and Folsom do collect considerably more than their peers, when compared to property and sales taxes, TOT revenues are not substantial.

In addition, significant TOT revenues are usually found in cities with tourism, conference and/or a strong business basis that attracts out-of-town guests. As was discussed in the process to choose peer cities, the accurate peers for the City of Tracy are, like Tracy itself, predominately bedroom communities. As the City of Tracy grows and increases its business base, the City may see corresponding increases in TOT revenues.

Figure 7 below shows business license tax revenue per capita.

FIGURE 7: BUSINESS LICENSE TAX REVENUE PER CAPITA



The strength of a City’s business license tax revenue largely depends on the size of its business community. The City of Tracy and peer median per capita revenues for business license tax revenue are identical at \$8. The revenue is an insignificant source of income for the City of Tracy given the City’s current business profile. As the number and size of businesses increase over time, as has occurred in Livermore, the City of Tracy can expect its revenue from this tax to increase.

Table 3 shows the number of General Fund full time employees in the peer cities as compared with Tracy.

TABLE 3: GENERAL FUND PEER CITY FULL TIME EQUIVALENT EMPLOYEES

City	Total FTEs	Population	FTEs per 1,000 Population
Pittsburg	309	63,652	4.85
Tracy	412	81,548	5.06
Brentwood	270	50,614	5.33
Livermore	490	83,604	5.86
<i>Median</i>	<i>475</i>	<i>69,520</i>	<i>5.96</i>
Manteca	403	66,451	6.06
Fairfield	651	106,753	6.10
Lodi	460	63,362	7.26
Folsom	586	72,590	8.07

The number of full time equivalent (FTE) General Fund employees in the City of Tracy is below the peer median. The City of Tracy has 5.06 FTEs

per 1,000 in population, which is 15% lower than the peer median of 5.96 FTEs.

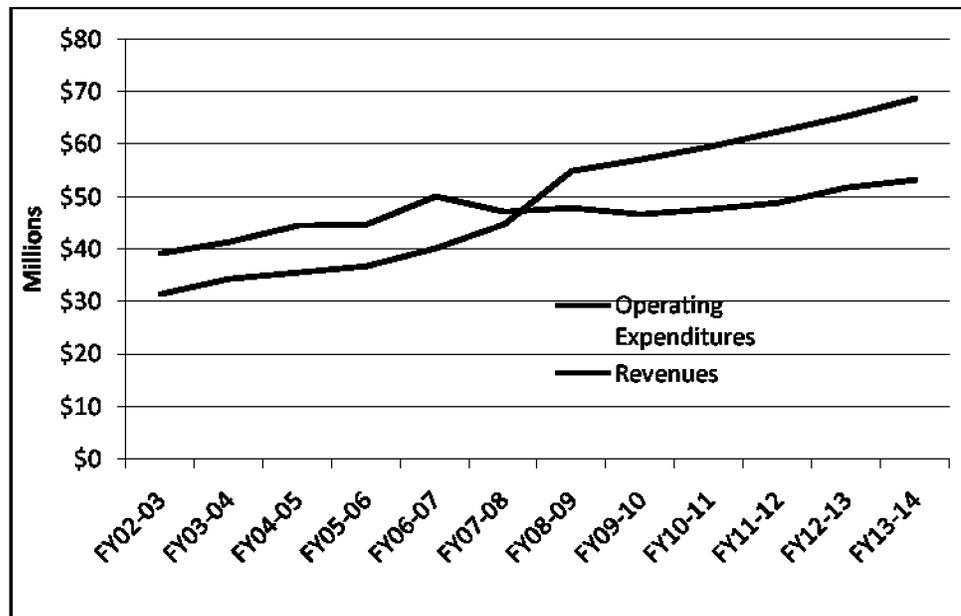
The FTEs listed above are all General Fund funded positions. Several cities have entire departments not dependent on General Fund support for operations. For example, the City of Brentwood contracts out its entire Fire Department and the City of Livermore has a special park district which funds its entire Parks and Recreation Department. Even with exceptions, on the whole the City of Tracy has an equivalent number of City employees when considered as a factor of population.

Within the discussion of specific strategies to eliminate the City's structural budget deficit, more detailed information regarding revenues, expenditures and FTE levels will be discussed. The purpose of benchmarking is to evaluate whether the City's data is in the range of its peers and to identify areas where the City may be "below market" in revenues per capita compared to its peers. Using that measure, the City of Tracy is within alignment of its peers for revenues, expenditures and FTEs.

FINANCIAL OVERVIEW: DESCRIPTION OF THE PROBLEM

This section provides an overview and financial context for the City of Tracy's current financial environment. This Budget Solutions Project arose from the development of the fiscal year 2007-2008 and 2008-2009 annual budgets. Prior to these budgets, the City was able to balance its annual General Fund expenditures with annual revenues. For the first time in recent years, the City's fiscal year 2007-2008 adopted budget included transfers from the Economic Uncertainty Fund in order to close the gap between projected expenses and revenues (see Figure 8). During the preparation of these budgets, the long-range financial projections demonstrated that unless the City makes significant changes, the structural imbalance between revenues and expenditures will continue into the future.

FIGURE 8: GENERAL FUND REVENUES VS. EXPENDITURES – HISTORY AND PROJECTIONS



Fortunately, the City maintains healthy reserves that will allow it to bridge to a balanced budget over the next five years, in concert with specific revenue increases, expenditure decreases, or a combination of both. As of November 2008, the General Fund Reserve was estimated at \$18.9 million and the Economic Uncertainty Reserve at \$17.9 million. This is a total of \$36.8 million in reserve funds. These reserves will provide the City

of Tracy a luxury most cities do not enjoy: the ability to deliberately and strategically eliminate the gap between revenues and expenditures over a reasonable period of time. One of the key purposes of these reserves is for this very situation; to cushion the City budget and services provided against the inevitable economic cycles and revenue losses to the City. Of course, the City must maintain reserves for other emergencies, such as earthquakes, lawsuits or unexpected contingencies so it is not an option to completely expend the City's reserves in the hope that revenues will turn around before the reserves are gone. By way of illustration, if the reserves were the only method of balancing the budget, without new revenues or expenditure reductions, the reserves would be completely expended within three years. Thus, this Budget Solutions Strategy process is essential to the City's fiscal stability.

Budget Principles

In response to the structural budget deficit projections, the City Council adopted a fiscal strategy in April 2008 to provide policy guidance for future financial decisions. In essence, the policy directs City staff to eliminate the projected current year imbalance by fiscal year 2012-2013. The strategy envisions the use of current reserves as one-time money to transition to the balanced budget. The policy requires the General Fund reserve to be maintained no lower than 15% of General Fund revenues.

The City Council's budget balancing principles are:

- **General Fund Reserves:** Over the next five years through FY 2012-2013, maintain a General Fund Reserve of at least 15% of the City's General Fund Operating Budget.
- **Balanced Budget:** By FY 2012-2013, present a balanced budget for Council adoption (the General Fund annual expenditures should not exceed annual/recurring revenues).
- **Economic Uncertainty Fund:** In five years beginning in FY 2012-2013 or when conditions permit, begin building up the Economic Uncertainty Fund.
- **Service Levels Maintained:** Strive to maintain existing service levels between now and FY 2012-2013.
- **No Employee Layoffs:** Ensure no employee layoffs occur between now and FY 2012-2013.

These principles provide clear and quantifiable direction for staff and serve as a good framework for considering budget balancing strategies. As possible budget strategies are described further in this report, some of these principles may need to be reconsidered in light of the challenging financial environment. The alternative financial models described later in this report show that in order to maintain existing service levels and avoid employee layoffs, the City will most likely be required to propose and have approved by the voters substantial new taxes. As shown in this report, the current and projected revenue levels cannot support 412 full

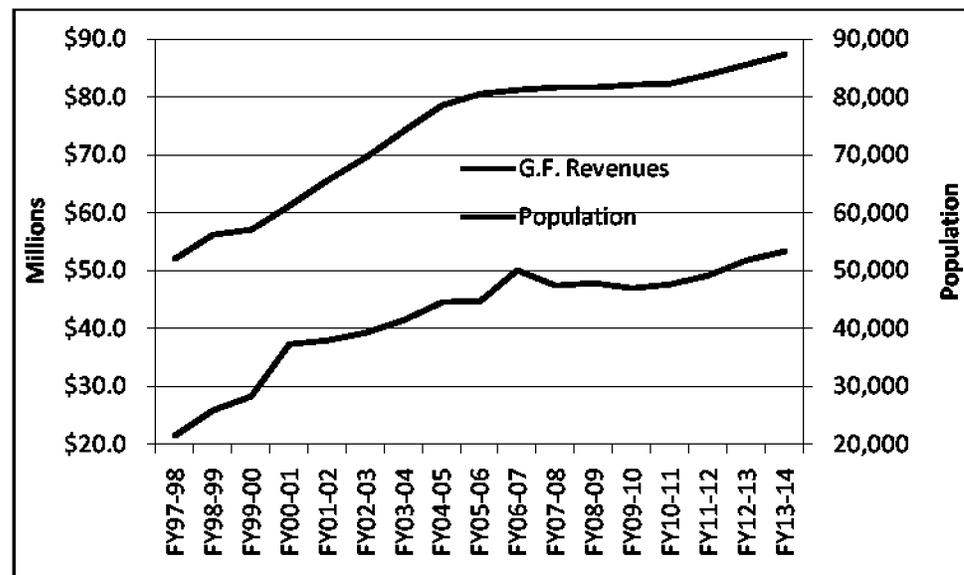
time General Fund employees. If a significant number of these positions are eliminated, service levels will likely decrease.

Fiscal Performance from 1998 through 2014

The historic revenues and expenditures for the City of Tracy's General Fund naturally reflect the tremendous population and economic growth over the last two decades. Figure 9 below shows the growth of General Fund revenues over the last 10 years and projections for the next five. In the past, it was not unusual to have annual growth in revenues of 10-12%. This allowed the City to increase expenditures to provide services for the increased population. Unfortunately, the future projection for annual revenue growth is in the 2-3% range. The two major sources of General Fund revenue -- the property tax and sales tax -- are both sensitive to population growth and economic conditions. The property tax represents approximately 41% of General Fund revenues while sales tax is 26%. While these revenue sources are affected negatively by the economy, the entire General Fund suffers flat or negative revenue growth.

Figure 9 below displays the General Fund revenue and population growth for Tracy over the last 10 years and projections for the next five years. The comparison of the revenue growth and population growth shows the positive fiscal impact of the growing population that increases the property tax and sales tax base.

FIGURE 9: TRACY REVENUE AND POPULATION TRENDS 1998-2014



Tracy's per capita General Fund revenues grew significantly until FY 2000-01 and then leveled off, as shown in Figure 10 below.

FIGURE 10: GENERAL FUND PER CAPITA REVENUE GROWTH OVER TIME

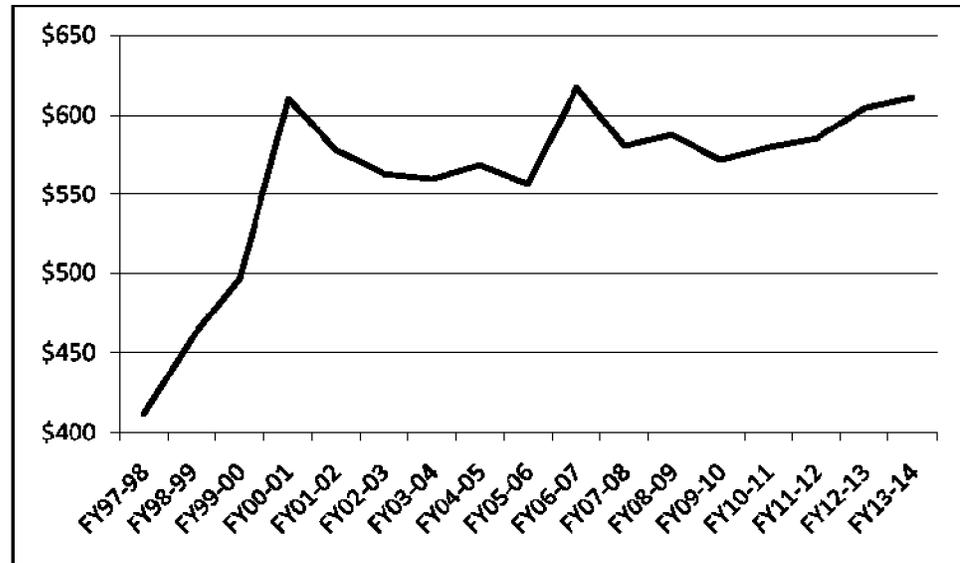


Figure 10 above shows that the substantial growth in per capita General Fund revenues has decreased and is projected to grow at a moderate rate in the future. Unfortunately, the City of Tracy is faced with a serious financial transition as the rate of revenue growth slows while the City transitions from a growing community to a more mature slow-growing City. This means the City will have to reduce the rate of growth of its expenditures while considering new revenues that are more typically found in communities with stable population.

Measure A

Some of the slowdown in population growth and revenue can be attributed to the impacts of the November 2000 voter approval of Measure A. This measure limited the number of new single-family homes that could be constructed in Tracy from a previous annual average of 1,200 to a new annual average of 600. The fiscal year 2008-2009 budget message outlined the potential budget impact of Measure A as follows:

The City has now entered a five-year period in which there will be very few homes built in Tracy even if the real estate climate improves. New home construction of this magnitude was responsible for a good portion of the growth in property taxes the City enjoyed for the past 15 years. Population growth also added to sales tax growth during the same period of time. Single-family home

construction also resulted in General Fund fee revenue and contributed to a robust local economy.

It is apparent that even without Measure A, regional economic conditions have reduced homebuilding dramatically. When the real estate market recovers, the rate of recovery for Tracy may be slowed further by the provisions of Measure A.

Global, Regional and Local Financial Conditions

Clearly, global and local economic conditions have worsened since this Budget Solutions Project was begun. The most recent revenue projections by the City's Finance Department staff reflect further reductions in sales and property tax receipts. This is a result of the continued decline in home prices in the City. The financial and economic conditions were described effectively in the following quote from the fiscal year 2008-2009 Budget Message:

The national economy will be particularly challenging to the City of Tracy. The outlook for continued home price decline could result in reduced or least very slow growth in property taxes, the number one source of General Fund tax revenue for the City...The Central Valley is ground zero for the construction and housing finance implosion, as one would expect, the regional economy is teetering on the brink of a recession... For two years in a row, the City has now experienced a decline in sales tax from the previous year. This downturn is being led by the construction category which is off 25% from a year earlier.

Although it offers little solace for Tracy, cities throughout California and indeed throughout the entire country are facing similar revenue stagnation and fiscal challenges.

Tracy Budget Solutions Team

As a part of the budget solutions strategy, the City Manager has appointed a Budget Solutions Team to assist him in developing and implementing the budget solutions strategy. The members of the team are listed in Attachment C to this report. The role of the team is to:

- Provide organizational leadership and support for the budget solutions project.
- Develop and implement a two-way communication plan with employees of the organization
- Review the work and recommendations of the consultant
- Provide advice and recommendations to the City Manager

The team developed and implemented an organizational communication plan which included focus group meetings with approximately 100 employees in order to explain the financial challenges facing the City and to solicit ideas and proposed solutions from employees. The team also met with the Management Partners team several times to provide feedback as the project has progressed and the strategies have been refined. Additionally, the team has worked with the City Manager and Finance Director to implement a variety of expenditure reductions in the current budget.

Budget Solutions Already Implemented

The City of Tracy has a tradition of prudent financial planning which has positioned the organization well to take on future fiscal challenges. Through good management and policy decisions, the City has established and maintained prudent General Fund reserves which will now help bridge the budget as it reduces expenditures and implements new revenue sources. Further, last year, as budget projections indicated a significant structural budget problem, the City began taking significant steps to address the imbalance between revenues and expenditures.

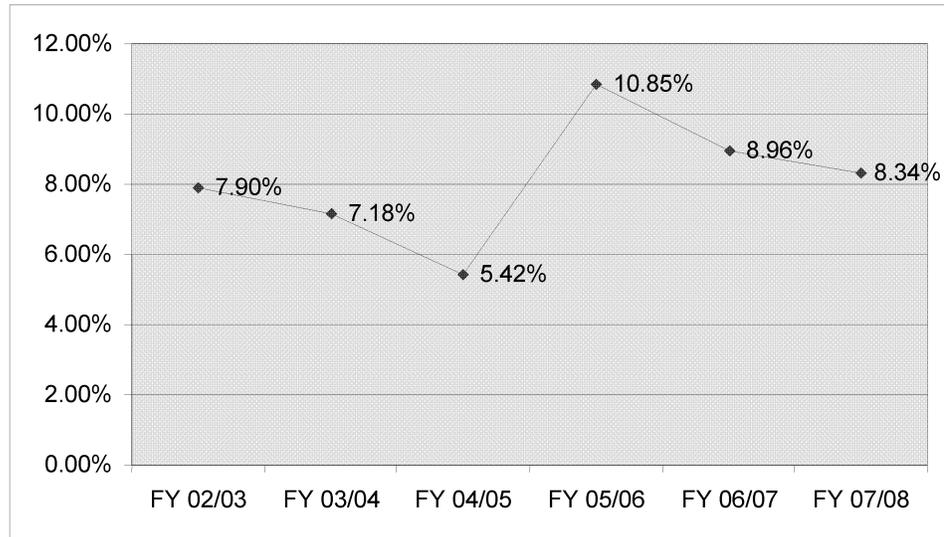
Some of the steps already taken:

- Vacant positions are not being filled, except with approval of the City Manager on a case-by-case basis. Alternatives such as contracting for the services or using temporary staff are employed as a way of providing the service while effecting cost savings.
- Eight positions added in the fiscal year 2007-2008 budget but not filled are being held vacant, saving approximately \$1 million a year.
- Staff has initiated implementation of 25 specific cost-saving ideas that were generated from employees during the focus group discussions.
- Given that there are always vacant positions in the organization for any number of reasons, annual personnel appropriations have been reduced to reflect historical experience with vacancies in the General Fund. Staff has evaluated historical under spending of appropriations and is now budgeting in order to anticipate these vacancies. This may reduce annual appropriations by as much as \$2 million annually.

City staff is also making selective reductions in spending of 30% in the non-personal services accounts of the budget. This will save approximately \$1.3 million in the current budget. Additionally, several user fee studies are being completed which will allow the City to increase service cost recovery through new or increased fees. Further, the City's focus on ensuring high performance and cost effectiveness service delivery has been a deliberate focus over the last six months. It will be even more important than ever that work is performed efficiently with clear outcomes.

Figure 11 below shows historical expenditure savings as a percent of the General Fund appropriations for major departments. The chart shows that the expenditure savings have averaged approximately 8% or \$3.3 million annually.

FIGURE 11: ANNUAL BUDGET BALANCES, FY2002-03 TO FY2007-08



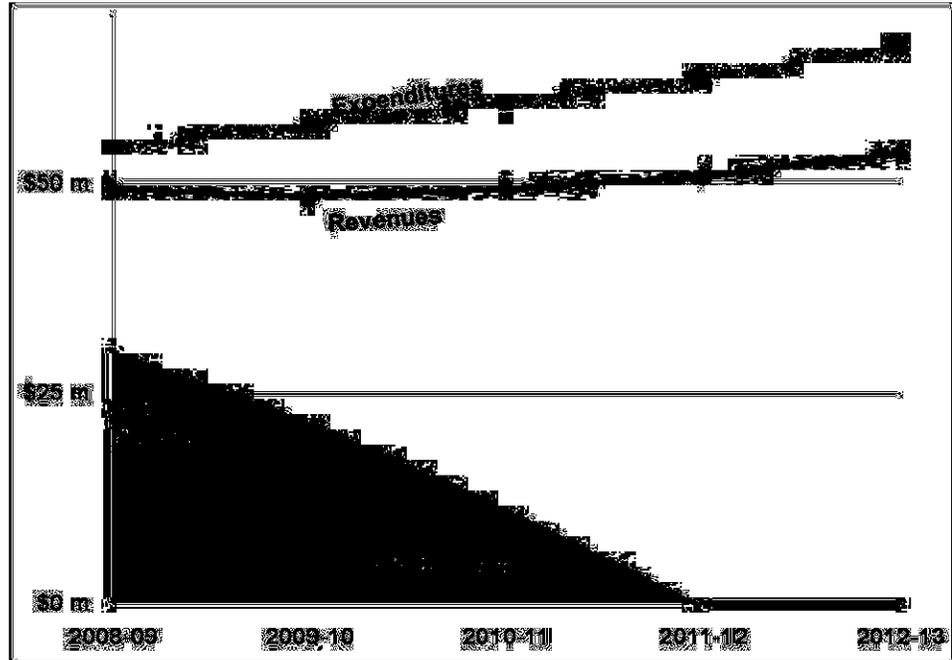
Definition of Structural Budget Deficit

In the 2008-09 City of Tracy Adopted Budget, the City used the Economic Uncertainty Fund to balance the budget. Even before the recent economic downturn, it was projected that the City would deplete all of the Economic Uncertainty Reserves by 2010-11 and all of the General Fund Reserves by 2011-12.

Figure 12 shows the Adopted Budget with revenue and expenditure projections through 2012-13. It demonstrates the depletion of the Economic Uncertainty Reserve and General Fund Reserves by the end of 2010-11.

These projections led to the Council direction to eliminate the structural deficit and to balance the General Fund by 2012-13.

FIGURE 12: ADOPTED BUDGET WITH REVENUE AND EXPENDITURE PROJECTIONS



Unfortunately, since the 2008-09 budget was adopted, economic conditions and projected City revenue have continued to decline. The City has also increased projected expenditures to provide for additional fire services.

Figure 13 compares the original revenue estimates with the most recent estimates and the resulting annual structural deficit. These projections reveal the magnitude of the structural deficit and the depletion of reserves if no action is taken to reduce expenditures and increase revenue. The annual deficits projected in Figure 13 will deplete the Economic Uncertainty reserve in 2009-10 and the General Fund Reserves in 2011-12.

FIGURE 13: IMPACT OF REVISED REVENUE ESTIMATES ON THE STRUCTURAL DEFICIT

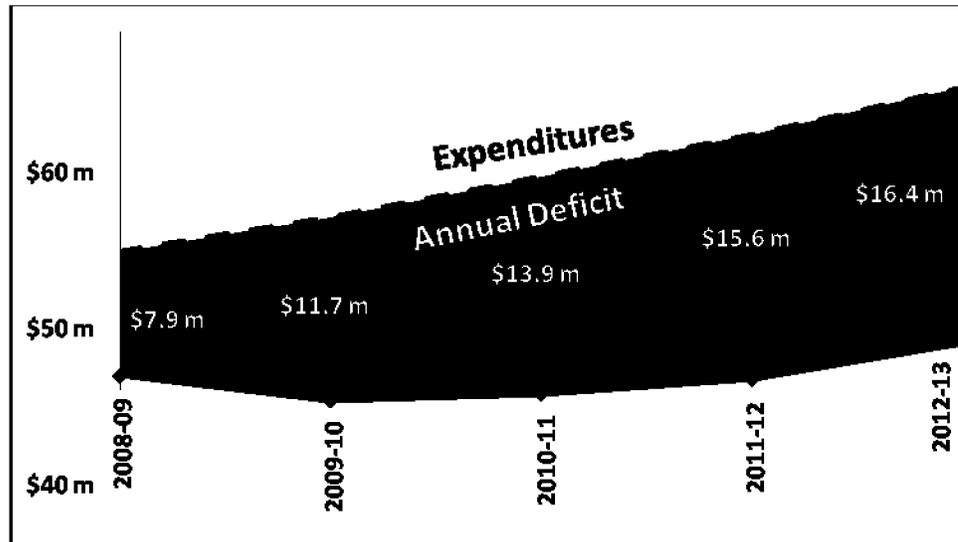


Table 4 displays the actual November 2008 five year revenue and expenditure projections. Although this mathematical model shows a negative General Fund balance beginning in 2011-2012 and growing to \$28.7 in 2012-13, this will not occur. The City will make budget adjustments to balance the budget rather than incurring a negative balance in the General Fund. This simply shows the magnitude of the structural deficit if left unresolved. These are the data reflected graphically in Figure 13 above.

TABLE 4: NOVEMBER 2008-REVISED BUDGET AND FIVE YEAR PROJECTIONS

2008-09 Budget	1	2	3	4	5
Revised	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning G.F. Balance	\$18.9	\$18.9	\$17.2	\$3.4	(\$12.3)
Beginning E.U. Balance	\$17.9	\$10.0	\$0.0	\$0.0	\$0.0
Revenues	\$47.0	\$45.4	\$45.8	\$46.8	\$49.1
Transfer In from E.U.	\$7.9	\$10.0	\$0.0	\$0.0	\$0.0
Expenses	\$54.9	\$57.1	\$59.7	\$62.4	\$65.4
Net	\$0.0	(\$1.7)	(\$13.9)	(\$15.6)	(\$16.4)
Ending G.F. Balance	\$18.9	\$17.2	\$3.4	(\$12.3)	(\$28.7)
Ending E.U. Fund Balance	\$10.0	\$0.0	\$0.0	\$0.0	\$0.0

Figures 14 and 15 illustrate how General Fund expenditures are allocated among the major departments and by object codes. As is typically the case in most cities, the police and fire departments represent more than 50% of the General Fund budget (55%). Because the primary function of a City is to provide services, all of which require employees, the majority of expenses (71%) are budgeted for personnel services.

FIGURE 14: GENERAL FUND 2008-09 REVISED BUDGET PERCENTAGES BY DEPARTMENT/SPENDING AREA

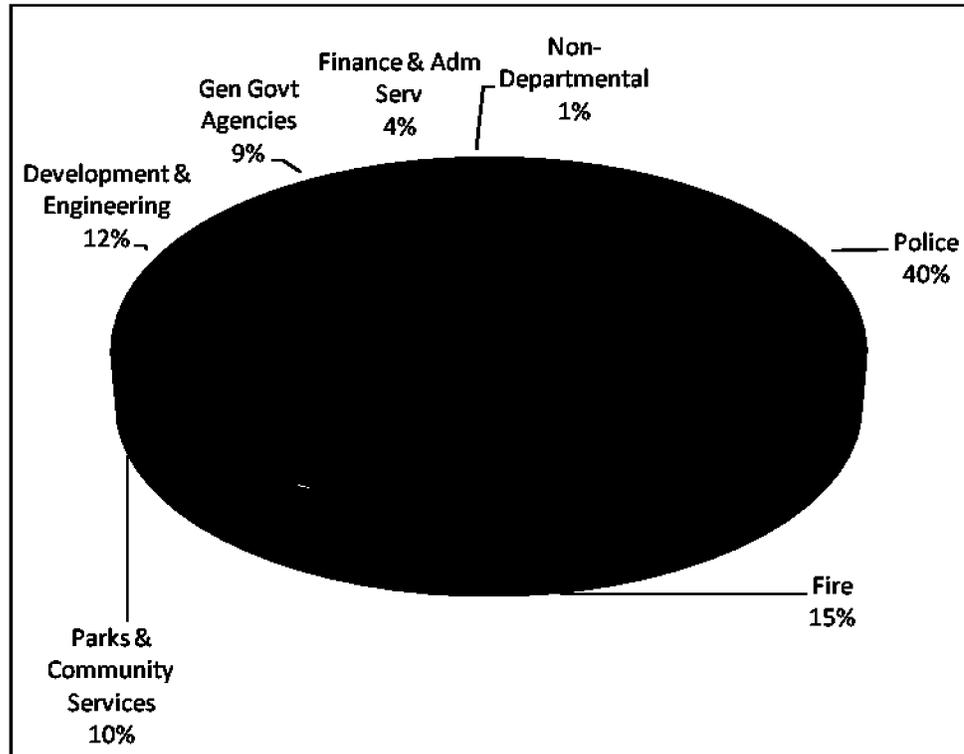
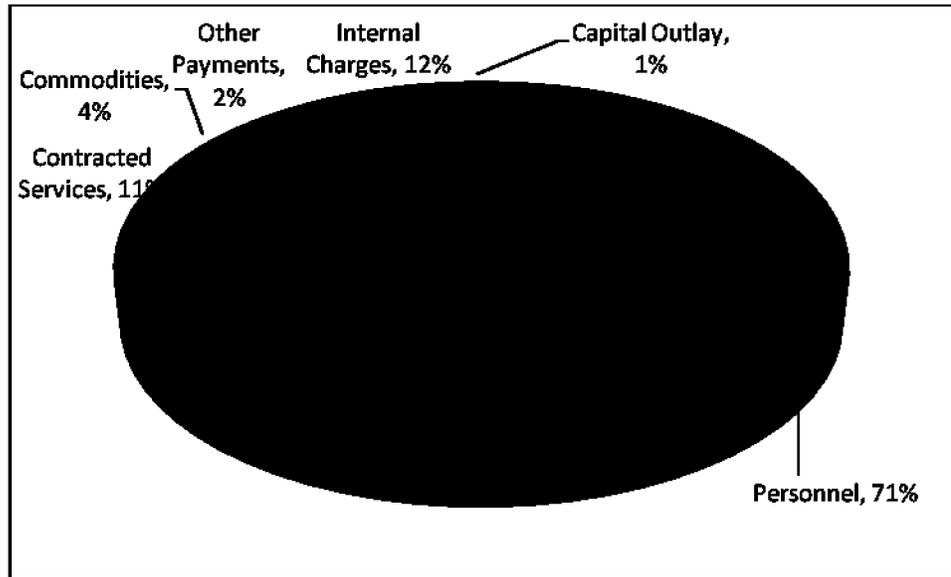


FIGURE 15: GENERAL FUND APPROPRIATIONS BY CATEGORY, FY2008-09



IDENTIFICATION OF STRATEGIES

Management Partners worked with the Budget Solutions Team to develop a preliminary list of strategies and ideas to eliminate the General Fund deficit. We solicited ideas through interviews of Tracy managers, focus groups of employees, an extensive review of financial documents, and online employee survey. The large initial list of ideas was then narrowed to a smaller more manageable list of strategies. These strategies were then grouped into four discrete categories:

- Expenditure Controls and Shifts: Those strategies which result in better controlling costs and/or changing the way in which money is allocated to different funds in the City budget.
- Service Reductions: Those strategies that would reduce or eliminate current services to save costs.
- Service Delivery Model Changes: Those strategies which change the way in which business is conducted in order to save money.
- Revenue Strategies: Those strategies which will increase revenues.

A preliminary list of potential strategies was reviewed with the Budget Solutions Team on September 3, 2008. The list was revised after feedback from the team and Management Partners analyzed the potential costs and benefits of each of the strategies. A revised list of top priority strategies was again reviewed with the Budget Solutions Team on October 9, 2008. As part of that review the team suggested several other strategies which have been analyzed. The final list of top priority strategies includes 28 individual strategies. In addition, several strategies are identified as long-term strategies which require more than five years for complete implementation.

Initial Strategy Development

After gathering ideas from employee focus groups, an online survey, best practice research and the experience of Management Partners, approximately 900 ideas were collected. The ideas were reviewed for duplicates, ideas which are not legally feasible and those which do not directly address the structural budget deficit. Ideas which did not become initial strategies have been shared with the City to review and consider internally.

The ideas which became strategies were then subjected to a qualification process to identify areas where analysis should be completed.

Criteria that qualified a suggestion for further consideration were:

- Preliminary benchmarking information shows that Tracy is below market (revenues) or above market (expenditures).
- Strategy is being used in a best practice jurisdiction or another of the peer jurisdictions.
- Prior work by budget office or other City department has made a convincing argument for change.
- Practice is out of alignment with current City objectives or planning.

Criteria that disqualified a suggestion from further consideration were:

- Strategy cannot be effectively implemented in a five-year time frame.
- Strategy would not reduce deficit or if it does would have greater longer run costs.
- Strategy would have a limited impact and cannot be logically aggregated with similar strategies
- Strategy would not produce a return on investment within three years.

As a result of the qualification process, just over 45 strategies emerged for consideration and analysis. Initial analysis of the strategies revealed that 31 required further examination and the remaining were disqualified based on new information discovered as a result of analysis.

On October 9, 2008, Management Partners meet with the Budget Solutions City team to present the 31 strategies for feedback and review. The group provided Management Partners with feedback about the strategies and began prioritizing them according to fiscal impact and implementation issues for the City. Following the evaluation of fiscal impact and implementation issues, Management Partners narrowed the final list of top priority strategies to the list of 25 discussed in detail in the next section of this report.

RECOMMENDED STRATEGIES

The following strategies are recommended for adoption by the City to reduce the General Fund structural deficit within the next five fiscal years. Each strategy below has been screened and passes the established qualification criteria, and Management Partners has performed additional research to estimate projected savings and impacts. In some cases, each strategy may contain numerous, discrete, sub-strategies that have been suggested during the strategy development process. For example, the strategy of increasing City user fees and other charges to fully cover costs includes literally dozens of potential fee adjustments.

Each strategy has been placed into one of four categories:

- Expenditure controls and shifts
- Service reductions
- Service delivery model changes
- Revenue Measures and Enhancements

This report considers strategies which are generally City-wide in scope rather than program oriented. The expectation that service reductions to existing programs will be part of the overall structural budget deficit solution should be kept in mind as well.

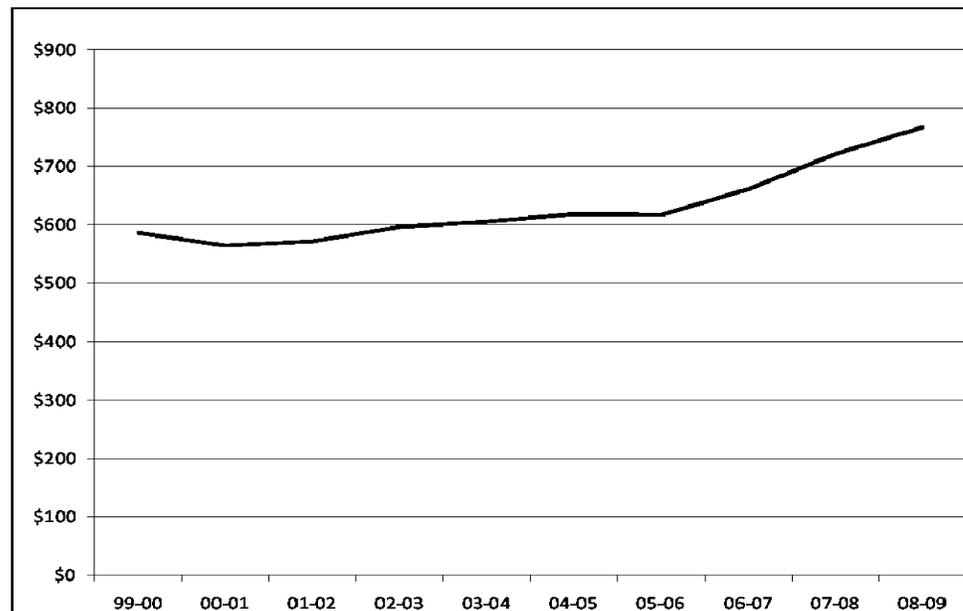
In the following discussion, Management Partners has drawn on expertise from within the City, from the experience of other peer and best practice jurisdictions and from our experience working with cities and counties throughout the United States. Each strategy discussed is feasible at some level within Tracy and either is or has been used in other similar municipal service settings. Of course the ultimate applicability to Tracy will be a matter for the policy decision makers after obtaining more input and receiving additional analysis. Ultimately, the Tracy staff and City Council will select from this list a unique combination of strategies which they believe will be most effective in achieving financial sustainability for Tracy.

Expenditure Controls and Shifts

The most effective strategy to improve the City's fiscal condition is to reduce the amount and growth rate of spending so that it falls below the level of revenue growth. The following strategies offer opportunities to control City expenditures. Because 71% of the City's General Fund expenditures is spent on the cost of the 412 full-time employees, most of the strategies relate to either reducing the cost of an average FTE, or reducing the total number of FTEs budgeted. Once a sustainable number of positions are determined in the budget process, it is critical to keep the rate of increase for salaries and benefits below the rate of increase of City revenues.

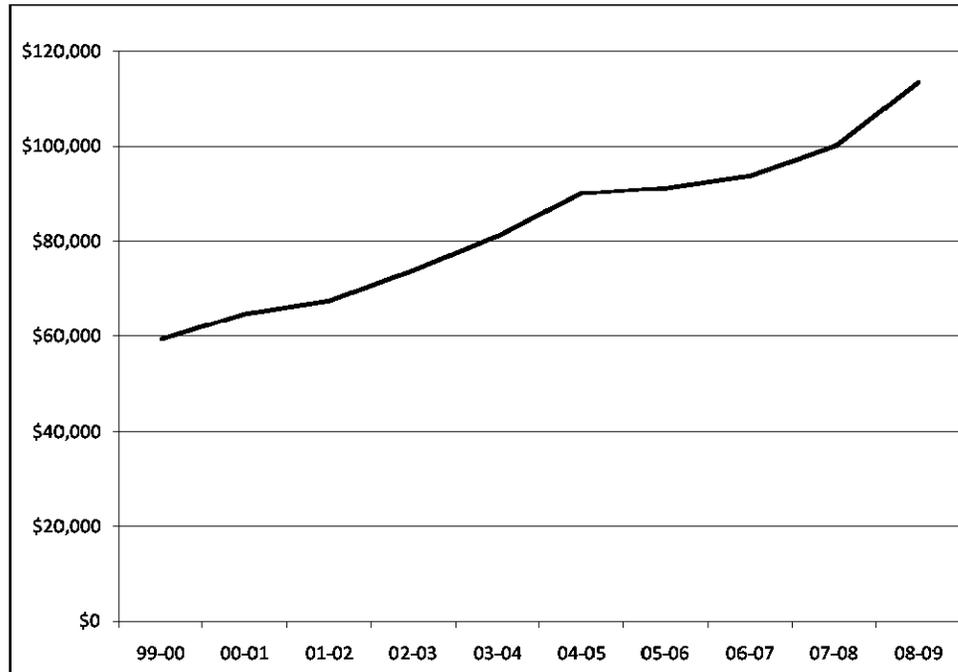
The average cost of total salaries and benefits per FTE for the City has increased substantially since the year 2000 from \$59,000-\$113,000 per year as shown in Figure 16. These figures are not adjusted for inflation.

FIGURE 16: PER CAPITA COST OF PERSONAL SERVICES IN CITY OF TRACY (2008 DOLLARS)



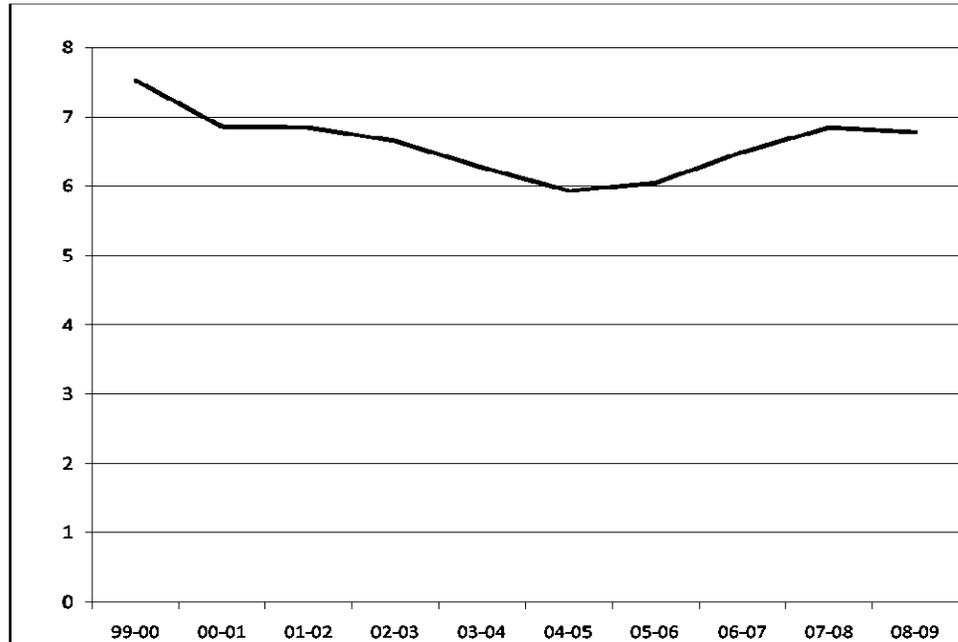
In order to compare personal services cost adjusted for inflation, Figure 17 shows the growth of per capita costs of City of Tracy personal services in 2008 dollars. These data show that the real cost per capita has increased by 32% since 2000.

FIGURE 17: CITY OF TRACY NOMINAL PERSONAL SERVICES EXPENDITURES PER FTE



The ratio of employees to population can be viewed as one measure of productivity and efficiency. As shown in Figure 18, employee FTEs per one thousand population in Tracy have ranged from a high of 7.52 employees per 1,000 residents in the year 2000, to a low of 5.94 in 2005. Currently the ratio is 6.79 employees per 1,000 residents.

FIGURE 18: CITY OF TRACY FTEs PER 1,000 POPULATION



These data show that the City has added employees at a faster rate than population growth since 2004. Indeed, in the last four years the City has added 77 new positions. These positions are distributed by the department as shown in Table 5:

TABLE 5: DISTRIBUTION OF NEW CITY EMPLOYEE POSITIONS SINCE 2004

Department	Number of Added Positions
Police Department	34
Public Works Department	17
Fire Department	7
Community Services	7
Development and Engineering Services	3
City Manager's Office	4
Finance	3
Human Resources	2

Reduce City Staffing (\$4.5 Million)

As noted earlier in this report, personnel services (e.g., employee salaries and benefits) represent 71% of the General Fund budget. Since 2004-2005, the City has added a total of 77 new positions to the budget. Despite these recent increases, the peer City comparisons show the City of Tracy general fund FTE per thousand population ratio is below the median of the peer cities.

Unfortunately based on current revenue projections the City cannot afford to maintain its current level of general fund staffing. The reduction of the number of positions and service levels is necessary as one element of an effective plan to balance the General Fund. For purposes of this strategy we have estimated a reduction of approximately 10% of the 412 general fund positions. The reduction of 40 positions at the average cost of \$113,000 annually will generate savings of approximately \$4.5 million.

Implementation of employee reductions is difficult. The City of Tracy adopted budget balancing principles include the expectation to eliminate the deficit without layoffs. The least disruptive method is to eliminate positions as employees leave or retire. This approach may require more time to achieve savings since the turnover rate in Tracy is about 20 employees per year for the General Fund. Unfortunately, the reduction of 10% of the General Fund staffing for the City will result in service reductions to the community. Using attrition also does not allow reduction of service levels based on a priority basis but allows attrition to dictate when and in what work units service reductions will be made. Since police and fire staffing comprise over 50% of General Fund staffing, it will be necessary to eliminate public safety positions as they become vacant.

Although eliminating positions through attrition is the preferable approach to reducing personal services costs, in order to better control the timing of savings and focus the reduction of positions in lower priority service areas, implementing layoffs can be a more effective service reduction strategy. This advantage needs to be weighed with the disadvantage of disruption of employee relations and morale issues. Layoffs may also require some one-time severance expenses such as accumulated vacation payments that will initially reduce projected savings.

Request an Employee Contribution for PERS Costs (\$1.63 Million)

The current total annual General Fund contribution to fund the PERS (Public Employee Retirement System) is \$ 8.6 M. This contribution is divided between an employee share (\$2.8 million) and an employer share (\$5.8 million). In past compensation agreements the City has agreed to "pick up" the entire employee share of the contribution. This was done in lieu of a portion of the annual salary increase. The cost of these retirement contributions represents a significant and increasing portion of the City's operating costs. Given the value of the benefits to employees it would be appropriate for the City to request that employees pay a portion of the employee share of the annual contribution. This of course would

need to be negotiated as a part of each of the City's labor agreements or benefits resolutions. Each 1% of the employees' share of the contribution represents \$325,000 annually, so if employees picked up 5% it would reduce the City's costs by \$1,625,000 annually.

Reduce Non-Personal Services Budget

As noted earlier in this report, City staff has identified \$1.3 million in non-personal services budget reductions to be implemented in the current fiscal year. These reductions should be maintained in future annual budgets. The reductions by department are listed below in Table 6.

TABLE 6: PROPOSED BUDGET 2008-2009 REDUCTIONS

Department	Proposed Reduction
Police	\$170,654.82
Fire	\$84,030.00
Public Works	\$256,998.00
Parks and Community Services	\$406,890.57
Development and Engineering Services	\$102,677.40
City Attorney's Office	\$11,586.00
City Manager's Office	\$81,823.00
Human Resources	\$69,110.00
Economic Development	\$11,089.50
Finance & Administrative Services	\$130,832.00
Grand Total	\$1,325,691.29

Reduce the Grand Theatre Subsidy (\$600,000)

The Grand Theatre Center for Performing Arts is a new arts complex located in the City of Tracy. The complex includes a 37,000 square foot visual and performing arts center, 560 seat proscenium theater, 110 seat studio theatre, dance studio, music studios, ceramics studio, children's art space, and concession and catering areas.

The Theatre Center has been open for only a year and has been more expensive to run than anticipated. The City notes unanticipated losses surrounding specific productions, losses for which the City has taken on the risk.

In fiscal year 2008-2009, the City expects to provide approximately \$1.4 million in General Fund support to operate the Theater Center. Last year, this figure was under-budgeted due to poor attendance at Theatre Center offerings, resulting in greater-than-anticipated losses.

The City has several options for changing the business model and reducing City costs for operation of the Theatre Center, as discussed below.

In cities such as Thousand Oaks and Walnut Creek, California, theater operations are handled by affiliated organizations which are separate from the City. The City of Thousand Oaks, located in Ventura County west of Los Angeles, has operated its arts center with no subsidies since the mid-1990s. The City uses two groups to help fund and operate it. Friends of the Civic Arts Plaza operate as a typical “friends of” organization and serves as the nonprofit arm. This nonprofit maintains its own membership and outreach capabilities, as well as organizes volunteers to help with theater events. The other organization is called the Alliance for the Arts and produces an estimated net profit of \$400,000 for the civic arts program. This group handles event production (including theater), organizes major donations and sponsorships, negotiates naming rights, produces charity fundraisers and other activities intended to directly benefit the arts plaza. Perhaps its biggest asset is the proximity to Los Angeles, enabling their “Celebrity Ambassadors” program by which celebrities will lend their presence for various fundraising activities. Thousand Oaks’ ambitious model has won awards and generated much interest among other civic arts organizations.

The City of Walnut Creek operates the Leshner Center for the Arts. The Diablo Regional Arts Association is a side organization that benefits arts programs throughout Contra Costa County, with major portions of their fundraising going to the Leshner Center. The City of Tracy already has a similar non-profit (Arts Leadership Alliance) which generates approximately \$30,000 per year for the operation of the Grand Theatre.

Of note, neither the City of Thousand Oaks nor Walnut Creek assume production risk for their theater activities. One strategy for Tracy is to no longer assume production risk. To generate theater events, the City should rent out the theater to event producers at the appropriate fee to cover maintenance and staffing needs. An alternative is to identify the actual cost to the City of various program subsidies and eliminate the lowest priority events. This will reduce costs and reallocate staffing to higher priority activities. This option would provide ongoing savings of an unknown amount and would need to be based upon a review of the financial records of the past year’s activities.

Implement 10-Day Employee Furlough (\$500,000)

Cities in California and across the country have implemented mandatory employee furloughs as a method to avoid layoffs and the elimination of public services during periods of limited financial resources. In this context, a furlough is defined as placing employees on temporary non-paid leave for a specific amount of time. Furloughs are also commonly used in the private sector to avoid layoffs and reduce costs during times of economic uncertainty.

Due to the recent downturn in municipal revenues and the national economy, several Bay Area cities have implemented employee furloughs, including Stockton, Sacramento, and San Francisco.

Furloughs can be configured so that they do not adversely affect an employee's retirement, medical benefits, allocated sick time, and vacation leave accrual. In addition, furloughs can be structured as fixed workdays or as floating workdays, which allows employees to individually select their non-paid, non-work days throughout the fiscal year. Flexible furloughs often provide additional value to employees than fixed furloughs, in that employees often elect to extend regularly scheduled holiday and vacation leaves. Conversely, fixed furlough days can allow an employer to leverage the salary cost savings of furlough days by closing certain municipal operations, thereby saving energy and other related costs.

The primary goal of implementing a furlough is to avoid layoffs and maintain critical programs and services until funding becomes available or personnel and priorities are restructured. As such, furloughs are an interim measure that should be pursued with the full knowledge that they do not resolve the City's underlying financial problems.

If the City of Tracy were to implement a mandatory 10-day furlough for all employees for the next three fiscal years, the City would save the General Fund an estimated \$500,000 annually. These savings are calculated by multiplying the General Fund budget for salaries of \$28 million by a salary reduction of .038% (which equates to a 10-day furlough), for a total of \$1,064,000 in estimated savings. However, since approximately 50% of the general fund salaries are for public safety employees who cannot participate in the furlough the estimated annual savings are reduced to \$500,000

Implementation of a furlough would require a meet and confer process with all represented employee groups.

Health and Safety Insurance Cost Sharing and Design Changes (\$700,000)

Though traditionally provided to encourage employee health and productivity, employer provision of health and safety insurance benefits to employees is not required by law. Like most public sector employers, the City of Tracy provides a very high quality health insurance program at a minimal cost to their employees. This benefit is designed to allow the City to attract and retain quality employees.

A 2008 Kaiser/HRET survey shows that the average percentage of premium paid by workers with healthcare in the state and local government sector is 12% for single coverage and 21% for family coverage.

The City of Tracy offers various health and safety insurance plans that employees can choose from, including health care, dental, vision, life insurance, long term disability and short term disability. A monthly contribution is provided to each employee's Flexible Benefit Account. From this account, employees can pay for their choice of a range of insurance plans offered by the City. The amount of the monthly

contribution to each employee's Flexible Benefit Account is established within each bargaining group's labor contract, and ranges from \$903 to \$1,300 per month.

If the monthly contribution is not enough to cover the employee's choices for insurance plans, then the difference is deducted from his or her payroll checks. If the monthly contribution is more than the cost of the plan(s) chosen, then the employee receives the difference within their payroll checks; this is referred to as a "cash out."

This "cash out" system provides a strong incentive to employees not to sign up for City offered insurance plans in order to use the "cash out" for other personal purposes. The result is that a large number of City employees choose not to enroll in the City's health and safety insurance plans due to this unlimited "cash out" provision, hurting the City's ability to negotiate lower rates based upon volume. Use of City funds in this manner strays from its original purpose to provide health and safety care to employees, and increases the expense of the insurance plans for the City and for those who choose to enroll in City offered insurance plans.

The City has begun elimination of this cash out policy and this benefit will not be offered to new employees.

In order to reduce the City's costs, three steps can be taken as part of this strategy:

1. The City can end the "cash out" policy for all employees.
2. The City can end its contribution to employees Flexible Benefit Accounts, replacing it with a cost sharing arrangement with employees who choose to enroll in City offered health and safety plans.
3. The City can continue to review options to offer lower cost plans and plans with less coverage and require increased employee premium cost sharing.

Any such change would require negotiation with the City's bargaining groups. If implemented, this strategy could result in lower healthcare benefits than those offered in surrounding cities, creating difficulty in recruiting and retaining employees. However, this differential could be offset by other City benefits that are higher than surrounding cities.

If the City's "cash out" policy was ended, as well as the City's contribution to the Flexible Benefit Accounts, the City could move to a true cost sharing arrangement with employees for the cost of health and safety insurance benefits. Using the City's existing budget for these costs as an example, as well as the average cost sharing arrangement identified for the state and local government sector in the 2008 Kaiser/HRET survey described above, the City's General Fund could save approximately \$686,400 in the current fiscal year.

The total fiscal year 2008-2009 budget for group insurance is \$6,300,000 (of which \$4,400,000 was for the General Fund portion). Of this, \$1.4

million is budgeted to be given out in “cash outs” (with \$1.1 million of that from the General Fund). These costs are projected to increase by 8% for the next budget year.

Approximately 60% of City employees currently choose single coverage and 40% choose family coverage. Table 7 shows how this proposed cost sharing arrangement could save costs to the General Fund. The savings reflected here are derived from employees picking up a larger percentage of the healthcare costs and reducing the City’s share.

TABLE 7: EMPLOYEE SHARE WITH REVISED HEALTH CARE PLAN

Coverage Type	General Fund Portion	Employee Share
Single (60%)	\$2,640,000	\$316,800 (12%)
Family (40%)	\$1,760,000	\$369,600 (21%)
TOTAL EMPLOYEE SHARE/ COST SAVINGS TO GENERAL FUND:		\$686,400

Slow the Rate of Pay Step Increases for New and Existing Staff (\$40,000)

Traditional civil service salary schedules, such as those in place in Tracy with an average of five steps in the range, were developed before the onset of widespread collective bargaining. The salary schedules were intended to provide a mechanism to reward employees annually for their performance, the growth of experience and productivity, and effectiveness on the job.

The increases are typically referred to as merit increases. In practice, they are virtually automatic. In Tracy, it takes an average City employee three to three and a half years to reach the top step of his or her job classification’s salary range. During this time, the employee is typically awarded a step increase, plus cost of living adjustments negotiated by his/her bargaining group. Because of this situation, new employees have sometimes received raises of between 8% and 13 % in a single year.

Tracy has a classification structure with five salary steps (A through E) for all positions with the exception of the Custodian classification, which has 10 steps. All four custodians are at the 10th salary step. Tracy’s classification steps are separated by a 5% increase in salary compensation. The vast majority of employees at the City are at the top of their salary range. As a result, veteran employees typically only receive an annual cost of living adjustment (COLA), no matter how strong his or her performance has been. Table 8 shows the breakdown of Tracy’s current employees by salary step. The data shows that 70% of current employees have reached the top-step of their classification (Custodians are included in the 5th step percentage).

TABLE 8: BREAKDOWN OF CURRENT TRACY EMPLOYEES IN SALARY STEP LEVEL

Classification Step	Percentage of Tracy Workforce
A	4%
B	9%
C	10%
D	7%
E (or 10)	70%

One way to control costs is to lengthen the time for employees to reach higher level pay grades. Implementation of this issue would require consultation with the City's bargaining groups and the revision of already bargained labor contracts. Some labor agreements refer to salary steps and others do not. The City can place this issue on the table as labor contracts expire or immediately work to begin a meet and confer process with labor unions.

Table 9 below illustrates when the City's current contracts with its represented employee groups will expire.

TABLE 9: DATES WHEN TRACY LABOR CONTRACTS AND BENEFITS RESOLUTIONS WILL EXPIRE

Represented Employee Groups	Contract Expiration
Firefighters Association	March 2009
Teamsters	June 2010
Technical & Support Services Unit	September 2010
Mid-Management Unit	March 2011
Confidential Mid-Managers	March 2011
Police Officers Association	June 2011
Department Heads	September 2011

If the City expanded its classification steps from five to 10 for new hires, the projected annual General Fund cost savings would be \$39,000.

The strategy to control costs is to lengthen the time for existing City employees to reach the top pay grade. If the City were able to unilaterally expand all classifications from five to 10 steps, the projected annual General Fund cost savings would be \$187,000.

An alternative would be for the City to create a new system that enables the City Manager to recognize outstanding performance through merit increases (either on a step basis or within a percentage range). This would return the City to the original intent of the merit-based step increase system. Such an approach would require negotiations with bargaining units.

Eliminate Tracy Municipal Airport's General Fund Subsidy (\$80,000)

In 2006, the City hired the Boyd Group to prepare a *Strategic Market Position and Future Utilization Analysis* of the Tracy Municipal Airport. The report found that the airport is not currently self-sustaining. While the airport pays the City's General Fund for indirect costs and overhead, and is paying a loan from the Water Fund, the City's General Fund is paying the \$80,000 cost of the airport coordinator. The report found that the Federal Aviation Administration (FAA) is unlikely to allow closure of the airport and, thus, the City is continuing regular operations.

This year the City applied for a State of California aviation loan for development of new general aviation hangars and is moving forward with their conceptual design. The City is also exploring the sale of New Jerusalem Airport, a 400 acre City-owned parcel with a concrete landing strip in agricultural fields used primarily for aerobatics. Proceeds from the sale would be used for improvements at Tracy Municipal Airport. However, the City currently makes annual revenues of \$55,000 for agricultural leases on New Jerusalem Airport land; this would need to be factored into a decision to sell the property off.

The demand for general aviation hangars in the region is strong and provides a source for increased revenue streams should they be developed at Tracy Municipal Airport. Other regional airports in the Bay Area are at capacity, have limitations and/or no room to expand. Tracy shares the San Joaquin Valley with six other general aviation "reliever" airports. While there is no shortage of capacity in the region, Tracy's location within the transportation triangle bordered by Interstates 205, 580 and 5 provides an advantage of excellent road access to the entire region.

Implementation of this strategy will result in an \$80,000 reduction in costs to the General Fund and the airport will become self-sufficient. New revenues from additional leases to offset these costs are contingent upon the construction of new hangars which, in turn, is contingent upon receipt of the state grant.

Conduct a Fleet Utilization Study (\$70,000)

The City of Tracy can control expenditures by identifying inefficiencies in the use of its City-owned vehicles and equipment. A thorough fleet utilization study can generally create cost savings to an organization by identifying the following:

- Underutilized vehicles in the fleet that may be surplus, reassigned, or sold
- Optimum use of owned, leased and rented vehicles and equipment and the use of personal reimbursements for mileage in employee-owned cars (versus City-owned ones)
- Optimum use of pooled vehicles and equipment

Management Partners has performed several fleet utilization studies and our experience is typically the identification of 5% to 15% savings of fleet annual costs. The analysis is fairly complex and requires an upfront financial commitment, in the \$15,000 to \$20,000 cost range.

Based upon the size of Tracy's fleet operation, we estimate initial one-time savings to be approximately of \$100,000 from the sale of surplus vehicles and equipment, and ongoing annual savings of \$70,000 based upon a more efficient use of fleet and fleet maintenance staff.

Shift General Fund Expenses to CDBG Funding (\$40,000)

For fiscal year 2008-2009, the City of Tracy received approximately \$393,000 in Community Development Block Grant (CDBG) funds. The CDBG funds are used to fund needed Americans with Disabilities Act (ADA) sidewalk improvement and downtown projects as well as nonprofit services to the community. The CDBG funded programs pay overhead costs to the City to the extent allowed and City staff members charge time to CDBG for project management as appropriate.

The City Council has made funding nonprofit agency programs and services through CDBG a priority in the City's budget process. However, as revenues decline, an option is for the City to reconsider the funding to nonprofit agencies to determine if core services could and should be funded in part through CDBG funds. For fiscal year 2008-2009, the City of Tracy is allocating approximately \$73,000 to nonprofit agencies to provide services for the following agencies:

- Boys and Girls Clubs
- Emergency Food Bank
- Good Samaritan
- Second Harvest Food Bank
- Senior Services (Meals on Wheels)
- Tracy Interfaith
- V.B.R. Foster Families
- Women's Shelter
- City of Tracy Recreational Scholarships
- San Joaquin Fair Housing

While all of these services are essential to a community, many of the services are the responsibility of county government (recognizing that funding is constrained at the county level as well). The City should establish criteria for evaluating which organizations support the core services of the City and determine if the funds could be shifted to support core services that are provided in low-income areas/neighborhoods of the City while still meeting the low-income restrictions of the CDBG program. The savings estimate of \$40,000 annually assumes that that amount of contracts will be shifted to current General Fund expenses that qualify for CDBG support.

Reduce the Subsidy for Community Events (\$40,000)

Like many communities, Tracy sponsors community events that are an important aspect of the sense of community and the City's external image. However, these events can be costly and require a significant amount of staff time.

The City recently contracted with a consultant to review and make recommendations related to cost recovery for parks, recreation and cultural activities. The preliminary findings from the consultant report show that in 2007-08 the City supported 11 community events that were estimated to cost \$265,000 in direct and indirect costs. There is no fee revenue from any of the events. The events identified in the report are:

- My Own Marathon
- Make a Difference Day
- Volunteer Recognition Luncheon
- V.I.T.A.L. Volunteer Program
- Park Cleanup
- Gus Maker Event
- Tree Lighting Celebration
- Park Dedication and Ribbon Cutting
- Movies on the Plaza
- Activity Guide
- Library

Although eliminating some of these events would not result in significant actual cost savings to the City it would allow staff time to be reassigned to higher priority City services or activities. The nature of these events makes it unlikely that they could be supported by user fees, however there may be an opportunity to generate revenue support through business sponsorships.

We have estimated that sponsorships of the more popular community events could generate approximately \$40,000 annually. This represents 15% cost recovery for the current community events. If there is not enough sponsorship interest, the events could be canceled and the staff time allocated to core City services.

Service Delivery Model Changes

Another way to control spending is to change the current way services are provided and to adopt new business models. This section of the report provides strategies for changing the way services are provided in the City of Tracy.

Implement Competitive Sourcing (\$1.4 Million)

One way in which the City can control costs is through competitive sourcing of services. Many services provided now by City employees can potentially be contracted out at lower prices to the private sector. Such services include:

- Central garage
- Roadway maintenance
- Sidewalk and median maintenance
- Parks maintenance
- Sport field maintenance
- Custodial maintenance
- Street tree maintenance
- Accounting services
- Revenue collection
- Information technology (IT) systems

Competitive sourcing is an umbrella term for different types of service delivery models including traditional outsourcing, managed competition, privatization, private-public partnerships, and government franchising. Examples of competitive sourcing are found throughout government entities but with mixed results. The lessons learned are important areas for success in any competitive sourcing model. The San Diego Institute for Policy Research reviewed over 100 studies of competitive sourcing and established the following keys to success:

- **Trained Procurement Staff:** Staff must be properly trained in contracting best practices and, in particular, how to build service level standards into agreements and monitor provider performance.
- **Centralized Managed Competition Unit:** The City should develop an expert team of procurement and competition officials to guide other departments in developing their managed competition initiatives.
- **Performance Measures:** It is crucial that the City identify good performance measures to fairly compare competing bids and accurately evaluate provider performance after the contract is awarded.
- **Reliable Cost Comparisons:** The City must establish formal guidelines for cost comparisons to make sure that all costs are included in the unit cost of providing services so that an apples-to-apples comparison of competing bidders may be made.
- **Implementing Performance-Based Contracts:** Performance based contracts should be used as much as possible to place the emphasis on obtaining the results the City once achieved, rather than focusing merely on inputs and trying to dictate precisely how the service should be performed. Performance standards should be included in contracts and tied to compensation through financial incentives.

- **Vigilant Monitoring and Evaluation:** Regular monitoring and performance evaluations are essential to ensure accountability and transparency, and that City's management and the service provider are on the same page.
- **Employee Communication and Relations:** Managed competition may encounter opposition from public employee unions who view it as a threat. It is important to provide extensive communication opportunities so that employees and their representatives are appropriately involved in the managed competition process. Many cities established a requirement that the successful contractor offer jobs to all of the City employees in order to minimize the impact of job loss.

The City of Tracy does not have a competitive sourcing policy in place but regularly contracts out some services, such as part of the City's custodial needs and tree trimming. While the City's policy is to avoid staff layoffs whenever possible, competitive sourcing is an option to consider given the need to reduce costs. If the City were to move forward, there are issues to be addressed regarding the community, labor unions, and employees. If services are identified for outsourcing, contracts would need to be prepared and put out to bid.

Estimating potential cost savings from contracting is difficult. One way is to assume 25% personnel cost savings, which would result in estimated savings of \$1.1 million. Table 10 shows this calculation for the services noted above.

TABLE 10: POTENTIAL PERSONNEL COST SAVINGS OF CONTRACTING

Type of Service	General Fund Personnel Expenses	25% of General Fund Personnel Expenses
Maintenance Division		
Central Garage	\$498,800	\$124,700
Roadway Maintenance	\$77,038	\$19,260
Sidewalk & Median Maintenance	\$76,032	\$19,008
Park Maintenance	\$1,648,130	\$412,033
Sport Field Maintenance	\$298,530	\$74,633
Custodial Maintenance	\$384,500	\$96,125
Street Tree Maintenance	\$289,856	\$72,464
<i>Subtotal</i>	\$3,272,886	\$818,222
Finance & Administrative Services		
Accounting Services	\$183,340	\$45,835
Information Systems	\$841,400	\$210,350
Revenue Collection	\$233,000	\$58,250
<i>Subtotal</i>	\$1,049,763	\$262,441
TOTAL	\$4,530,626	\$1,132,607

Because Tracy currently contracts a portion of custodial services and handles the remainder in-house, a direct comparison can be made. Table 11 shows current costs of Tracy's contracted and in-house custodial services. As can be seen, the cost per square foot is \$1.38 to \$1.50 for seven times per week and five times per week contracted services as compared with \$4.74 per square foot for in-house service.

Based upon experience of other cities, between 1-25% of a contract's value would represent total contract management costs. Contract management costs are all expense related to the initial development of requests for proposals, to problem solving and oversight of the contract, and payment to the contractor. The scale varies according to the complexity of the contract services from the provision of office supplies to the contracting of social services.

Since the actual contract management costs are unknown, we have used 10% as the estimated administrative cost to manage a contract. Based on this, we estimate the City can save almost \$300,000 per year by contracting out the remainder of its custodial services. Combined with the estimated savings for the services listed in the table above this brings the total estimated annual cost savings for the General Fund to \$1.4 million.

TABLE 11: CONTRACT VS. IN-HOUSE CUSTODIAL COST SAVINGS

Current Cost of Tracy Contracted Custodial Services	
Facility	Square Footage/Costs
7x week	39,000
Price per sq. ft.	\$1.50
5x week	41,000
Price per sq. ft.	\$1.38
Cost for Tracy's In-house Custodial Services	
Facility	Square Footage/Costs
7x week sq. footage	60,168
Total Price	\$285,196
Price per sq. ft.	\$4.74
5x week sq. footage	40,912
Total Price	\$193,923
Price per sq. ft.	\$4.74
Cost to Contract Current In-house Custodial Services	
Facility	Square Footage/Costs
7x week	60,168
\$1.50/SF	\$90,252
Difference from in-house cost	\$194,944
5x week	40,912
\$1.38/SF	\$56,459
Difference from in-house cost	\$137,464
Total	\$332,409
Estimated administrative costs	\$33,241
TOTAL ESTIMATED COST SAVINGS	\$299,168

Revise Cost Allocation Plan (\$150,000)

Municipalities have a variety of accounting funds in use, including the General Fund, grants, and enterprise funds with separate revenue sources. Fully allocating the cost of services provided by the General Fund to funds with other funding sources is a best practice in municipal finance.

The City of Tracy is already allocating most costs to various funding sources; however, this is being done manually; ensuring that all costs, including leave accruals, would save the City's General Fund approximately \$150,000 per year.

Cost allocation plans for federal grants must be approved by a federal agency which indicates the appropriateness of allocating central costs to various funding sources.

Three categories of items are typically included in municipal cost allocation plans:

- 1) Centralized services such as finance, human resources, legal support, and City management.
- 2) Departmental allocations of the director and departmental administrative support costs.
- 3) Leave accruals. Funding sources such as grants should be charged where and when the leaves are accrued, not where and when the leaves are taken.

Fully implementing an automatic cost allocation system is a technology issue and will depend on the financial system software's capability of handling it. This may require waiting until the next upgrade of the City's financial system software in order to implement this strategy.

Annual savings to the City's General Fund are estimated to be \$150,000. Implementation costs for upgrading the City's financial software are unknown.

Combine Positions (\$50,000)

Cost savings can be achieved by consolidating departments and divisions to reduce the number of supervisors required and streamline administrative overhead. Consolidation can also create stronger services by having similar operations within the same department.

The City of Tracy has made changes in its organization structure over the years to meet the business needs of the organization. In FY 1999-2000, the Engineering Division of Public Works was transferred to the Development and Engineering Department, and parks maintenance programs were transferred to Public Works. In FY 2001-2002, the Economic Development Department was created but the Redevelopment program remained in the Development and Engineering Department. In FY 2006-2007, the Parks Landscaping District programs were transferred to Public Works.

Because the City has previously reorganized many departments, there is only minimal opportunity to benefit from doing so now. However, the consolidation of Economic Development and Redevelopment, two fairly similar activities, into one work unit could result in potential savings.

In order to implement this strategy, the City would need to ensure continued ongoing coordination between Redevelopment and Housing programs that are both currently located in the Development and Engineering Department. The Redevelopment Manager position is currently filled; the City may or may not want to wait to eliminate the position based upon attrition.

Ongoing annual savings of \$50,000 per year are estimated if the City eliminates the Redevelopment Manager position and consolidates the Economic Development and Redevelopment functions.

Replace Three Sworn Police Positions with Non-Sworn Positions (\$40,000)

Civilianization of sworn positions in public safety has been a trend over the past 30 years. Because sworn positions have a specific and detailed technical skill set based upon extensive training, and because sworn retirement packages are generous, they are more costly positions than non-sworn ones. Civilianization not only helps police departments reduce costs, but moves highly-trained, skilled, sworn officers from work that can adequately be handled by non-sworn personnel into work requiring sworn status and skills. When job duties do not require sworn authority or arrest authority, the position does not require a sworn officer to perform the work.

To illustrate the scope of potential savings for departments, a 2005 study for the Dallas Police Department estimated civilianization savings of \$3 million. A 2002 position utilization study of the Boston Police Department conducted by Management Partners identified 163 sworn positions that could be civilianized, representing a nearly 10% increase in sworn staff available to provide direct police service to the citizens of the City, at a value of nearly \$11 million per year.

In the Tracy Police Department, three police positions have been identified for potential civilianization:

- A lieutenant in charge of the support division
- A sergeant in charge of the administrative section
- A sergeant in charge of communications

In order to implement this strategy effectively, the sworn positions must be replaced when there are vacancies in the sworn ranks to which they can be moved. If the City were to civilianize the three positions noted above, annual ongoing savings are estimated to be \$40,000 (the difference between civilian and sworn salaries and benefits).

Relocate Building Inspector Offices to an Office Trailer (\$36,000)

The City's building inspectors are currently operating out of a leased building, which costs the City \$36,000 annually in rent. If the City could move the inspectors to a City-owned facility, this cost could be reduced. Coincidentally, the City has a vacant office trailer at the former annex facility which was created during construction of the new City Hall that is available for such use. In discussions for this review, building inspectors expressed some interest in working at the annex location.

It should be understood that the trailer was never intended to be a permanent solution for office space. Also, other departments have expressed an interest in using the space; the Police Department has indicated interested in using the trailer for evidence storage purposes. Finally, there would be a cost if the City were to move the trailer to the park adjacent to City Hall.

There are no other known implementation costs or one-time savings associated with this strategy. Ongoing cost savings from the reduction of rental costs is estimated at \$36,000 per year.

Service Delivery Reductions

While increasing revenues is one way to address the structural budget deficit, another is to reduce existing service levels and, thus, expenditures. This section of the report provides strategies for reducing the level of services currently delivered in the City of Tracy.

Reduce Street Tree Maintenance (\$550,000)

The City's current policy is to maintain street trees in the public right of way. The annual budget for tree maintenance, including contracts, is \$715,960. This covers maintenance for approximately 10,000 trees and includes contract costs of \$128,630. While this figure does not include trees that are located in landscape maintenance districts where property owners must pay for tree maintenance services, Public Works staff estimate that about 80% of the street trees being maintained are located in residential areas.

Currently, the City of Tracy is providing a higher street tree maintenance service level than in many cities nationwide. Most cities do not maintain trees in the right of way in cases where there is an adjacent property owner benefiting from the street tree(s). The Tracy policy is however, consistent with most of its peer cities.

The City estimates that maintenance responsibility cannot be transferred to the adjacent property owner for 20% of the trees. These trees may include street trees along arterials or in other locations where the street trees benefit the community to a greater extent than the adjacent property. Conversely, 80% of the tree maintenance program costs can be

saved by transferring those responsibilities to property owners. These trees are located primarily in residential areas and benefit adjacent homeowners. This could be done through adoption of an ordinance similar to many other cities which requires the property owners to maintain adjacent street trees. The City could then discontinue its maintenance of the majority of street trees. Based upon current annual costs of \$715,960 multiplied by 80%, potential savings of \$572,769 are possible. Since these figures are estimates, we have reduced the savings estimate to approximately \$550,000. In order to more accurately gauge potential savings, the City will need to survey to determine the actual location and appropriate responsibility for maintenance of street trees.

Although aesthetics and long-term health and sustainability are important goals of street tree maintenance, public safety and potential liability are the most important issues. Any change in policy related to street tree maintenance should be reviewed and approved by the City Attorney. It is also recommended that the City maintain capability through its employees or contractor to immediately respond to imminent hazards posed by trees in the right of way and City property.

If the City wishes to increase contracting the service to save money (as opposed to transferring responsibility to property owners), it must still conduct a comprehensive inventory of the number of trees being serviced. The next step would be to develop a cyclical maintenance plan and then have this work done by the chosen tree maintenance contractor.

Implementation of this strategy will result in no one-time savings or significant implementation costs, with potential ongoing savings of \$550,000 per year. This change in policy, however, would require a significant communication effort to explain why property owners will be responsible for maintaining trees previously maintained by the City.

Reduce Parks Maintenance (\$140,000)

The City does an excellent job of maintaining its parks; a casual visual inspection of the parks provides a positive image of clean and well-maintained facilities. However, during this time period of reduced revenues, the City could reduce park maintenance to a level that would prevent hazards and safety problems as a short term cost savings measure. These reductions would need to be implemented carefully and selectively because in the long term, capital costs could be higher if facilities are allowed to deteriorate.

Park maintenance activities are managed by the Public Works Department and are largely performed by City employees. Benchmarking results for a public works review conducted by Management Partners for the City of Ceres, California, showed that there is an average of 12.56 acres per park maintenance FTE among the peer cities reviewed for Ceres, as shown in Table 12 below.

TABLE 12: PARK ACRES PER PARK MAINTENANCE FTEs

	Park FTEs	Park (Acres)	Acre per FTE
Ceres	9.00	107.4	11.93
Gilroy	9.20	112.6	12.24
Hanford	N/A	156.5	N/A
Hollister	5.00	58.0	11.60
Lake Elsinore	6.00	97.5	16.25
Lompoc	N/A	500.0	N/A
Porterville	20.00	N/A	N/A
Tracy	24.00	282.0	11.75
Tulare	N/A	189.5	N/A
North Las Vegas	44.53	481.0	10.80

Tracy currently has 24 FTEs budgeted for park maintenance activities. The projection for this year is that they will maintain 282 acres, resulting in a ratio of 11.75 acres per FTE. This indicates that they are staffed comparably with the cities in this survey.

In order to reduce costs, the City could review the level of service provided and adjust downward to primarily meet hazard and safety needs in the parks. There are no implementation costs or one-time cost savings for this strategy. The City's budgeted positions show an average cost of \$68,672 per maintenance employee. By reducing the number of positions back to 06-07 levels and eliminating two positions, the City could realize an ongoing cost savings of approximately \$140,000 per year.

Close Joe Wilson Pool (\$100,000)

The City of Tracy operates two public pools, Joe Wilson Pool at Dr. Powers Park, and West High Pool, a new facility opened this past summer of 2008. The two pools are located one-half mile apart from each other and at 50 meters in length; West High Pool is twice as large as Joe Wilson Pool. With the opening of a new pool, it makes sense to review the need to operate two facilities.

It is difficult to examine usage in detail between the two pool facilities as data is only available for West High for Summer Sessions 1 and 2. Now that the City has two pools, however, we can understand additional interest in pool activities. For example, Tiny Tot activities last year showed a total of 120 participants for Session 1 and 125 participants for Session 2. This year, the total for Session 1 was 134 participants (88 at Joe Wilson and 46 at West High) and 126 for Session 2 (80 at Joe Wilson and 46 at West High). If this activity is representative, it does not show a significant increase in interest, particularly based on the usage for Session 2.

When examining the most popular activity, weekday recreational swim, last year’s overall participation in Session 1 was 1,039 (Joe Wilson Pool only) as compared to 1,334 this year (617 at Joe Wilson and 717 at West High). Overall participation in Session 2 was 1,177 (Joe Wilson Pool only) as compared to 915 this year (550 at Joe Wilson and 365 at West High). Again, these numbers do not show a significant difference in overall participation based upon the presence of two pools in the community. The City did not, however, engage in any specific marketing plan to increase interest in the newer pool and the numbers likely show a less crowded pool-going experience, as overall attendance was split between the two facilities. Table 13 below summarizes these program participation figures.

TABLE 13: SAMPLED AQUATIC PROGRAM PARTICIPATION

Program	Last Year		This Year	
	Session 1	Session 2	Session 1	Session 2
Tiny Tot	120	125	134	126
Totals	245		260	
Weekday Recreation Swim	1,039	1,177	1,334	915
Totals	2,216		2,249	

As of FY 2008-09, the total West High Pool cost is \$255,060 per year but, because the City does not own it entirely, pays only one quarter of those costs. The City estimates that Joe Wilson Pool will cost approximately \$120,000 per year to operate. An additional cost, not included in this analysis, involves future repairs to the Joe Wilson Pool facility. This repair cost is known to be significant and the City has declared it cannot afford it.

The City estimates that if it were to transfer as many activities as possible from Joe Wilson Pool over to the West High facility, the total lost revenues would be \$18,000 per year. This loss is a reflection of the shorter aquatics season available to the public at West High Pool.

The City is aware that Joe Wilson Pool will soon be in need of maintenance and repair. If the pool were to be closed, these costs would be avoided. This study does not consider the future cost of this maintenance. Actual costs of closing the facility are not significant. There is no one-time cost savings but ongoing annual savings.

There are operational issues that will complicate implementation of this strategy. The City of Tracy does not own West High Pool but paid for one quarter of construction costs as well as one quarter of ongoing operating expenses. Due to the school year, West High Pool cannot have the same season length that Joe Wilson Pool can.

One potential public benefit would be to convert Joe Wilson Pool into a free spray park, which would not require any staff to be present. Keeping an operating facility (but reducing it from a pool to spray park) would enable the community to keep the Joe Wilson name and a water amenity.

Because plumbing is already in the ground, the shift may not be difficult. The City has already made contact with a contractor that installs spray parks to discuss this possibility.

Ongoing cost savings are estimated at \$120,000 per year. The net savings are reduced to \$100,000 per year as a result of a \$20,000 annual loss in revenue.

Reduce Library Service Hours (\$70,000)

The City of Tracy receives library service through the San Joaquin County Library System. The City contracts for library hours additional to the base level provided by the County. If the City were to reduce library hours back to the base County level, the budget could be reduced.

The City of Stockton, per an agreement with the County of San Joaquin, provides library services to cities and communities within the County. The Tracy Branch Library is currently contracted with the City of Stockton to provide service 52 hours per week, per an agreement entered into in 2001. This is beyond the base level of 35 hours that the library is open each week. In 2001, the additional cost of 17 hours per week for 52 weeks came to \$67,170. This number is unchanged from 2001, as \$67,170 is budgeted for contracted services in FY 2008-2009.

In 1985, the Tracy Branch Library received a grant in the amount of \$655,000. This sum was specifically meant to expand the library structure and did not account for library service hour needs into the future.

The current agreement with Stockton may be terminated by either party and must be presented in writing four months in advance to the other party.

There are no costs to implement this strategy and no one-time cost savings. Ongoing savings by reducing library service hours back to the base level provided by the County would be \$67,170 per year.

Revenue Enhancements

One way to improve the City's fiscal condition is to generate new money by either enhancing existing revenue sources or implementing new ones. Most of these strategies require voter approval at a regular or special election. According to the San Joaquin County Registrar of Voters, the approximate cost for submitting an item for the general ballot is \$84,885 based upon the September 2008 number of registered voters. The cost is estimated at \$141,475 for a special election. The following strategies are ways in which the City can enhance its revenues.

Increase the Sales Tax (\$6.2 Million)

The City of Tracy has a sales tax already in place with a rate of 7.75%. One strategy to increase revenues is to increase the sales tax rate by one quarter or one half cent.

Table 14 below shows sales tax rates among peer cities. The median rate among peers is 8%. At 7.75%, Tracy’s rate is the same as Folsom and Lodi but is lower than Livermore, Pittsburg, Manteca, and Brentwood. Only the City of Fairfield has a lower sales tax rate than Tracy.

TABLE 14: SALES TAX RATES AMONG PEER CITIES¹

City	Current Rate	Special Purpose?	Rate	Total Revenue	Revenue Per Capita
Folsom	7.750%	No	N/A	\$17,775,000	\$245
Livermore	8.750%	Yes	1.5%	\$18,805,000	\$225
Fairfield	7.375%	No	N/A	\$17,524,701	\$164
Lodi	7.750%	No	N/A	\$9,974,886	\$157
<i>Median</i>	<i>8.000%</i>	<i>N/A</i>	<i>N/A</i>	<i>\$11,208,820</i>	<i>\$155</i>
Tracy	7.750%	No	N/A	\$12,442,753	\$153
Pittsburg	8.250%	No	N/A	\$8,065,000	\$127
Manteca	8.250%	Yes	0.5%	\$8,176,675	\$123
Brentwood	8.250%	No	N/A	\$4,763,866	\$94

Some peer cities have designated their sales tax revenues for special purposes. Livermore voters approved its sales tax rate of 8.75% for public safety. Manteca voters recently increased their rate by .5% and designated the increase for public safety.

It is difficult to predict election results on any specific issue, but a review of recent sales tax increase elections is instructive. Table 15 below shows several recent sales tax increase elections and their results. As can be seen, six of nine sales tax increases were approved.

¹ Source: Peer Survey

TABLE 15: RECENT SALES TAX ELECTION RESULTS²

Municipality	Rate Increase (in cents)	Special Purpose?	Result	Ballot
City of South Gate	1	No	Passed	June 2008
City of Pacific Grove	1	No	Passed	June 2008
City of Pismo Beach	½ (with sunset)	No	Passed	June 2008
City of San Juan Bautista	1 ¼ up from ¾	No	Fail	June 2008
City of Lindsay	¾	No	Fail	June 2008
City of El Cerrito	½	Street	Passed	February 2008
City of Reedley	½	Police/Fire /EMS	Passed	February 2008
City of Sanger	¾	Police/Fire /EMS	Passed	February 2008
City of Lompoc	½	Police/Fire /EMS	Fail	February 2008

Preliminary statewide results from the November 2008 elections reveal that of the 19 cities that proposed general purpose sales tax increases, 14 passed and five failed. Four City's proposed special purpose sales tax increases with only one of those being successful.

A sales tax increase for general purposes requires a simple majority vote, while a special purpose vote requires a two-thirds majority vote. If Tracy were to approve a one-half cent increase, this would result in new ongoing revenues of \$6,221,377 annually. If Tracy were to approve a one-quarter cent increase, this would result in new ongoing revenues of \$3,110,688 annually. Table 16 below shows revenue estimates.

TABLE 16: SALES TAX INCREASE REVENUE ESTIMATES

Current Tracy Sales Tax Revenue	Additional Revenues with ½ cent increase	Additional Revenues with ¼ cent increase
\$12,442,753	\$6,221,377	\$3,110,688

Adopt a Utility User Tax (\$5.5 Million)

Many California cities (147) have implemented a Utility User Tax (UUT) in their communities. These taxes range anywhere from 1-11% of utility charges.

Table 17 shows UUT rates in several cities of comparable size to Tracy and their revenues for each 1% of UUT tax rate per capita. As can be seen, rates range from \$7.56 to \$21.16 per capita per 1% of UUT with an

² Source: CA Local Government Finance Almanac, League of CA Cities

average of \$14.33 per capita per 1% of UUT. Utility User Tax revenues range from \$1-13 million in these comparably-sized cities.

TABLE 17: UTILITY USER TAX (UUT) RATES IN CALIFORNIA CITIES³

City	UUT Rate	2004-05 Revenues	Revenues per 1% of tax rate per capita
Alameda	7.5%	8,062,147	\$ 14.41
Albany	7.0%	1,336,814	\$ 11.41
Baldwin Park	3.0%	2,269,238	\$ 9.31
Bellflower	5.0%	3,748,243	\$ 9.67
Berkeley	7.5%	13,619,145	\$ 17.37
Buena Park	3.0%	2,473,106	\$ 10.17
Chico	5.0%	5,328,789	\$ 14.49
Lakewood	3.0%	3,067,140	\$ 12.22
Lynwood	10.0%	5,533,166	\$ 7.56
Mountain View	3.0%	4,571,596	\$ 21.16
Redwood City	5.0%	7,665,519	\$ 20.18
San Leandro	6.0%	10,018,039	\$ 20.50
Stockton	7.0%	34,922,767	\$ 17.80
<i>Average</i>	<i>5.5%</i>	<i>7,893,516</i>	<i>\$ 14.33</i>

In San Joaquin County, only the City of Stockton has implemented a UUT, which is 7% and raises \$37 million annually for the City (and equates to \$17.80 per 1% per capita). Recently, many California cities have received approval to reduce their UUT tax rates by about one-half percent so that they can extend the UUT to cell phone bills (not previously included).

Variations are due to the fact that some cities exclude utilities that they provide (e.g., water) and charge directly in their utility rates rather than using a UUT rate.

UUT implementation requires a vote, and the earliest possible one would be in 2010 with UUT implementation starting in July 2011 for the 2011-2012 fiscal year.

Implementation of a UUT in Tracy at a conservative 5% would result in estimated annual revenues of approximately \$5.5 million per year. This equates to \$1.1 million of revenue for each 1% of UUT and is based upon the average of the 12 cities' revenues per capita per 1% multiplied by Tracy's population.

³ Source: California State Controller, Cities Annual Reports

During the November 2008 General Election, both Cathedral City and Sebastopol proposed and voters approved a new utility tax. Conversely, Hemet and Morgan Hill voters defeated proposed new utility taxes.

Levy a Parcel Tax for Public Safety (\$3 Million)

Another revenue enhancement strategy for cities in California is to pass a parcel tax. Such taxes are usually for a special purpose and each property owner pays a certain amount per parcel. Cities have used parcel taxes to raise funds for public safety, schools, libraries, and parks. Overall state-wide (for 2005-2006), parcel taxes raised \$78 million for fire and paramedics and \$64 million for police services (California State Controller Annual Report). Only one San Joaquin County City, Ripon, has a public safety parcel tax in place.

Passage of a parcel tax falls under Proposition 218 guidelines and requires a two-thirds vote. In the last three elections, 14 public safety measures were up for vote. Half of them passed. If Tracy were to put a parcel tax on the ballot, the earliest possible election would occur in 2010 and, if passed, revenues would occur in fiscal year 2011-2012.

Based upon 25,000 parcels in the City of Tracy and a tax of \$10 per month (or \$120 per year), the estimated ongoing new revenues are \$3 million per year.

Ensure Full Cost Recovery for User Fees and Establish New Fees (\$2.13 Million)

Most cities charge fees for a variety of services. The public policy purpose of charging fees is to provide a basis for individuals to pay for benefits received, and for general taxes to pay for services for which fees cannot be charged. For example, fire fighting, park maintenance, and police investigations are areas requiring general tax support. Processing development plans, or providing leisure classes, on the other hand, are examples of services that benefit specific individuals and thus, are appropriate for fee charging.

A review of Tracy's finances shows that where fees are charged, the percent of expenditures covered by fees has decreased for most programs. This means that fees have not kept pace with program costs. Cost recovery percentages for major fee supported programs are shown in Attachment D. Tracy cost recovery levels are below best practice cities and in some cases below Tracy goals.

As Figure 19 (a review of two types of fees, development fees and parks and recreation fees) shows, Tracy's per capita revenues are below both the state and peer medians. The cost recovery percentages for Tracy development fee revenue and Parks and Recreation fee revenue is substantially below best practice cost recovery, which tends to be 80% or more. The Parks and Recreation cost recovery is also below the City's own goal of 50%. The City of Tracy recently received a report that details the recovery levels for all recreation programs.

Fire Service Fees

Another opportunity for increased fees that may be available to Tracy is in the area of fire and EMS services. Many California cities have implemented such fees for non-fire response services. For background purposes, EMS fees (also called paramedic fees) are charged by first response agencies that provide on-scene basic and advanced life support services. The fees are intended to recoup a portion of the cost for services that are rendered during an emergency medical response. In addition to enacting fees, some municipalities also establish EMS subscription programs to protect (or “insure”) local residents and businesses against out-of-pocket costs related to paramedic services provided by the local fire department. The establishment of fees and/or a subscription program does not alter the availability of emergency medical services to anyone in the community. If first response medical assistance is needed, it is provided regardless of participation in a subscription program or the ability to pay EMS fees. An invoice is generated after each incident and, except in cases where users meet whatever means test is established in the program, payment is pursued. In some cases, third party insurance companies cover the costs, while in others it is paid by the user. In either event, some incentive is generated to consider enrollment in a subscription program.

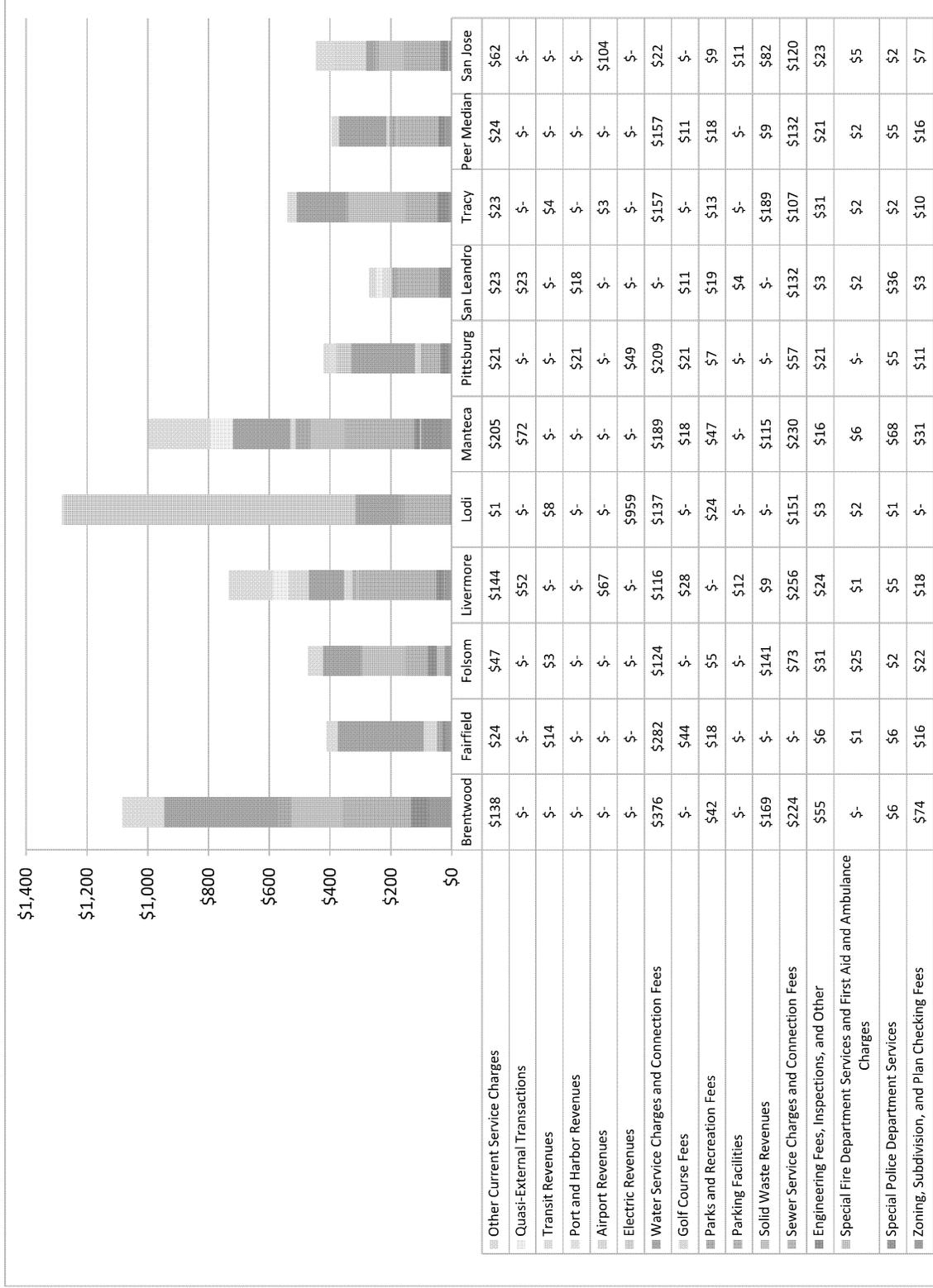
Management Partners has recently conducted a survey of 11 California cities who have adopted EMS fees or a subscription program. Based upon the per capita revenues reported by those cities we estimate that Tracy could generate approximately \$330,000 annually through EMS fees and \$400,000 through a subscription program.

As the cost for public safety services continues to rise and local governments face difficulty funding basic services, cities in California and across the nation have begun to examine (and some have enacted) fees for public safety services, in order to recoup a portion of the general government expenditures on such services. This could represent another potential revenue source for the City of Tracy. As with EMS fees, the rationale seems to be that fire departments are assuming response duties beyond traditional structure fire responses. Fire service fees can generate revenue from responses to the following incidents:

- Motor vehicle accidents
- Auto alarms and false alarms (in malls, schools, private businesses, etc.)
- Vehicle fires
- Bomb squad calls
- Hazmat (clean-up calls)
- Environmental clean-up (marinas, streets, etc.)
- Arson investigations
- Gas pipeline leaks (clean-up or supervision of clean-up)
- Air ambulance rescues

The \$2.13 million estimated increase in fee revenue is based upon a \$730,000 increase in revenues from EMS fees and a subscription program; \$700,000 increase in recreation fees and \$700,000 in development fees. The recreation fees estimate assumes bringing cost recovery for Park Recreation fees to the City's goal of 50%. The estimate for development fees assumes implementing the recommendations outlined in the development fee report (Attachment E).

FIGURE 19: PEER COMPARISON OF FEES BY TYPE



Establishing a clear policy for when fees will be charged and the level of general tax subsidy to be provided enables policy makers, citizens and fee payers to understand how fees are calculated and the basis on which fees are raised. Subsidies and their policy purposes become visible and are much easier to manage in the context of competing service objectives. Well managed cost-based fee systems yield important benefits in terms of accountability for costs, fees and tax-subsidies of services.

Service pricing decisions are under the control of the City Council as long as the costs used to justify the fees are reasonable. Reasonable costs include direct costs and can include allocated costs ranging from traditional administrative overhead, establishment of economic and equipment replacement reserves to shares of GIS mapping costs, permit management technology and costs associated with maintaining an open and predictable development environment through the General Plan and zoning code update and maintenance.

When the Council decides to maintain fees below legally allocable cost levels, it can pinpoint its policy objectives by judging the allocation of benefit of certain services between service beneficiaries and the general community. For example, a current General Plan with an approved housing element is necessary for the City to be able to issue building permits. The General Plan also protects existing property investments by establishing and documenting community standards. By articulating its policy view of the relative benefits conveyed as a result of this service, the Council establishes a basis, through its findings, to establish fees consistent with its policy.

It can be useful to envision a fee subsidy level as a taxpayer supported contract to achieve defined policy objectives. For example, some cities subsidize youth recreation fees to encourage participation in constructive activities outside of school hours. Other communities keep fees for festivals and events low to encourage community-building gatherings. Defining tax subsidy purposes focuses attention on the value and taxpayer benefit of the fee pricing policy decision. At the end of each year it is possible then to compare the cost of the subsidy contract to the benefits provided like other taxpayer supported services.

Because of restrictions on tax increases, cities are increasingly forced to rely on user fees in order to fund desired services. In order to achieve ongoing revenue generation, fees must be updated frequently to keep up with rising costs of programs and to minimize the sticker shock associated with occasional large increases rather than regular, smaller ones. Many cities annually update a comprehensive fee ordinance in order to adopt small, regular increases. Some cities index their fees to the CPI. The City of Tracy should examine its user fee structure against that in comparable cities to identify fees that are not currently being charged in Tracy.

Naturally, raising fees is unpopular and creates challenges for policymakers. Full cost recovery is not always desired, meaning that certain programs will always be subsidized by tax revenues. To aid decision making about fees, policies must be established identifying the criteria to be used to determine which programs will continue to be subsidized and to what extent.

Property-related fees require compliance with Proposition 218 provisions. Other fees can be adopted by the City Council but may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead.

It is difficult to quantify revenue increases related to higher fees due to the unknown change in demand resulting from the new fee structure. Revenue increases for development fees are especially hard to project because of the cyclical “boom and bust” nature of the industry and its impact on demand.

The costs of implementing increases for existing fees should be negligible. New fees, on the other hand, will have an administrative cost associated with them, as well as a cost to notify and inform the public regarding the changes.

Create a City-wide Landscaping and Maintenance District (\$700,000)

The City currently has a landscaping and maintenance district (LMD) with 40 separate zones, each zone with different levels of maintenance requirements and with different assessment rates. Most were established as new communities have been built and voted by developers. Approximately 30% of the City is not covered by an LMD.

All LMD services are contracted out to vendors, usually the same vendor with multiple competitively bid contracts. The contracts are currently operating under extensions which expire in 2010.

The Public Works Department is now conducting a review of these contracts to evaluate revenues and costs. The Department believes that not all zones are fully funded and are either receiving service levels below contracted maintenance levels or are getting other subsidies (such as from the Gas Tax fund). This is the direct result of limited contract management in the past due to a lack of staff time.

Landscaping and maintenance district assessment rates include an inflator for the Consumer Price Index (CPI) but have not matched the increase in costs of service. The administrative cost for all LMD zones is approximately 5% of revenue. A previous election held to increase Zone 9 rates to \$226 annually did not pass; this increase would have fully funded that LMD.

About half of Tracy’s peer cities have City-wide districts. All peers have at least one district. Tracy’s revenue per capita for LMDs is at median with peers but expenditures are higher than its peers as shown in Table 18.

TABLE 18: LMD COMPARISON AMONG PEERS⁴

	Landscape Maintenance Revenue Per Capita	Landscape Maintenance Charge	City-wide Districts	Vary Greatly Zone to Zone?	Population
Brentwood	\$101	Y	Y	Y	50,614
Fairfield	\$25	Y	Y	Y	106,753
Folsom	\$46	Y	Y	Y	72,590
Livermore	\$29	Y	Y	Y	83,604
Lodi	\$3	Y	N	N	63,362
Manteca	\$14	Y	N	N	66,451
Pittsburg	\$63	Y	N	Y	63,652
TRACY	\$28	Y	N	Y	81,548
AVERAGE	\$39				73,572
MEDIAN	\$28				69,521

In order to consolidate LMD zones, a Proposition 218 election would be required. This necessitates a vote by mail-in ballot of all property owners within district boundaries, and can be scheduled to occur at any time.

Every LMD requires annual engineer reports to track district maintenance and budget. If the City were to pursue a ballot measure, it would need an initial engineer report to assess all properties; this requires an upfront fiscal investment to occur.

A recent court ruling involving Santa Clara Open Space District struck down a special assessment district. The court ruled that the benefit provided by the district was enjoyed by all local residents and not just those who paid the assessment. In addition, the court found that the rate was not proportional based on the cost of improvements/services provided and the district cannot fund operating expenses with assessment revenues.

The current economic downturn in real estate makes raising rates and creating new ones difficult. As noted above, the City’s last election to raise rates did not pass. The City should finalize its review of the districts to ensure the best possible management and assess future needs.

⁴ Source: Peer Survey

If the City were to pursue a City-wide district, we estimate an additional \$700,000 can be generated annually by covering new areas under an LMD.

Increase and/or Restructure the Business License Tax (\$800,000)

The City’s business license tax has not been increased nor adjusted for inflation since 1993. There are approximately 4,700 businesses licensed in the City.

Currently the structure of the tax is a \$100 charge per employee/owner plus \$20 per employee/owner above one with a cap of \$2,000. There is a one-time \$75 application fee and a \$15 annual renewal fee. The per-employee cost of the tax was intended to generate 3% of General Fund revenues, which is equivalent to approximately \$1.5 million for the current budget. Currently, the tax generates \$700,000, less than half the goal.

Table 19 shows the per capita business license tax for the City of Tracy and its peers. The current business tax rate amounts to \$9 per capita in revenues for Tracy. This compares to an average in peer cities of \$14 per capita and a median of \$9.50 per capita.

TABLE 19: PER CAPITA BUSINESS LICENSE TAX FOR TRACY AND PEERS

Peer Cities	Business License Tax Revenues Per Capita FY 2007-2008
Brentwood	\$9.00
Fairfield	\$10.00
Folsom	\$8.00
Livermore	\$45.00
Lodi	\$16.00
Manteca	\$10.00
Pittsburg	\$8.00
Tracy	\$9.00
<i>Average</i>	<i>\$14.00</i>
<i>Median</i>	<i>\$9.50</i>

Implementation of an increase or restructuring to the business license tax would fall under Proposition 218 guidelines and require a vote. If the City were to move forward, the process should include extensive outreach to businesses prior to pursuing the ballot measure.

If the base, per-employee rate, and renewal fees are increased, minimum new revenues of \$200,000 are estimated as shown in Table 20 below. These estimates are based upon the current estimate that there are 4,700 licensed businesses in the City.

TABLE 20: NEW REVENUES FROM INCREASE IN BUSINESS LICENSE TAX

Base + \$25 (to \$125)	\$117,500.00
Per-employee + \$5 (to \$25)	\$57,500.00
Renewal fee + \$5 (to \$20)	\$23,500.00
Total potential new revenues	\$198,500.00

Additional revenues could be raised if the cap is increased. Currently there are 28 cities in the business that are at the maximum \$2000. For purposes of this report we project a total increase of annual revenue of \$800,000, which includes the above rate increases and a higher cap. This would achieve the City’s original goal to generate 3% of General Fund revenues from this tax. However this would represent a more than 200% increase in business license tax revenues and approximately \$18 per capita, so it may be more appropriate to phase in increases to meet the 3% goal over a period of years.

Increase Transit Occupancy Tax (\$160,000)

The Transit Occupancy Tax (TOT) is a tax charged on hotel and overnight stays, therefore providing tax support for the community by visitors. Because of this, TOT increases are often more easily passed than other fee increases that are charged to local residents.

Table 21 shows TOT rates for peer cities. The cities of Tracy, Brentwood, and Fairfield all have 10% TOT rates. The cities of Folsom, Livermore, and Pittsburg are all at 8%. To our knowledge, 100% of TOT revenues go to General Fund revenues and are not allocated to any special purpose.

TABLE 21: TRANSIT OCCUPANCY TAX AMONG PEERS⁵

City	Current Rate	Total Revenue	Revenue Per Capita
Livermore	8%	\$1,820,000	\$22
Folsom	8%	\$1,500,000	\$21
Fairfield	10%	\$1,756,692	\$16
Tracy	10%	\$814,883	\$10
<i>Median</i>	9%	\$630,467	\$8
Manteca	9%	\$446,050	\$7
Lodi	9% ⁶	\$397,066	\$6
Brentwood	10%	\$150,000	\$3
Pittsburg	8%	\$150,000	\$2

⁵ Source: Peer Survey

⁶ The City of Lodi directs 6% of TOT to General Fund and another 3% to Transient Business Improvement District

A majority vote of the public is required to increase the TOT for a general purpose. If the tax is increased for a special purpose, it requires a two-thirds vote. In the November 2008 general election 12 cities proposed increases in the Transient Occupancy Tax and 8 of those were approved.

If Tracy were to increase the TOT from 10% to 12%, it would see a potential \$162,977 increase in revenues. This would offset the cost of the initial election and provide a new revenue stream for the future.

Implement a Corporate Sponsorship and Advertising Program

Some cities have generated additional non-tax revenue through corporate sponsorships and advertising programs. Corporate sponsorship programs allow private companies to sponsor City facilities or vehicles. Sponsorship can take the form of a cash payment to the City in exchange for naming rights or other company advertising or may be an in-kind donation of product. For example, a car company can give a City their brand cars in exchange for the name of the car maker and/or dealer to be placed on a sign on the car. A more common example is the naming of a sport stadium or other high profile building. In general, private companies sponsor will capital goods such as vehicles and buildings rather than programs and services.

The most notable City initiative in corporate sponsorship is from the City of San Diego. In the late 1990's the City hired outside consultants to establish a City sponsorship program which allows private companies to sponsor a variety of goods such as cardiac deliberators to becoming the exclusive distributor of beverages throughout the City. The City states that since June of 1999, it has either generated revenue or reduced costs to about \$12 million. It is unclear where in the eight and a half years since the program's inception that it began to be productive for the City.

Given that the City of Tracy has less high profile buildings and/or larger companies within its City boundaries, an estimate of \$50,000 annually was developed which would better fit the City.

Cities with property along high traffic freeway corridors have the ability to see billboard or other signage space to private companies to produce revenue. Generally cities will lease space to companies which manage and sublet billboards directly to companies seeking advertisement. For example, national companies such as CBS Outdoor and Clear Channel Communications already have large presence in the Bay Area.

In the Bay Area already, the Port of Oakland and the Oakland-Alameda County Coliseum Authority have leased out high traffic areas along I-80 and 880 respectively. The Port of Oakland entered into a 20 year agreement for a total of \$15.5 million in revenue in exchange for one digital sign at the entrance to the bay Bridge Maze. While the Oakland-Alameda County Coliseum Authority has a twenty year deal which includes a total of 16 signs around the entire Coliseum property and will raise \$55 million over twenty years.

The City of Tracy has already begun examining the possibility of advertising along the I-205 corridor. Although heavily used, its traffic impact is lower than the Oakland examples. There are many issues that would need to be searched and resolved before Tracy could implement this advertising, however based upon a conservative estimate the City of Tracy could generate approximately \$100,000 annually from such advertising.

Long-Range Strategies

In addition to the strategies outlined above, Management Partners explored several strategies which can be effective in the long term to address the structural deficit, but will not produce substantial results in the required five-year timeframe for this project.

Economic Development

Attracting and retaining businesses is a critical strategy for increasing the City's tax base. In the current economic climate, business investments are constrained. Even in the best of economic climates, it typically takes three to five years for the City to realize the benefits from its initial discussions with a business that might be interested in locating in the community. The decision making process within the company, as well as land use and construction matters handled by a developer all take time.

The City of Tracy has a long-term economic development strategic plan that focuses on revenue-generating programs as a priority. Tracy faces challenges in the current economic climate, as do other cities. The strategic plan outlines measures designed to retain existing businesses and increase the City's competitiveness. It is critical that the City provide predictability and timely response to business needs, including the entitlement process. The plan includes a focus on being cost competitive, reinvesting in the downtown, the "Buy in Tracy" campaign, worker skills development, job creation and partnerships with other City departments and community organizations.

Economic development activities are vital to the continued economic success of the City. Management Partners recommends that the City support a diversified economic development strategy to increase economic activity and future City revenues. The City can conservatively estimate new revenues of \$50,000 to \$100,000 annually. Below we will examine economic development specific to the retail and office/industrial sectors.

Retail

Retail sales in Tracy are higher than would be expected given the estimated expenditure potential of Tracy residents alone. Tracy has captured more sales from shoppers which reside outside of Tracy than it has lost through leakage of sales to retailers located outside the

community. In 2007, the retail demand within the primary trade area (Tracy, Manteca, Lathrop and Mountain House) exceeded the retail supply of space. Vacant land, if protected, is available to expand retail sites in the City. It will be difficult for the City of Tracy to maintain a high proportion of shoppers from outside the City boundaries in the future for two inter-related reasons. Manteca and Lathrop's populations are growing at a faster rate than Tracy's and shopping center developers are far more likely to locate centers in those communities where population growth is expected to expand.⁷

The City should continue to identify methods of enhancing retail sales in Tracy. For instance, the recently approved incentive program paid for by sales tax revenue is aimed at attracting businesses to the downtown. Steps should be taken to continue efforts to consolidate and expand the Property-Based Improvement District (PBID) and the Downtown Business Improvement Area to a broader PBID. This PBID could contribute to the cost of maintenance and police officers in the downtown area (estimated at \$120,000 per year) in addition to marketing and other programs to attract businesses and people to the downtown area. Redevelopment in the downtown has been hindered by housing restrictions (Measure A) and Tracy should review the impacts and potential solutions to allow for mixed use redevelopment to enhance the downtown area.

The City is being proactive with regard to the West Valley Mall and targeting unique retailers that would attract shoppers from outside Tracy. The City is working with the owner of the mall to directly contact unique retail that would be otherwise unavailable and would continue to attract people from outside the City.

The potential to attract these retailers has become even more difficult in the current economic downturn and will take longer to achieve in terms of generating additional sales tax revenue for the City. The existence of Measure A, which restricts the number of residential building permits, is also a disincentive for retailers considering new locations. A key factor in driving retail locations are potential customers represented by the City's population. Although the Measure A may not in fact limit population growth, it is certainly viewed as a negative factor by those planning investments in retail locations. Measure A should be re-examined from an economic development perspective and options to revise the major should be considered that may achieve the desired objectives without including a disincentive for retail growth in Tracy.

Office/Industrial

Office space users in Tracy are primarily concentrated in the finance, insurance and real estate (known as FIRE) sectors, medical and other service sectors. They have been attracted to Tracy due to the rapid population and household growth and significant housing availability in

⁷ Forecast of Demand for Retail, Office, and Industrial Space in the City of Tracy and Strategic Policy Action Recommendations, Gruen Gruen + Associates, November 2007

Tracy. The primary market area in which Tracy typically competes for office space users includes Manteca, Lathrop, Mountain House, and, in some cases, Livermore and Stockton. Because of the limited inventory of office space, higher rental costs and the lack of an established image, Tracy tends not to attract corporate and regional headquarters and high technology firms.⁸

Types of industrial space users attracted to Tracy are primarily retail and food-related distributors. Tracy is attractive because of its proximity to the Port of Oakland.⁹ However, these types of “warehouse” distributors do not contribute significantly to the General Fund.

Successfully attracting office and industrial businesses is dependent on a number of factors, including costs of doing business and economic cycles. The City cannot control economic cycles, but should review development costs and other factors that can be managed. Development fees are an important factor in attracting office/industrial (as well as retail) businesses to the City. Development fees in Tracy are the highest in San Joaquin Valley, primarily due to impact fees. This comparison is provided in the Regional Development Fee Comparative Analysis, October 2005, prepared by the San Joaquin Partnership, a private, nonprofit economic development corporation. Other factors include the timeframe for the entitlement process and the predictability of this process. These factors – the cost of doing business and the predictability of doing business with the City – will impact the ability of the City to attract and retain office and industrial businesses (as well as retail) to the City. While office/industrial businesses do not contribute significantly to the General Fund, they do provide services and jobs that contribute to the quality of life in Tracy and are an important part of the long-term strategy.

Utility Accounts in Owners Names

One strategy that was identified by the employee focus group is to require that residential utility accounts be in the name of the property owner rather than the name of the tenant. Tracy has approximately 24,200 utility accounts, including approximately 4,000 rental accounts. The City data show that while renters account for only 16% of the total utility accounts they represent approximately 45% of the accounts sent to collection. The City writes off approximately \$660,000 annually from uncollected utility bills from renters.

The City of Davis has had a similar policy in place within their municipal code. Davis is a university town with a higher risk of lost revenue due to the transitory population. Because their policy has been in place for so long, they do not have revenue comparisons in place to show the impact of implementing the policy. However, they do feel strongly that it is a viable program for revenue generation.

⁸ Ibid.

⁹ Ibid.

Implementation of a policy to require residential utility accounts be in the name of the property owner would not benefit the General Fund; increased revenues from increasing collections would go back to the utility enterprise fund. However, as a long-term strategy, the City should begin to collect and analyze data from utility accounts to determine if implementation of a program would benefit the utility fund through increased productivity and revenue generation.

Implement a Rigorous Asset Management Program

Cities own many buildings and physical facilities such as parks, garages, and corporate yards. Asset management, the process of monitoring the inventory and leasing of these investments, can and should be considered as a cost reduction strategy. The City of Tracy should develop a comprehensive asset management program, identify market rental rates and subsidies, and sell unneeded and under-performing properties.

Advanced asset management programs have been implemented in cities as a best practice to minimize the total cost of acquiring, operating, maintaining, and renewing infrastructure assets. The advanced programs centralize the total life-cycle costs of infrastructure. For example, the City of Charlotte, North Carolina, examined 1,100 City-owned properties and identified 162 surplus and marketable properties. Charlotte sold 125 of these properties for \$15 million in the late 1990s. The net present annual value of this funding would be approximately \$1 million per year based on the City of San José's earnings on invested funds. The City of Phoenix also has an aggressive asset management program in place.

Over the long term, an asset management program should integrate with maintenance and replacement schedules for the development of long-range capital improvement program funding needs. The identification of surplus, unneeded properties that can be sold, will result in one-time revenues and a reduction in ongoing maintenance costs.

Market rate rents should be calculated and updated periodically for all City properties that are rented or leased. Properties rented or provided to community organizations, nonprofits, and for economic development purposes should also identify the market rental rates as well as the level of subsidy. The subsidies should then be supported by the appropriate program and funding source. This will identify the true costs of such programs, properly charge those programs, and provide relief to the General Fund.

An advanced asset management program will include information about each separate property including infrastructure improvements, costs, rental rates, etc. It will link to the facilities maintenance database that will track and schedule major maintenance requirements (e.g., roof replacements) for estimating capital improvement needs.

The implementation of a formalized asset management program can result in the following savings and revenues:

- Revenues from the immediate sale of surplus properties
- Maintenance cost savings on sold properties
- Revenues from the sale of additional surplus properties after a thorough review of all properties
- Shift of rental/lease subsidies from the General Fund to various program funds
- Overall management of subsidies

Charging programs for rental subsidies will increase the costs of those programs, but will identify the true costs and will accrue savings to the General Fund.

The City of Tracy has properties that are considered to be of low or negligible use. Sale of these properties could represent a one-time cash benefit. The City also may have a number of buildings that it has leased below market rates or which are underused. City documents regarding fixed assets do not provide sufficient detail regarding extent of ownership or use. Estimates of specific revenues and cost savings specific to the City cannot be made until a thorough review of the City's infrastructure assets is completed.

Unfortunately, the real estate downturn has reduced interest and value in property which does not work in the City's favor. In order to implement this strategy, the City will need to prepare a detailed inventory of all its properties to determine what may be available to sell.

Implement a Two-Tier Retirement System

Currently the City budgets approximately \$10.2 million annually for contributions to the City's retirement programs. Approximately \$8.6 million, or 84% is budgeted in the General Fund. The contribution rates paid by Tracy are impacted by the CalPERS investment returns. Even in the best case scenario, the rates are expected to increase gradually over time. If the current investment market losses are not reversed in 2009, it is estimated that the contribution rates will be increased substantially in FY 2011/12. Since 2004, the City of Tracy has significantly enhanced retirement benefits for all represented employee groups. Table 22 highlights the benefit increases that have been granted to employees.

TABLE 22: BENEFIT INCREASES GRANTED TO TRACY EMPLOYEE

Effective Date	Employee Group	Prior Benefit	Enhanced Benefit
January 1, 2004	Police (TPOA)	2% at age 50	3% at age 55
January 1, 2004	Miscellaneous Employees	3-Year Average Final Compensation Structure	Single Highest Year Final Compensation Structure
January 1, 2005	Fire (TFA and TFCOA)	2% at age 50	3% at age 55
January 1, 2006	Police (TPOA)	3% at age 55	3% at age 50
October 1, 2006	Miscellaneous Employees	2% at age 55	2.5% at age 55

All together, the above enhancements are costing the City an additional \$1.3 million annually in employee retirement costs.

The City could improve its financial condition by returning to pre-2004 retirement packages for all new employees except sworn police officers. The reason for not including police officers is that those positions are particularly hard-to-fill.

Implementation of this strategy will require renegotiating labor contracts and/or placing the issue on the table for negotiation as contracts expire. The City would need to make a judgment about whether this change would significantly affect its ability to attract new employees. Currently, except for some technically-oriented positions most of the miscellaneous and fire recruitments attract large applicant pools. For comparison purposes, Table 23 lists the retirement formulas for the Tracy peer cities.

TABLE 23: RETIREMENT FORMULAS FOR TRACY PEER CITIES

City	Miscellaneous Employees	Police	Fire
Brentwood	2.7% at age 55	3% at age 50	N/A
Fairfield	2.7% at age 55	3% at age 50	3% at age 50
Folsom	2.7% at age 55	3% at age 50	3% at age 50
Livermore	2.7% at age 55	3% at age 50	3% at age 50
Lodi	2% at age 55	3% at age 50	3% at age 50
Manteca	2.7% at age 55	3% at age 50	3% at age 55
Pittsburg	2% at age 55	3% at age 50	N/A
San Leandro	2.5% at age 55	3% at age 50	N/A
Tracy	2.5% at age 55	3% at age 50	3% at age 55

Table 24 below shows estimated cost savings of returning to prior retirement packages for all miscellaneous and sworn Fire employees. It should be noted that fiscal year 2008-2009 cost savings for the enhanced benefits is estimated. To determine actual cost savings, the City must request a quote from CalPERS that is based upon current market returns for California public employee retirement investments.

TABLE 24: RETURNING TO PRIOR RETIREMENT PACKAGES COST SAVINGS

Bargaining Group	Change to Retirement Package	Annual Cost Savings (when fully implemented)	Annual Cost Savings (New Employees Only)
Miscellaneous	Moving from 2.5% at 55 to 2% at 55 and Moving from a single highest year compensation structure to a three-year average compensation structure	\$618,000	\$39,000
Sworn Fire	Moving from 3% at 55 to 2% at 50	\$185,000	\$12,000

DEVELOPMENT FEES

As a part of the comprehensive Budget Solutions Project, Management Partners was asked to look at the City's development fee structure. The focus was to make recommendations which would both chart a path toward full cost recovery, for entitlement and development review related fees and strengthen management and information systems to guide future administrative and policy decision-making in this area. This review does not include impact fees. As noted elsewhere in this report, past population growth and the related development activities have had a significant impact on the City of Tracy revenue growth and demand for services. Unfortunately, in the past the growth in revenues reflects a traditional boom and bust cycle of development. Like cities across the state that are dealing with the growing challenges and resource limits, Tracy is appropriately looking at the gap between the cost of development services and the fees collected to pay for those services.

Based upon our review of the data, Management Partners believes that the City of Tracy's development fee structure is not achieving full cost recovery for the development services it is providing. Significantly, current planning fees in the City of Tracy are estimated to have covered only about 37% of current development activity in fiscal year 2007-2008. In Engineering the percentage is even lower, while in Building it is higher at about 52%. Clearly, the reduced level of development activity contributes to this reduced cost recovery level. Nonetheless, it is reasonable to suggest that these figures indicate that regardless of the level of development activity, the current development fee structure results in significant tax subsidies to the beneficiaries of those services.

For these reasons, City staff asked Management Partners to do an intensive review of historical development activity, fee revenue, and staffing for the development services function. We have also evaluated the current development fee approach and have made recommendations for new models that will more effectively capture the full cost of providing services and allocate those costs to those benefiting from the services.

The detailed development fees report is included as Attachment E to this report.

ALTERNATIVE FIVE-YEAR GENERAL FUND PROJECTIONS

Twenty-eight optional strategies have been developed to increase General Fund revenues or decrease expenditures. In this section of the report, Management Partners has developed three different scenarios in order to show how a combination of strategies could be implemented to achieve the balanced budget and a sustainable financial plan. These strategies have been applied to three alternative scenarios to demonstrate the extent of changes needed. The scenarios are:

- Scenario A – Mostly expenditure reductions
- Scenario B – Mostly revenue increases
- Scenario C – Combination of revenue increases and expenditure reductions

The goal of the scenarios is to have annual revenues at least equal to expenditures in five years (by FY 2012-2013) and maintain at least a 15% General Fund balance. Note that since the General Fund balance is calculated by dividing the General Fund revenues by the ending balance, the more that revenues are used for balancing the budget the more funds are required to reach the 15% balance goal. This is demonstrated later in this report.

In each of the scenarios, specific strategies described in this report are used in order to demonstrate the size of revenue and expenditure changes that would be necessary. The scenarios are not meant to be specific recommendations which would lead to one being selected. In all of the scenarios, the minimum 15% General Fund balance is maintained in FY 2012-2013 and annual revenues exceed annual expenditures by FY 2012-2013. This corrects the structural annual deficit by FY 2012-2013 and thereafter.

The extent of the Tracy structural budget problems is illustrated by Figure 12 earlier in this report. As shown in this figure, if action is not taken to reduce or eliminate the projected deficits, the fund balances will be exhausted in the next three years. With the uncertain economic conditions, revenues could be even lower than the latest projections, further exacerbating the problem. Some revenue enhancements can be made with City Council approval, but the major revenue strategies will require an election with the earliest election in November 2010. Thus, the major revenues could not start until July 2011 (if passed). There is time to analyze the impact of the economic situation and the amount of revenues needed. Some expenditure reduction strategies will also take some time to implement, such as those requiring labor negotiations. The scenarios therefore include those best practices for revenue increases and

expenditure reductions based on peer comparisons and efficiency improvements.

The following scenario tables are based on revised revenue projections in Figure 12 and include the new revenues and expenditure reductions. The annual “Revenue Increases” reflect the year new annual revenues begin. Expenditures are shown in a similar manner.

Scenario A

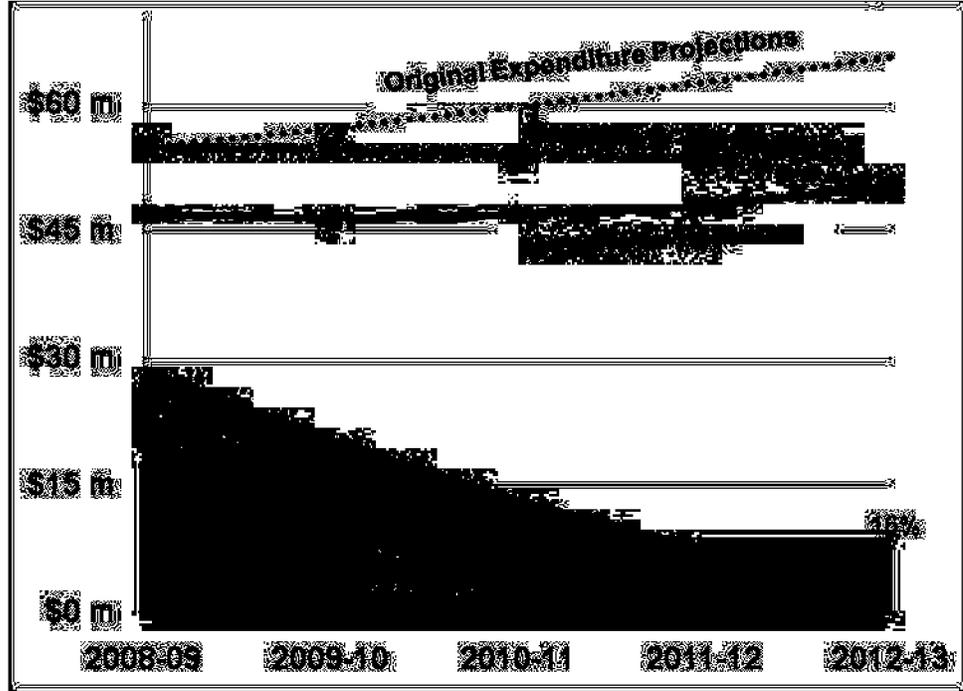
Scenario A is shown in Table 25 below and includes \$1 million in revenues from sources within the City Council’s authority to increase, such as increased user fees. Expenditure reductions start with \$2.5 million in 2009-2010, which is a permanent reduction in expenditures. Then, additional permanent reductions are made each year with a larger reduction in 2012-13. These reductions can be a combination of strategies such as eliminating positions, 10-day furlough, closing Joe Wilson pool, reducing library hours, contracting out services, and service reductions across all departments. Note that the increases and reductions are from the Revised Budget, thus in 2009-2010, the revised estimate is \$57.1 million, then the “Expenditure Reduction” of \$2.55 million is subtracted to arrive at the “Expenses” total of \$54.6 million.

TABLE 25: SCENARIO A – WEIGHTED TOWARDS EXPENDITURE REDUCTIONS

	1	2	3	4	5
Scenario A	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning G.F. Balance	\$18.9	\$18.9	\$18.9	\$13.6	\$7.9
Beginning E.U. Balance	\$17.9	\$10.0	\$1.8	\$0.0	\$0.0
Revenues	\$47.0	\$46.4	\$46.9	\$47.9	\$50.1
Transfer In from E.U.	\$7.9	\$8.2	\$1.8	\$0.0	\$0.0
Expenses	\$54.9	\$54.6	\$54.0	\$53.5	\$50.1
Net	\$0.0	\$0.0	(\$5.3)	(\$5.6)	\$0.0
Ending G.F. Balance	\$18.9	\$18.9	\$13.6	\$7.9	\$7.9
Ending E.U. Fund Balance	\$10.0	\$1.8	\$0.0	\$0.0	\$0.0
G.F. Reserve Percent	40%	41%	29%	17%	16%
Revenue Increases	\$0.0	\$1.0	\$0.0	\$0.0	\$0.0
Expenditure Reductions	\$0.0	\$2.5	\$4.2	\$4.2	\$7.3

Table 25 data for Scenario A is graphically shown in Figure 20. The General Fund balance of 15% is maintained by 2012-13 and the annual revenues at least equal annual expenses.

FIGURE 20: SCENARIO A - REVENUES, EXPENDITURES, AND FUND BALANCES



Scenario B

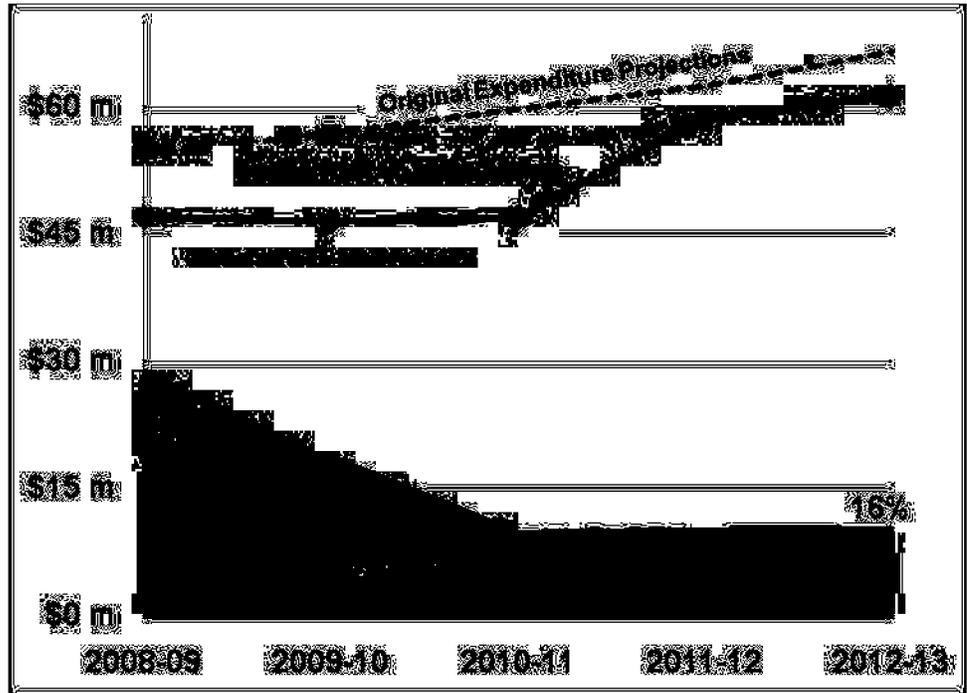
Scenario B (Table 26) relies mostly on revenue increases to balance the budget by FY 2012-13. Table 26 includes revenue increases requiring elections with revenues starting in July 2011. These could include sales tax, utility user taxes, parcel taxes, and/or landscaping assessment district increases. Initial expenditure reductions are those that would not affect service levels, such as revising the cost allocation plan, contracting out for services, and police department civilianization. An additional \$3.6 million expenditure reduction is made in 2010-11.

TABLE 26: SCENARIO B – WEIGHTED TOWARDS REVENUE INCREASES

	1	2	3	4	5
Scenario B	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning G.F. Balance	\$18.9	\$18.9	\$18.5	\$9.7	\$10.0
Beginning E.U. Balance	\$17.9	\$10.0	\$0.0	\$0.0	\$0.0
Revenues	\$47.0	\$46.4	\$46.9	\$58.7	\$61.3
Transfer In from E.U.	\$7.9	\$10.0	\$0.0	\$0.0	\$0.0
Expenses	\$54.9	\$56.8	\$55.7	\$58.3	\$61.2
Net	\$0.0	(\$0.4)	(\$8.9)	\$0.3	\$0.1
Ending G.F. Balance	\$18.9	\$18.5	\$9.7	\$10.0	\$10.1
Ending E.U. Fund Balance	\$10.0	\$0.0	\$0.0	\$0.0	\$0.0
G.F. Reserve Percent	40%	40%	21%	17%	16%
Revenue Increases	\$0.0	\$1.0	\$0.0	\$10.8	\$0.0
Expenditure Reductions	\$0.0	\$0.3	\$3.6	\$0.0	\$3.0

The General Fund balance for 2012-13 in Scenario B is \$10.1 million, while Scenario A only requires \$9.7 million to reach a similar goal of 16%. This demonstrates that relying on revenues to balance the budget increases the amount of funds needed for a 15% General Fund balance. As with Scenario A, Scenario B revenues match expenditures by 2012-13 but subsequent annual increases must be monitored to assure expenditures do not exceed revenues in order to maintain the General Fund balance. This is shown graphically in Figure 21.

FIGURE 21: SCENARIO B - REVENUES, EXPENDITURES, AND FUND BALANCES



Scenario C

Scenario C, shown in Table 27, balances revenue increases and expenditure reductions. Major revenues such as the parcel tax, transient occupancy tax, and/or landscaping and assessment district increases are implemented in July 2011. Expenditure reductions may include eliminating positions, the 10 day furlough and contracting out services. Although significant expenditure reductions are made prior to large revenue increases in 2011-12, additional expenditure decreases are required by 2012-13.

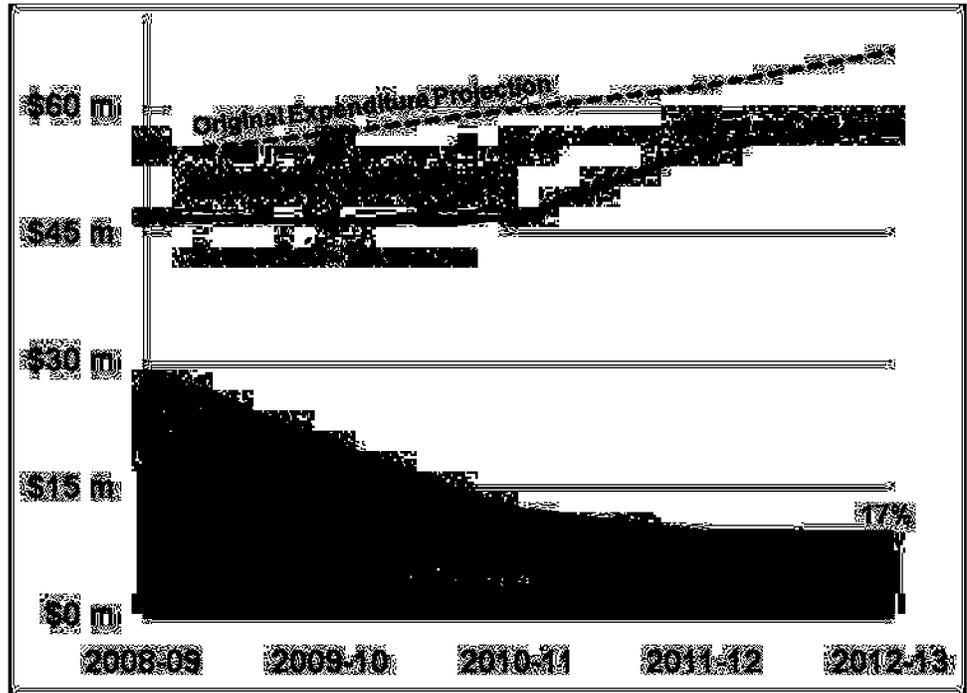
TABLE 27: SCENARIO C – COMBINATION OF REVENUE INCREASES AND EXPENDITURE REDUCTIONS

2008-09 Budget	1	2	3	4	5
Scenario C	2008-09	2009-10	2010-11	2011-12	2012-13
Beginning G.F. Balance	\$18.9	\$18.9	\$18.9	\$12.3	\$9.6
Beginning E.U. Balance	\$17.9	\$10.0	\$1.7	\$0.0	\$0.0
Revenues	\$47.0	\$46.4	\$46.9	\$55.1	\$57.6
Transfer In from E.U.	\$7.9	\$8.4	\$1.7	\$0.0	\$0.0
Expenses	\$54.9	\$54.8	\$55.1	\$57.8	\$57.6
Net	\$0.0	\$0.0	(\$6.6)	(\$2.7)	\$0.0
Ending G.F. Balance	\$18.9	\$18.9	\$12.3	\$9.6	\$9.6
Ending E.U. Fund Balance	\$10.0	\$1.7	\$0.0	\$0.0	\$0.0
G.F. Reserve Percent	40%	41%	26%	17%	17%
Revenue Increases	\$0.0	\$1.0	\$0.0	\$7.3	\$0.0
Expenditure Reductions	\$0.0	\$2.3	\$3.3	\$1.0	\$3.0

Scenario C requires a General Fund balance in 2012-13 of \$9.6 million as compared to \$7.6 million in Scenario A and \$10.1 million in Scenario B. As with the other scenarios, Scenario C revenues match expenditures by 2012-13.

Scenario C data is shown graphically in Figure 22.

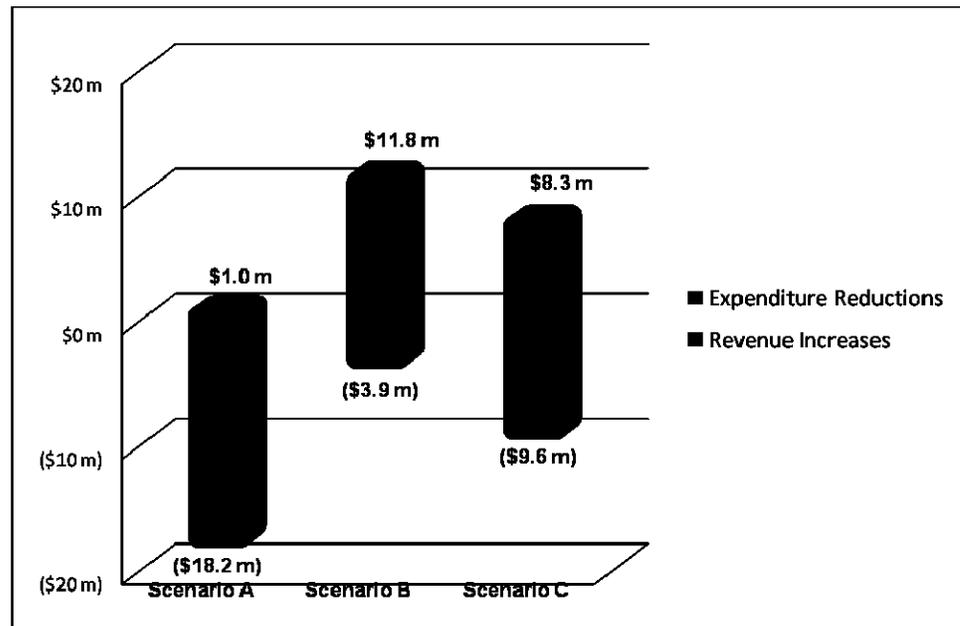
FIGURE 22: SCENARIO C - REVENUES, EXPENDITURES, AND FUND BALANCES



Comparisons of Scenarios A, B, C

For comparative purposes, Scenario A revenues (and expenditures) are projected to be \$50.1 million by 2012-13, Scenario B is at \$64.0 million, and Scenario C is \$60.3 million.

FIGURE 23: REVENUE AND EXPENDITURE CHANGES OF THE THREE SCENARIOS



The changing U.S. economy creates a great deal of uncertainty in projecting revenues and this may further exacerbate Tracy's structural deficit as shown in the tables and figures above. Since the major revenue strategies cannot be implemented until FY 2011-12, it will be necessary to plan the implementation of various strategies to assure that annual expenditures do not exceed revenues and to maintain the 15% General Fund balance goal.

RECOMMENDED BUDGET PRINCIPLES

Management Partners has analyzed many strategies that, if implemented, will resolve the structural deficit facing the City of Tracy's General Fund. Staff and council will be required to make a series of tough choices to reduce expenditures and to increase revenue to achieve a balanced budget and maintain the desired and prudent reserves. Although the City budget is large and complex, the keys to eliminating the structural deficit and maintaining a sustainable financial plan are relatively straightforward and can be articulated in the City's adopted budget policies and principles. By definition, a structural deficit exists when the projected required annual expenses of the City's General Fund exceed the projected annual revenues on a continuing basis. Such a deficit requires that reserves, fund balances and other one-time measures be used to bridge the difference. The problem is that, as noted in the five-year projections, eventually these one-time fixes are exhausted. The straightforward solution to the structural deficit is to reduce expenses and/or increase revenues so that the projected revenues meet or exceed the projected expenses consistently on an annual basis.

The City of Tracy currently follows many best practices in the development and administration of their financial plans and budgets. In the Financial Overview section of this report, we refer to several principles that have been adopted in order to guide financial planning for the City. During our best practice analysis, Management Partners identified some additional principles and budget approaches which strengthen and supplement current policies, listed below.

1) Structurally Balanced Budget

The annual budgets for all City funds shall be structurally balanced throughout the budget process. Ongoing revenues shall equal or exceed ongoing expenditures in both the proposed and adopted budgets. If a structural imbalance occurs, a plan shall be developed and implemented to bring the budget back into structural balance.

2) Proposed Budget Revisions

The annual General Fund proposed budget balancing plan shall be presented and discussed in context of the updated five-year forecast. Any revisions to the proposed budget shall include an analysis of the impact on the forecasted years. If a revision creates a negative impact on the forecast, a funding plan shall be developed and approved to offset the impact.

3) Use of One-Time Resources

Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, or similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures without significant operating and maintenance costs, and other nonrecurring expenditures.

4) Reserves

All City funds shall maintain an adequate reserve level and/or ending fund balance, as determined annually and as appropriate for each fund. Reserves shall be established for major maintenance and replacement of buildings, vehicles, equipment and other physical assets. For the General Fund, a contingency reserve amount which is a minimum of 15% of the operating budget shall be maintained. Any use of the General Fund contingency reserve would require a two thirds vote of approval by the City Council.

5) Prudent Use of Debt

The City shall not issue long-term (over one year) General Fund debt to support ongoing operating costs. All General Fund debt issuance shall identify the method of repayment or have a dedicated revenue source. General obligation debt shall be limited to 10% of the operating budget.

6) Capital Improvement Projects

Capital Improvement Projects shall not proceed for projects with annual operating and maintenance costs exceeding \$25,000 without City Council certification that funding will be made available in the applicable year of the cost impact.

7) Fees and Charges

Fee increases shall be utilized, where appropriate, to assure that the program operating costs are fully covered by fee revenue and explore opportunities to establish new fees for services where appropriate.

8) Grants

City staff shall seek out, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before the grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues shall not be used to begin or support the costs of ongoing programs.

9) Personnel Services Costs

Total General Fund personnel services costs shall not exceed 70% of the General Fund operating budget.

10) Performance Measures

All requests for departmental funding shall include performance measurement data so that funding requests can be evaluated and approved based on effective accomplishment of community desired outcomes and priorities.

CONCLUSION

The City of Tracy is facing a significant change in historical financial trends that will require the adoption of a disciplined and deliberate financial strategy and difficult choices to implement the strategy. Fortunately, the current reserves in the General Fund allows the City to develop this strategy in a deliberate way and make changes progressively over the next five years to eliminate the projected structural deficit.

Until fiscal year 2005-2006, Tracy has enjoyed significant annual revenue increases driven primarily by population growth and related development activities. During this time growth in the sales tax was especially strong. For example, the revenue source increased by 16% in fiscal year 2004-2005. Since that time, revenues have been flat or in some cases decreasing. During the time of rapidly growing revenues, the City was able to increase expenditures significantly in order to meet demand for services.

While review of the financial data shows that revenue growth has flattened since FY 2005-2006, unfortunately expenditures have continued to grow at a more rapid pace. In the fiscal year 2007-2008 budget, for the first time expenditures were projected to exceed revenue. As noted in this report, unless corrective action is taken the structural deficit is expected to continue.

Like any business, the City's financial condition is affected dramatically by the inevitable global, national, regional and local economic cycles. The key to maintaining financial stability and navigating the economic downturns are the choices that are made during the financial good times. The financial actions that should be taken during economic cycles that substantially increase revenues are primarily aimed at positioning the City for the inevitable downturns. Surplus revenues should be used to address known, but unfunded, infrastructure and maintenance deficiencies such as facilities renovation of buildings and other assets owned by the City. Surplus revenues during these time periods also allow for an opportunity to make investments that will increase productivity in the City such as improvements in information technology. Finally, during the positive economic cycles it is important to build up reserves for the inevitable rainy day.

It is relatively easy to outline these financial guidelines to financial sustainability, but much more difficult to implement them. During times of substantial revenue growth, all of the City departments articulate well

documented needs for additional positions and expenditures. There is also never a lack of ideas from the community for new or improved services and facilities. For these reasons, it is important that the City continue to develop and update its five-year long-range financial plan that comprehensively projects expenditures and revenues and the resulting impact on fund balances and reserves. Each annual budget decision to substantially increase future liabilities should be carefully considered in relation to the five-year plan and projections. Almost all proposals for new facilities or increased levels of service are attractive and can be considered to be desirable. For this reason, it is important that policymakers maintain their focus on the City's strategic goals and priorities. Even in good economic times the City cannot afford to fund all of the necessary and desired improvements. Just as when the City is in a required cutback mode, it is important to understand clearly the priorities for investment and fund only top priorities. Reductions in service levels should be considered carefully and reflect the City's strategic plan and service priorities. Although at times across-the-board reductions make short-term decisions easier, it is not a good long-term strategy that supports community priorities or financial stability.

The final solution to resolve the structural deficit and to create and maintain a healthy financial environment involves hard choices on both sides of the spending and revenues equation. This means expecting the financial staff to prepare conservative, yet realistic revenue estimates and then making spending choices to live within the projected revenues. All too often, cities that find themselves in financial difficulty have made decisions to increase expenditures with a short-term focus on balancing a one-year budget rather than the five-year plan.

Ultimately the financial policies and practices of the City should reflect the vision and values and priorities of the residents and taxpayers of the City of Tracy. Although it is relatively easy to identify and articulate the prudent budget policies that will lead to financial sustainability, the appropriate balance between expenditures and revenues is less obvious. The role of political leaders is to create an environment in which they can engage in a conversation regarding these important choices.

This report has provided many options and strategies to consider for achieving financial stability. These options include revenue strategies, service delivery model changes, expenditure controls in shifts, and service reductions. Our intent in the report is to describe in a clear and concise manner the current financial issues facing the community and to provide a variety of possible solutions. The information provided should form a solid foundation for an effective City Council and community discussion and ultimately the choices for expenditure reductions and revenue increases that are appropriate for the City of Tracy.

ATTACHMENT A – SUMMARY OF RECOMMENDED STRATEGIES

Expenditure Control and Shift Strategies

TABLE 28: EXPENDITURE CONTROL AND SHIFT STRATEGIES

Identified Strategy	Annual Cost Savings or Revenues (in millions)
Reduce City Staffing	\$4.5 M
Request an Employee Contribution for PERS Costs	\$1.63M
Reduce Non-Personal Services Budget	\$1.3M
Reduce Grand Theatre Subsidy	\$.6 M
Implement a 10-Day Employee Furlough	\$.5 M
Health and Safety Insurance Cost Sharing and Design Changes	\$.7 M
Slow the Rate of Pay Step Increases for New and Existing Staff	\$.04 M
Eliminate Tracy Municipal Airport General Fund Subsidy	\$.08 M
Conduct a Fleet Utilization Study	\$.07 M
Shift General Fund Expenses to CDBG Funding	\$.04 M
Reduce the Subsidy for Community Events	\$.04M
TOTAL POTENTIAL IMPACT:	\$9.50 M

Service Delivery Model Changes

TABLE 29: SERVICE DELIVERY MODEL CHANGES

Identified Strategy	Annual Cost Savings or Revenues (in millions)
Implement Competitive Sourcing	\$1.4 M
Revise Cost Allocation Plan	\$.15 M
Combine Positions	\$.05 M
Replace Three Sworn Police Positions with Non-Sworn Positions	\$.04 M
Relocate Building Inspector Offices to an Office Trailer	\$.04 M
TOTAL POTENTIAL IMPACT:	\$1.68 M

Service Reduction Strategies

TABLE 30: SERVICE REDUCTION STRATEGIES

Identified Strategy	Annual Cost Savings or Revenues (in millions)
Reduce Tree Maintenance	\$.55 M
Reduce Parks Maintenance	\$.14 M
Close Joe Wilson Pool	\$.1 M
Reduce Library Service Hours	\$.07 M
TOTAL POTENTIAL IMPACT:	\$0.86 M

Revenue Enhancement Strategies

TABLE 31: REVENUE ENHANCEMENT STRATEGIES

Identified Strategy	Annual Cost Savings or Revenues (in millions)
Increase the Sales Tax	\$6.2 M
Adopt a Utility User Tax	\$5.5 M
Levy a Parcel Tax for Public Safety	\$3.0 M
Ensure Full Cost Recovery for User Fees and Establish New Fees	\$2.13 M
Create a City-wide Landscaping and Maintenance District	\$0.7 M
Increase and/or Restructure the Business License Tax	\$0.8 M
Increase the Transit Occupancy Tax	\$.16 M
Implement Corporate Sponsorship and Advertising Program	\$.15M
TOTAL POTENTIAL IMPACT:	\$18.6 M
Total Strategies	\$30.68M

ATTACHMENT B – FOCUS GROUP THEMES

Focus Group Discussions City-wide Themes (Cost Savings, Increased Customer Service (Internal/External), or Increased Efficiencies/Processes)

COST SAVING CITY-WIDE THEMES:

- **Work Schedules:**
 - Convert to a 4 Day Work Week;
 - Reduce # of Hours a week to maintain full time status like San Ramon (37 hours = Full Time Equivalent employee);
 - Work Sharing
 - Telecommuting;
 - Close every Friday to the Public; Use the On Friday to do training, catch up on work, etc.;
 - Reduce work hours to 53 for Fire (reduces cost of OT)
 - Examine 4-11 schedule for sworn officers (PD);

- **Employee Salaries:**
 - No Future COLA Increases for X period of time;
 - Freeze all OT; except Fire/PD;
 - Only allow OT w/Supervisor approval
 - Institute Voluntary Work Furlough (during holidays) without pay
 - Underfill positions (sometimes need to cut upper vs. lower positions);
 - Assign current staff, when applicable, to take on collateral duties as a cross training/professional development opportunity instead of filling positions;
 - Utilize “Constant Staffing” model vs. traditional model;

- **Classifications Assessments:**
 - Utilize Management Analyst classifications instead of high paid Managers (Deputy Directors, Captains, Engineers, etc.);
 - Utilize non-sworn officers to do public education (Fire & PD);
 - Utilize specific staff (in-house expertise) for facilitation and professional development;
 - Utilize non-sworn or transcription service to cut down on officer overtime for report writing;

- **Enterprise Funds:**
 - Make Grand Theatre an Enterprise Fund;
 - Shift Parks to an Enterprise Fund;

- **Cell Phone Usage:**
 - Re-assess cell phone usage; does everyone need one?
 - Charge employees for personal calls on phones (audit) – ask for monthly submittal of phone bills with highlighted personal calls and submit with personal check & copy of bill;

- **City Fleet:**
 - Could be smaller and/or electric vehicles;
 - Supped up golf carts if just running around town);
 - Delay replacement time of vehicles; extend by 1 year;
 - Assess lease vs. purchasing of equipment/vehicles;
 - Assess whether we should outsource maintenance (particularly preventive maintenance) Fire, PD, & City's General Fleet;
 - More Fuel Efficient Vehicles;
 - Purchase Prisoner Transport Van vs. utilizing PD vehicles (currently utilizing more than 1-3 officers – saves officer time and fuel);
 - Switch to 2 man cars (PD);
 - Allow fleet to fill-up at private stations (cheaper than CNG, including maintenance of Gas pumps);

- **Recruitment & Hiring Process:**
 - Maintain eligibility list to expedite recruitment and hiring;
 - Position Control Roster limiting;

- **Early Retirement:**
 - Golden handshake; offer early retirement incentives;

- **Expenditure Shifts:**
 - Charge staff time to appropriate accounts (i.e., CIP Projects) vs. General Fund – Modify Timesheets to allow for additional project codes;
 - Shift cost of officer time to residents (shut down parties, vacation house checks & other specialty services) – Special events ordinance – renew & expand;
 - Charge Solid Waste Enterprise for PW crews spend on cleaning up after fall and spring clean up events;
 - Charge Water Enterprise fund for PW crew check on “swimming pools draining into the street” and all other regulatory water issues;
 - Bill for current un-billed fire service throughout the City (over 100 in City);
 - Charge residents for tree maintenance on private property vs. the City doing it;

- **Contracts:**
 - Minimize/Cease Use of Contracts where feasible;
 - Coordinate Contracts Citywide;
 - Utilize staff wherever possible, particularly if they have the expertise (plumbing, carpentry, electrical, etc.)
 - Utilize Retired Employees vs. consultants

- **Expenditure Controls:**
 - Cut Down on Food Expenses (Put Limits);
 - Eliminate free lunch at age trainings/meetings; could save \$116K/annually;

- **ISC Charges:**
 - Educate employees on how the ISC formula is determined, used, and calculated;
 - Review ISC charges

- **Sustainability:**
 - Implement a practice of turning down lights (Maximize use of day light);
 - Institute Light timing – motion detectors in Public Buildings;
 - Institute Air conditioning timing in Public Buildings;
 - Explore energy efficiencies options where-ever possible;
 - Train Janitorial staff to turn off lights after cleaning in PM;
 - Switch things to energy efficiency (sensors in bathrooms, encourage day lighting, unplug/turn off computer, etc.);
 - Become More sustainable (greener vehicles, refillable pens, re-using scratch paper, drought resistance plants, re-usable utensils, reliance on e-files go paperless);
 - Mandate Double-sided copies and printing;
 - Use Black & White copiers or network printers for drafts; colored printer for final documents;
 - Use Recycled Paper;
 - Paperless reporting
 - More Fuel Efficient Vehicles;

- **Fee Structure:**
 - Implement Full Cost Recovery;
 - Routinely update various fees;

ALTERNATIVE REVENUE OPTIONS:

- **Revenue Generation:**
 - Market Training Program to Other Cities and Charge a Fee;
 - Sell Advertisement (City-owned signage, brochures, activity guides, buses, bus shelters, etc.);
 - Citywide Grant writing opportunities (Grant writer);
 - Open a City Store with City items (Coffee Cups, City Pins, Stickers, etc.);
 - Be Pro-active in Vehicle Abatement, Code Enforcement, Weed Abatement (Not Complaint-Driven);
 - Ensure Permitting Fees account for all impacts (Fire/PD, etc.) when evaluating new development;
 - Explore Subscription Service (Citizens volunteer to pay \$ a year) ;
 - Impose a fee on non-taxed institutions (i.e., Hotels, residential care facilities, apartment complexes, convalescent homes) – per visit or flat rate – could attach fee to Utility bills – Fire staff has done research;
 - Utilize current Cost Recovery Mechanism in Fire Dept. to charge non-residents (create easier billing mechanism & train staff on billing system);
 - Review and increase water shut-off fees;

- Charge homeowners for administrative fees plus staff time to re-visit locations when owners or renters shut off water (due to delinquency);
- Add administrative fee in fee schedule to respond to high water usage/cite inspection fee;
- Charge fee for sanitary service overflows;
- Park District assessment for usage;

ORGANIZATIONAL STRUCTURE:

- Give Animal Shelter to San Joaquin County;
- Examine services offered by Code Enforcement, Fire, and PD for greater efficiencies (Weed Abatement, Vehicle Abatement, Code Enforcement);
- Combine Fire & Police to 'Public Safety' officers

INCREASED CUSTOMER SERVICE (Internal/External):

- **List of City Resources:**
 - Develop a Resource List or City Guide w/Contact Information;
 - Establish a Citywide FAQ;
- **Technology:**
 - **Website:** Place Fee Schedules, procedures, permits, etc. on Website – Utilize the Website more;
 - **Website:** Use existing technology better; i.e. web-site usability to resident to resident; make it easier to update; allow dept's to update) don't change without dept. communication;
 - **Website:** Website; cold Fusion = templates – easier to keep updated;
 - **Live Feed:** Live feed City Council Meetings (stream on internet);
 - **Automation:** Fully automated payroll & timecard system, billing and accounts receivables;
 - **IS Lead** in exploring and supporting new software to increase efficiencies (DVD Burners, scanners, others);
 - **Mobile Technology:** Wireless where possible; video hardware;
 - **On Line Reporting:** Allow on-line reporting options of incidents (PD, etc.), particularly non-injury reports, i.e. child custody;
 - **CAD/RMS** – department or Citywide;
 - **Voice Recognition:** research efficiencies in report writing (voice recognition technologies for PD);
 - **Phone System:** Improve to operate at peak efficiency for customer service;
 - **Automated Based Meter Read System:** to operate off of radio frequency using a mechanism that can be placed on a cell tower;
 - **Financial System Efficiencies and Compatibilities:** new financial system to create efficiencies among all departments – and compatibility with CLASS and other existing software;

- **Training:**
 - Develop a Cross-Training Program between departments (So we know what the other does);
 - Customer Service Training – How To Handle Questions & Redirect Residents;
 - Assess Training Needs and Limit Training Costs;

- **Call Center:**
 - Develop a Customer Care/Call Center, Central Operator for the City;
 - Institute a Policy that requires a live person answer phone calls vs. going to voicemail;
 - Institute Policy that does not allow customers/residents to be put on hold for more than 5 minutes;
 - Phone Tree- automated phone service for general information & dept. contacts

- **Government Outreach:**
 - Government Outreach modifications to add more topics or refine fields – Not User Friendly;

- **Internal Communication:**
 - Better Inter-departmental Communication;
 - Coordinate projects with “owners”;
 - Consider ongoing operational costs in design (consult operating department prior to finalizing design);
 - Improve for full cost recovery in vandalism (PD/PW, etc.)

- **Kiosk:** For public use of a number of City areas (Laserfische)

- **Marketing:**
 - Establish a City Marketing Team (share email blasts);

INCREASED EFFICIENCIES/PROCESSES/SYSTEMS):

- **Technology:**
 - Ability to Fax Forms from Computer;
 - Ability to Receive Credit Card Payments (Including Software);
 - Implement GIS system;
 - Automate all City Forms – eliminate paper system;
 - Software upgrades should be integrated with other dept’s; ask users what they need;
 - Improve Wintegrate – PO Process;

- **Budget:**
 - Internal Communication: Don’t charge to dept. budgets without consent from Department Wireless – Internet/LAN;

- **Centralized Services:**
 - Purchasing;
 - Centralize Vehicle Pool;
 - Centralize AV needs/services (all AV materials should come from IS);
 - Standardize purchasing and specifications for all departments;
 - Streamline/coordinate City Brochures (Centralize) (Parks Activity Guide, Arts Education, Grant Theatre Seasonal Brochure, City Pride, Cityscape, Finance Brochure);
 - Centralize equipment, service contracts, procurement
- **Park/Street Maintenance:**
 - Don't utilize sod/turf in medians – use low maintenance materials/plants;
 - Utilize drought resistance landscaping;
 - Adjust Sprinkler System (too much water in street);
 - Use native plants that are drought tolerant;
- **Centralize & Maximize Use of Community Volunteers:**
 - Establish Adopt a Park and Graffiti/Anti-litter Cleanup program (resident & organization participation);
 - Centralize Volunteers & Community Service hours;
 - Utilize volunteers to maintain planters downtown (like the garden club in Modesto);
 - Utilize VIPS to write parking tickets – generate revenue
 - Centralize public/school requests for City Presenters;
- **Parking Meters:**
 - Put Parking Meters Downtown and strategic areas around town;
- **Outsource:**
 - Outsource HR, Janitorial and web-site;
 - Outsource Central Garage;
- **Training:**
 - Train & Encourage Staff to use Laser fiche and other existing technology;
- **FINANCE:**
 - Automated Billing and Accounts Receivable;
 - Automated payroll & timecard system;
 - Group Water shut-offs together by neighborhoods vs. billing cycles (sending workers across town for each shut off is inefficient and costly);

OTHER SUGGESTIONS:

- **Program Evaluation:** Evaluate which programs are cost effective;
- **New Projects:** Assess individual Councilmember-driven programs: have a cost benefit analysis/staff time/community survey to find out if staff should continue to explore;

ATTACHMENT C – BUDGET SOLUTIONS TEAM MEMBERS

Members of the City of Tracy Budget Solutions Team and their departments include:

Name	Department
Zane Johnston	Finance
Allan Boswick	Finance
Maria Olvera	Human Resources
Rick Golphin	Police Department
Bill Dean	Development and Engineering Services
Steve Bayley	Public Works
Kul Sharmie	Development and Engineering Services
Andrew Malik	Development and Engineering Services
Amie Parker	Economic Development
Ursula Luna- Reynosa	Economic Development
Dan Sodergren	City Attorney
Debra Corbett	City Attorney
Maria Hurtado	City Manager's Office
Kevin Tobeck	Public Works
Rod Buchanan	Parks and Community Services
Leon Churchill	City Manager's Office
Tad Neave	Fire Department

ATTACHMENT D- FEE REVENUE BY PROGRAM

Fee Revenues by Program	FY 05-06 Actual	FY 06-07 Actual	FY 07-08 Estimated	FY 08-09 Approved	Program Description
<i>(Source: Tracy, 08-09 Adopted Budget)</i>					
<i>Police Department</i>					
Program 5124 - Police Reserves					
Fee Revenue	\$6,306	\$10,986	\$11,000	\$11,500	Provide a uniformed force of trained volunteer Reserve Officers to supplement the regular patrol force with deployment for special events, emergency circumstances, and selective preventative patrols.
Total Program Expenditures	\$22,502	\$29,937	\$36,910	\$54,140	
Fee Revenue as percent of expenditures	28.02%	36.70%	29.80%	21.24%	
				\$42,640	
Program 5126 - Animal Control					
Fee Revenue	\$26,598	\$27,136	\$30,000	\$31,300	Provide enforcement of the City's animal control ordinance and laws. Investigate complaints and issue licenses. Provide an animal shelter to handle impounded, stray and relinquished animals.
Total Program Expenditures	\$501,205	\$508,246	\$529,060	\$773,630	
Fee Revenue as percent of expenditures	5.31%	5.34%	5.67%	4.05%	
				\$742,330	
Program 5141 - Police Records					
Fee Revenue	\$140,523	\$193,776	\$200,000	\$206,000	Process and maintain police records and reports. Provide information services for the public and other agencies and clerical assistance for other units of the Department.
Total Program Expenditures	\$1,152,859	\$1,188,439	\$1,134,310	\$1,206,750	
Fee Revenue as percent of expenditures	12.19%	16.31%	17.63%	17.07%	
				\$1,000,750	
Total Department Fee Revenues	\$173,427	\$231,898	\$241,000	\$248,800	

Fee Revenues by Program

(Source: Tracy 08-09 Adopted Budget)

FY 05-06 Actual **FY 06-07 Actual** **FY 07-08 Estimated** **FY 08-09 Approved** **Program Description**
(Only programs utilizing fee revenues are listed in this table)

Fire Department

Program 5125 - Fire Prevention

Conduct fire investigations and provide code enforcement, fire code plan checks, permit issuance, and business inspections. Provide fire safety education. Test and maintain fire hydrants.

Fee Revenue	\$186,842	\$182,340	\$178,360	\$150,440
Total Program Expenditures	\$488,827	\$512,456	\$675,870	\$697,300
Fee Revenue as percent of expenditures	38.22%	35.58%	26.39%	21.57%
				\$546,860

Parks & Community Services Department

Program 5511 - Parks & Community Services Administration

Administer and direct the Parks and Community Services Department, provide the necessary administrative support for its programs and activities, including information and registration for recreation programs.

Fee Revenue	\$3,343	\$2,425	\$6,840	\$6,640
Total Program Expenditures	\$667,636	\$726,312	\$812,280	\$882,780
Fee Revenue as percent of expenditures	0.50%	0.33%	0.84%	0.75%
				\$876,140

Program 5512 - Community Facilities

To offer clean, usable, and safe facilities for community use. These facilities include: the Community Center, the Historical Museum, and meeting and assembly areas at other City facilities.

Fee Revenue	\$8,771	\$20,416	\$25,000	\$25,000
Total Program Expenditures	\$234,366	\$271,321	\$301,640	\$330,630
Fee Revenue as percent of expenditures	3.74%	7.52%	8.29%	7.56%
				\$305,630

Fee Revenues by

Program

(Source: Tracy, 08-09 Adopted Budget)

	FY 05-06 Actual	FY 06-07 Actual	FY 07-08 Estimated	FY 08-09 Approved	Program Description
Program 5541 - Special Interest Classes					(Only programs utilizing fee revenues are listed in this table) Manage and provide special interest recreation classes through contracted services at City facilities and local school sites.
Fee Revenue	\$309,928	\$228,291	\$205,000	\$285,000	
Total Program Expenditures	\$374,470	\$363,921	\$316,830	\$367,780	
Fee Revenue as percent of expenditures	82.76%	62.73%	64.70%	77.49%	
				\$82,780	
Program 5542 - Aquatics/Community Pool					Operate and maintain the Community Pool; provide swimming lessons, recreational swimming, aquatics special events and pool rentals. Provide staffing and programming at the new West High pool.
Fee Revenue	\$231,320	\$154,492	\$156,500	\$224,000	
Total Program Expenditures	\$291,403	\$286,243	\$339,410	\$600,120	
Fee Revenue as percent of expenditures	79.38%	53.97%	46.11%	37.33%	
				\$376,120	
Program 5543 - Athletics					Conduct youth and adult sporting events, manage contracts, coordinate league and team scheduling, at the Tracy Ball park and Tracy Sports Complex
Fee Revenue	\$170,931	\$116,069	\$135,100	\$173,500	
Total Program Expenditures	\$175,416	\$174,840	\$237,640	\$280,340	
Fee Revenue as percent of expenditures	97.44%	66.39%	56.85%	61.89%	
				\$106,840	
Program 5544 - Youth Development					Provide recreation activities at school sites before and after school hours during the school year. Provide day camps at schools and on City park sites during the school closures. FY08-09 includes Pre-School
Fee Revenue	\$166,913	\$178,413	\$143,000	\$177,000	
Total Program Expenditures	\$274,056	\$277,907	\$321,490	\$410,060	
Fee Revenue as percent of expenditures	60.90%	64.20%	44.48%	43.16%	

Fee Revenues by

Program

(Source: Tracy 08-09 Adopted Budget)

	FY 05-06 Actual	FY 06-07 Actual	FY 07-08 Estimated	FY 08-09 Approved	Program Description <i>(Only programs utilizing fee revenues are listed in this table)</i>
Program 5545 - Senior Citizens					Provide recreational, educational, and social service activities for the senior citizen population of the City and its environs. Operate and maintain the City's Senior Center
Fee Revenue	\$38,360	\$48,131	\$23,000	\$25,600	
Total Program Expenditures	\$219,725	\$327,812	\$336,630	\$374,440	
Fee Revenue as percent of expenditures	17.46%	14.68%	6.83%	6.84%	
				\$348,840	
Program 5547 - Pre-School					Provide preschool activities to prepare 3 to 5 year-olds for kindergarten. Contract class to benefit preschool age children from low-income families.
Fee Revenue	\$91,887	\$48,045	\$30,000	\$-	
Total Program Expenditures	\$81,921	\$86,536	\$55,040	\$-	
Fee Revenue as percent of expenditures	112.17%	55.52%	54.51%	N/A	
Program 5548 - Community Events					Plan, develop, and coordinate community events that encompass activities for children and adults and increase community pride and involvement.
Fee Revenue	\$-	\$6,975	\$600	\$15,100	
Total Program Expenditures	\$56,032	\$69,892	\$171,070	\$233,510	
Fee Revenue as percent of expenditures	0.00%	9.98%	0.35%	6.47%	
				\$218,410	
Program 5549 - Teen Recreation					Provide programs and activities for Tracy teens, including operation of a Teen Center and collaboration with other community youth-serving organizations. Provide support to the Youth Advisory Commission.
Fee Revenue	\$10,469	\$14,857	\$9,600	\$10,700	

Fee Revenues by

Program

(Source: Tracy, 08-09 Adopted Budget)

(Only programs utilizing fee revenues are listed in this table)

Program Description

	FY 05-06 Actual	FY 06-07 Actual	FY 07-08 Estimated	FY 08-09 Approved
Total Program Expenditures	\$217,661	\$202,628	\$207,800	\$212,430
Fee Revenue as percent of expenditures	4.81%	7.33%	4.62%	5.04%

Program 5661 - Cultural Arts

Manage and coordinate the City's cultural arts activities, including the planning and development of a new Cultural Arts Center for the City. Provide staff support to the City's Cultural Arts Commission.

Fee Revenue	\$-	\$-	\$239,000	\$375,000
Total Program Expenditures	\$130,496	\$392,767	\$1,777,340	\$1,765,240
Fee Revenue as percent of expenditures	0.00%	0.00%	13.45%	21.24%
Total Department Fee Revenues	\$1,031,922	\$818,114	\$973,640	\$1,317,540

Development & Engineering Services Department

Program 5611 - Development and Engineering Administration

Administer and direct the Development & Engineering Department and provide the necessary administrative support for its operations and activities. Provide secretarial support to the Planning Commission.

Fee Revenue	\$111,305	\$132,810	\$103,200	\$110,400
Total Program Expenditures	\$300,300	\$353,536	\$379,480	\$396,270
Fee Revenue as percent of expenditures	37.06%	37.57%	27.20%	27.86%
				\$285,870

Program 5621 -

Advanced Planning

Coordinate long-range planning activities related to the General Plan, specific plans, pre-zoning, and annexations.

Fee Revenue	\$6,420	\$20,936	\$37,100	\$49,680
Total Program Expenditures	\$328,372	\$364,952	\$407,600	\$382,820

Fee Revenues by Program

(Source: Tracy, 08-09 Adopted Budget)

Program Description
(Only programs utilizing fee revenues are listed in this table)

Fee Revenue as percent of expenditures

FY 05-06 Actual 1.96%
FY 06-07 Actual 5.74%
FY 07-08 Estimated 9.10%
FY 08-09 Approved 12.98%
\$333,140

Program 5622 - Current Planning

Process and review plans and applications for zoning adjustments, tentative subdivision maps, growth management allotments, and zoning and development code compliance.

Fee Revenue \$274,727
Total Program \$376,793
Expenditures \$470,001
Fee Revenue as percent of expenditures 58.45%
74.49%
28.06%
31.84%
\$455,060

Program 5641 - Building Plans Checking

Process and review plans and applications for building and construction projects within the City. Issue building permits and maintain the plans and records for such projects.

Fee Revenue \$634,667
Total Program \$469,501
Expenditures \$609,801
Fee Revenue as percent of expenditures 104.08%
61.68%
52.30%
47.63%
\$426,720

Program 5642 - Building Inspections

Perform field inspections on building and construction projects permitted to ensure compliance to adopted codes and ordinances. Enforcement against any unpermitted projects.

Fee Revenue \$1,466,897
Total Program \$1,094,727
Expenditures \$975,313
Fee Revenue as percent of expenditures 150.40%
127.85%
52.92%
47.82%
\$536,420

Program 5661 - Engineering Project Review

Processing and review of applications and plans for the private development of subdivisions and permits pertaining to the use of the City's right-of-ways.

Fee Revenue \$573,258
\$671,622
\$163,910
\$326,360

Fee Revenues by

Program

(Source: Tracy, 08-09 Adopted Budget)

Program Description
(Only programs utilizing fee revenues are listed in this table)

	FY 05-06 Actual	FY 06-07 Actual	FY 07-08 Estimated	FY 08-09 Approved
Total Program Expenditures	\$765,767	\$935,456	\$882,130	\$901,700
Fee Revenue as percent of expenditures	74.86%	71.80%	18.58%	36.19%
				\$575,340

Program 5662 - Capital Projects Design

Planning and design for City capital improvement projects. Coordinate land acquisition activities necessary for City capital improvement projects and the preparation of assessment maps.

Fee Revenue	\$11,800	\$760	\$6,600	\$1,000
Total Program Expenditures	\$950,187	\$942,997	\$1,025,270	\$1,134,120
Fee Revenue as percent of expenditures	1.24%	0.08%	0.64%	0.09%
				\$1,133,120

Program 5664 - Traffic Engineering

Conduct traffic and parking studies. Coordinate the implementation of approved traffic and parking control measures.

Fee Revenue	\$1,500	\$-	\$-	\$-
Total Program Expenditures	\$183,334	\$261,012	\$286,290	\$379,520
Fee Revenue as percent of expenditures	0.82%	0.00%	0.00%	0.00%
				\$379,520

Program 5665 - Construction Management

Management of City capital improvement projects under construction. Monitor and inspect private construction in new subdivisions and work done in the City's right-of-ways. Coordinate contracted inspections.

Fee Revenue	\$564,332	\$598,148	\$414,540	\$217,840
Total Program Expenditures	\$943,781	\$881,972	\$889,330	\$997,430
Fee Revenue as percent of expenditures	59.79%	67.82%	46.61%	21.84%
				\$779,590
Total Department Fee Revenues	\$3,644,906	\$3,365,297	\$1,776,650	\$1,797,730

Fee Revenues by

Program

(Source: Tracy, 08-09 Adopted Budget)

Program Description
 (Only programs utilizing fee revenues are listed in this table)

FY 05-06 Actual **FY 06-07 Actual** **FY 07-08 Estimated** **FY 08-09 Approved**

TOTAL

Total Tracy Fee Revenues

\$5,037,097 \$4,597,649 \$3,169,650 \$3,514,510
 \$11,377,150

ATTACHMENT E – DEVELOPMENT FEES REPORT

The City of Tracy has experienced significant change with respect to development activity over the last 10 years. A desirable and relatively affordable destination for those willing to commute to the Bay Area and South Bay for employment, incredible pressure was placed on the community to build housing, infrastructure, schools and retail development. However, as development activity decreased, so did development fee revenue. Up until about 2004, there appears to have been little analysis in Tracy of the relationship between current development activities in planning, building and engineering and the revenue in support of the services provided. Some adjustments were made with respect to fees; however, the general view appears to have been that development revenue appropriately supported related, regulatory activities. As part of the larger budget study, Management Partners was asked to look at the entitlement and development fee structure and make recommendations which would not only chart a path toward full cost recovery, but strengthen management and information systems to guide future administrative and policy decision making in this area. Impact fees were not a part of this analysis. Like cities across the state that are dealing with the growing challenges of resource limits, Tracy is appropriately looking closer at the gap between the cost of services and the fees collected to pay for those services.

Significantly, current planning fees in Tracy are estimated to have covered only about 37% of current development activity in FY 2007-2008. In engineering, the percentage is even lower, while in building it is higher at about 52%. While the percentage has historically been higher and the dramatic slowdown in development in the Bay Area and nation-wide is certainly influencing these gap figures, there are important, additional issues to consider when examining the gap. Current development fees will be discussed further later in this report, including fee levels and approach, staffing levels, and redeployment of work to non-development activity (supported by the General Fund) during periods of development fluctuation.

Nonetheless, it is reasonable to suggest that these gap figures indicate that regardless of the level of development activity, the current development fee structure results in significant tax subsidies to the beneficiaries of these services. These beneficiaries are individuals or developers who apply for land use entitlements or planning approvals of varying types, and building permits, on individual properties to increase the value of their investments. In almost all cases, the economic benefit that accrues as a result of these land use decisions far outweighs the cost of land use regulations. Builders and developers expect fees to be set at cost covering levels and expect service levels consistent with the fee. In most cases, developers and builders value predictability, consistency, fast turnaround and collaborative problem solving. They are willing to pay appropriate fees to assure they do not encounter unexpected costs and delays.

As a result of the available management information and data regarding staff time currently collected in Development and Engineering Services (DES), it is difficult to accurately estimate the amount of staff time actually expended on development activity on a regular basis. Regardless, if the City of Tracy adopted development fees that fully recover the costs of development fee supported services, the tax subsidies could be eliminated. This is not to say that all costs for Planning, or even Current Planning (as designated in the budget) would be offset by development fees, but rather the full cost of those services provided by Planning or Engineering for processing development applications and approvals could be offset. In

Planning, this may be as much as an additional \$350,000 annually in revenue. If one assumed that 60% of the Engineering Project Review section provides services directly related to current development in FY 2007-2008, then one could project another \$365,000 in revenue.

To increase development fee revenue appropriately and provide sound management information to more accurately determine appropriate staffing levels and project budgets and expenditures from year to year, Management Partners developed recommendations in two areas:

1. Management Information Systems
2. Fee Approach and Adjustments

Each of these is discussed in the subsequent sections.

Development Activity and Revenue History

It is important to review the history of development activity in the City of Tracy, as well as the revenue and expenditures associated with it, to provide context for subsequent recommendations. The following sections address historical activity indicators, revenue, and staffing for the City of Tracy.

Activity Indicators

While the passage of Measure A in 2000 would impact residential growth in Tracy over the next decade and beyond, there were enough vested, tentative maps approved by the City not subject to the measure that residential development continued relatively strong through about 2004, when it began to drop dramatically. This was a result of not only the residential growth measures set forth in Measure A, but a slowdown and then halt in the new residential development market, as well as the need for infrastructure improvements (streets, utilities) and community and policy planning needed to support any new development and plan for Tracy's future.

Table 1 below represents the 10 year building permit history for single-family dwelling units (SFDU), multi-family dwelling units (MFDU), all residential building permits, commercial (including additions and tenant improvements TI's) and the total number of building permits issued over the same period.

TABLE 1: TEN YEAR BUILDING PERMIT HISTORY¹⁰

Calendar Year	SFDU	MFDU	Residential Additions	Other Residential	All Commercial	Other	Electrical, Plumbing, Mechanical	# Permits Issued
1998	1,026	12	96	551	61	74	688	2,508
1999	1,320	2	172	524	84	80	992	3,174
2000	1,543	0	144	460	108	74	1368	3,697
2001	915	25	190	584	99	190	1155	3,158
2002	1,345	35	159	781	132	379	975	3,806
2003	1,268	2	148	592	109	348	949	3,421
2004	1,081	176	220	621	147	469	916	3,480
2005	298	30	198	622	172	382	897	2,597
2006	172	84	180	532	199	336	875	2,378
2007	27	1	82	424	176	179	858	1,711
* 2008	18	0	24	271	91	61	663	1,016
Totals	9,013	367	1,613	5,962	1,378	2,572	10,336	30,946

The total number of building permits processed by the City decreased 55% from its peak in 2002 to 2007. Further, the City issued 1,543 single family dwelling unit building permits in 2000 but only 27 in 2007.

Similarly, building valuation, a significant economic activity indicator and the basis for determining building permit revenue, decreased significantly over this same period. As can be seen in Table 2 below, with a peak total valuation of \$301,600,756 in 2004, building valuation decreased to \$64,392,794 in 2007, increasing slightly in 2008 due primarily to a major commercial development.

¹⁰ Year to Date as of October 2008

TABLE 2: TEN YEAR TOTAL BUILDING VALUATION

Year	SFDU	MFDU	Commercial	All Others	Total Valuation	Total Permit Fees
1998	\$137,437,820	\$3,812,867	\$32,158,122	\$12,084,770	\$185,493,579	\$2,489,992
1999	\$204,119,847	\$709,494	\$27,699,221	\$15,219,289	\$247,747,851	\$3,486,029
2000	\$259,237,053	\$0	\$21,449,366	\$14,166,875	\$294,853,294	\$4,484,321
2001	\$153,162,497	\$13,464,184	\$40,925,787	\$22,952,692	\$230,505,160	\$3,189,385
2002	\$222,708,577	\$2,179,638	\$39,522,682	\$28,431,093	\$292,841,989	\$4,264,454
2003	\$211,020,508	\$140,168	\$50,416,926	\$24,318,256	\$285,895,858	\$4,057,519
2004	\$457,705,702	\$11,874,068	\$16,810,547	\$55,920,439	\$301,600,756	\$4,247,593
2005	\$81,032,907	\$2,660,719	\$73,787,419	\$32,095,838	\$189,576,881	\$2,434,211
2006	\$31,984,452	\$5,675,635	\$54,219,007	\$20,341,728	\$112,220,822	\$1,871,314
2007	\$4,030,929	\$259,428	\$33,552,837	\$26,549,601	\$64,392,794	\$932,791
* 2008	\$1,191,695	\$0	\$72,678,405	\$14,296,407	\$88,166,507	\$605,687
Totals	\$1,763,631,987	\$40,776,201	\$463,220,319	\$266,376,988	\$2,293,295,491	\$32,063,296

* Year to Date August 2008

Another indicator of development activity is the number of development approval applications being processed through the Planning Division. In FY 2003-2004, the Planning Division processed 354 applications for approval; in FY 2006-2007 the number dropped to 258, a 27% decrease. In FY 2007-2008, the number dropped even further to 166. Table 3 below provides a five year history of total planning applications and a representation of the trend for applications consistently processed through the Planning Division.

TABLE 3: PLANNING APPLICATION HISTORY

Description	FY	FY	FY	FY	FY
	03/04	04/05	05/06	06/07	07/08
Sign Permits	77	58	86	92	57
Temporary Use Permit	22	24	19	17	17
General Plan Amendment	3	0	0	0	0
Specific Plan Amendment	3	3	0	2	3
Annexation Processing	2	0	0	0	0
Environmental Determination	56	53	50	45	33
Environmental Initial Study/Neg Dec	0	2	1	4	1
Environmental Impact Report	2	0	0	0	1
Rezoning	3	0	2	1	0
Zone Text Amendment	5	0	0	1	2
Conditional Use Permit	14	17	10	14	10
Variance	3	0	2	1	1
Zoning Research Letter	0	9	13	4	0
Tentative Parcel Map	18	4	11	7	3
Tentative Subdivision Map	6	6	2	5	3
Development Review	58	36	24	22	19
PUD	12	5	1	0	1
Lot Line Adjustment	12	9	17	10	6
Sewer Allocations	32	9	22	25	7
Growth Allocations	12	33	8	6	1
Planning Commission Determination	6	2	4	2	0
Appeals - Planning Commission	5	2	3	0	0
Appeals - City Council	3	3	3	0	1
Time Extension	0	2	0	0	0
TOTAL	354	277	278	258	166

Note: Table 35 is not intended to represent any of the extensive long range planning work program currently underway in the Planning Division such as updates to the General Plan and Housing Element and Growth Management programs.

Finally, engineering permits other than development project reviews also experienced decline in activity over the last five years. Between 2003 and 2007, encroachment permits decreased by 44.7% and grading permits by 66% over the same time period as shown in Table 4 below.

TABLE 4: ENGINEERING PERMIT HISTORY

Type of Permit	fiscal year			
	03/04	04/05	05/06	06/07
Encroachment	586	482	403	324
Grading	36	33	23	12

Revenue

Given this decline in activity, it is of little surprise to the staff or policymakers that development revenues have declined over the last 10 years. The impact of local initiatives regulating the amount of residential building construction and infrastructure constraints combined with an economic downturn in the market and severe financial issues on a global scale have brought development at some levels presently to a halt. Development revenue began a particularly acute decline beginning about FY 2003-2004, about the same year that building permit issuances began to taper off. As the slowdown in residential development emerged in force, planning applications (and related engineering project reviews) slowed and therefore revenue also decreased. While developers may have been working to maintain or extend entitlements (thus the increase in Planning Division revenue), actual building permits did not follow. Figures 1, 2 and 3 represent development revenue over the last 10 years for Building, Planning and Engineering.

FIGURE 1: BUILDING DEVELOPMENT REVENUE

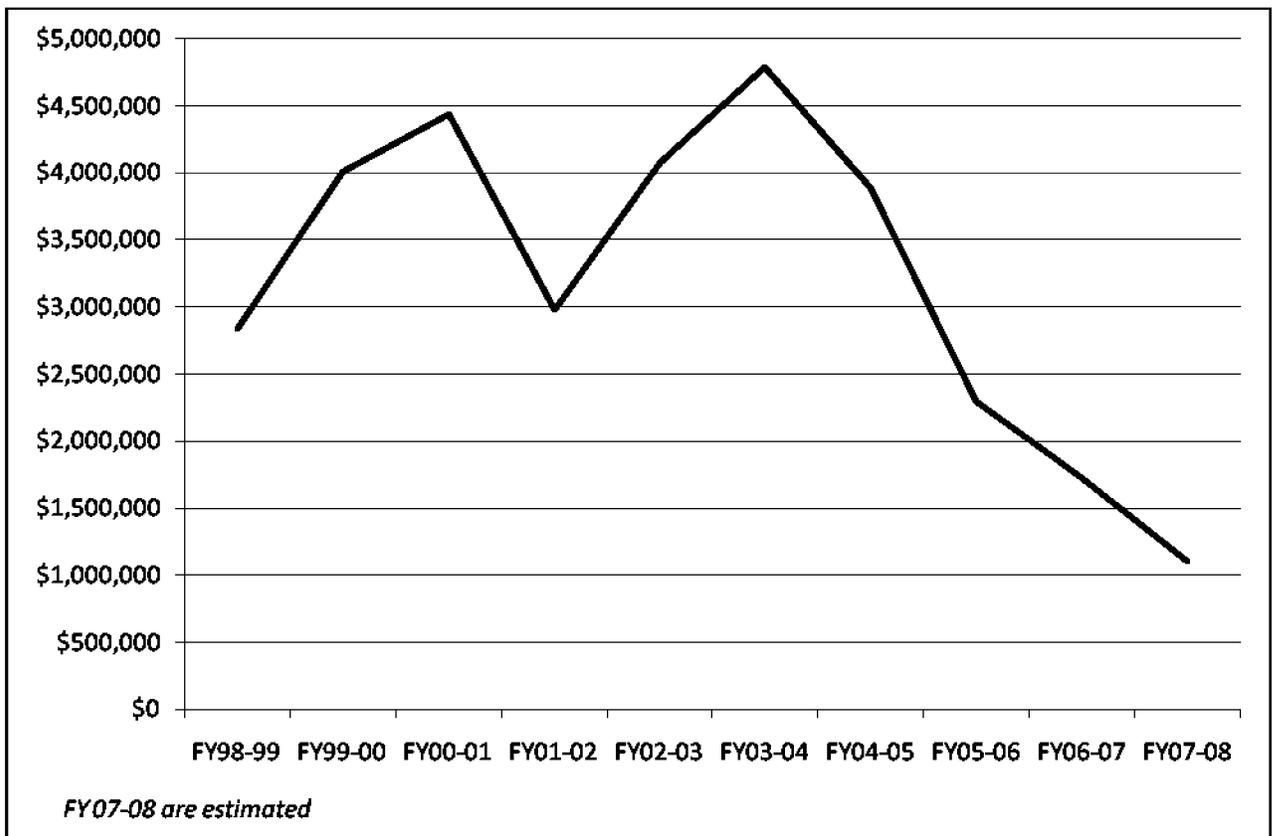


FIGURE 2: PLANNING DEVELOPMENT REVENUE

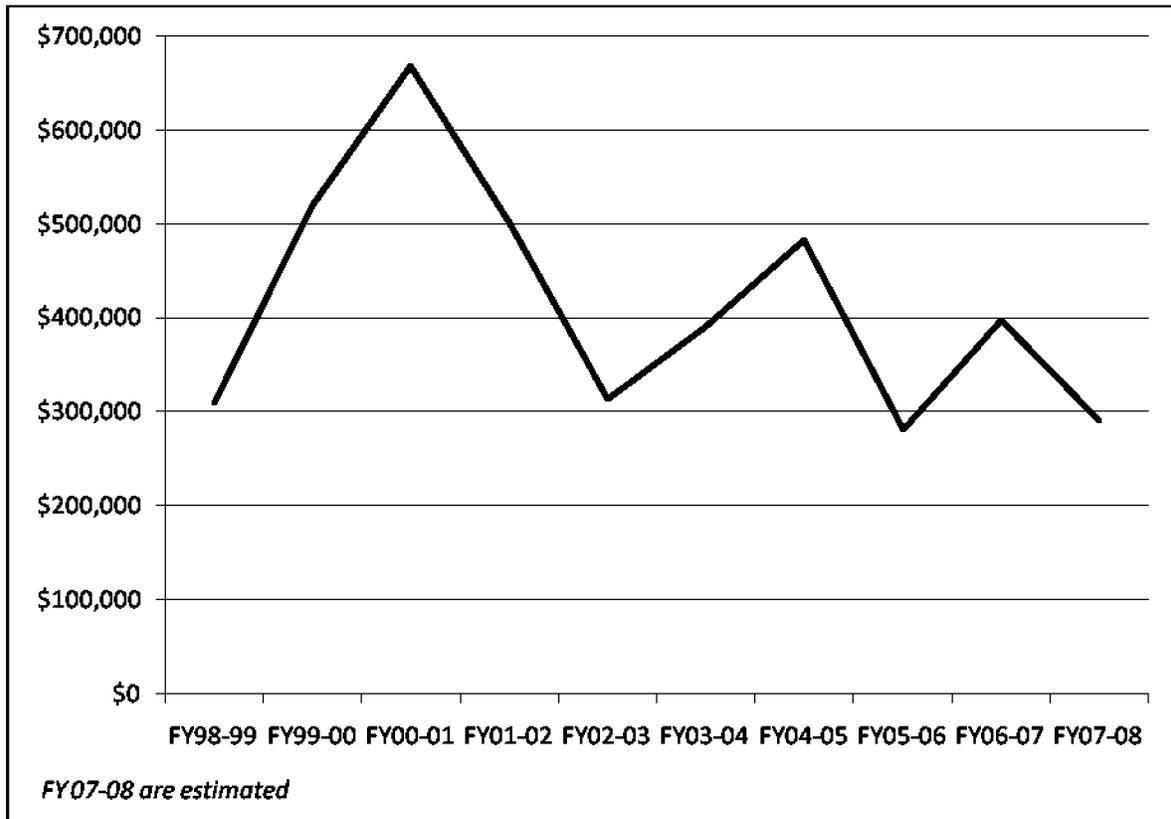
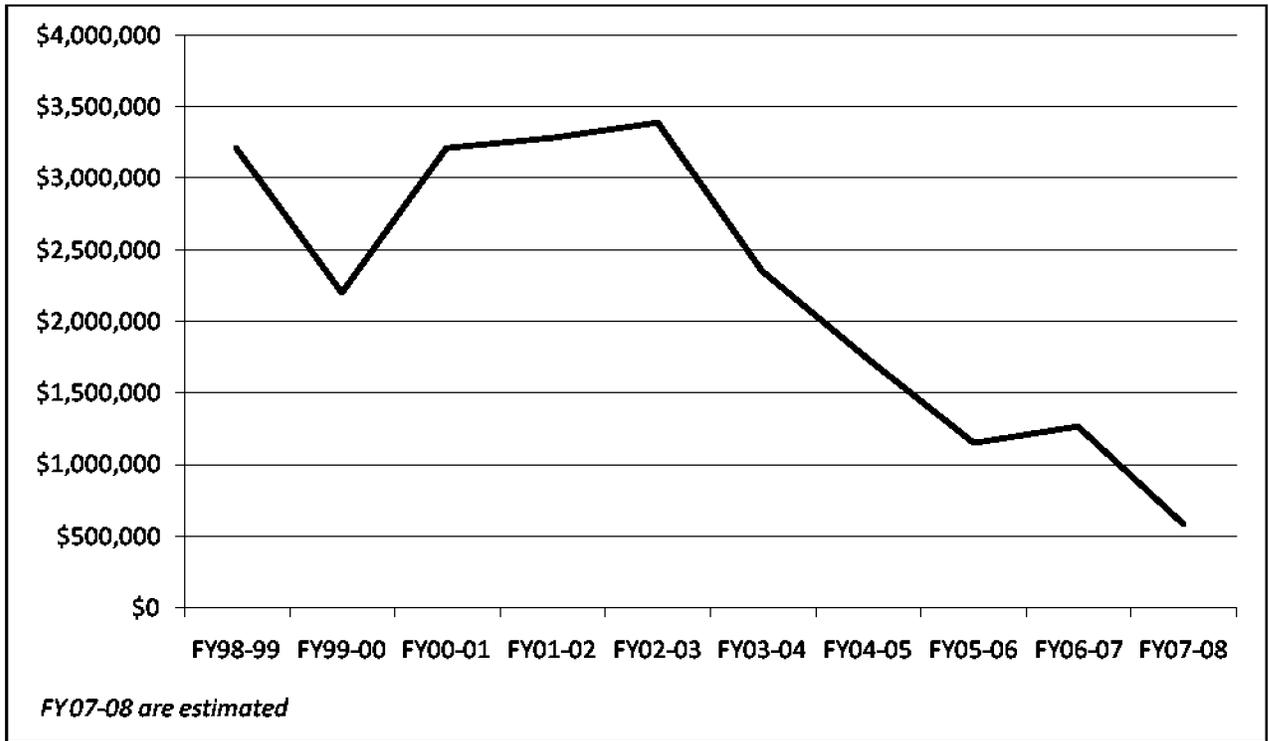


FIGURE 3: ENGINEERING DEVELOPMENT REVENUE



Staffing

During the 10 year period in which the City of Tracy was experiencing fluctuating and eventually (FY 2003-2004) declining development revenue, Planning Division staff and Engineering project review staffing levels also declined over time. Building Division staffing increased in response to the peak demand, but decreased by one position in 2007-2008.

Figure 4 below illustrates the 10 year staffing history of these development related functions.

FIGURE 4: TEN YEAR STAFFING HISTORY – BUILDING, PLANNING, ENGINEERING



Not all of Planning or Engineering development staff activity is related to current development project applications; therefore, not all budget expenditures (primarily salary and benefits) for these functions should be expected to be offset by development revenue. An important and ongoing work program in any local government community development function is the non-fee supported customer service provided to residents and business who may be contemplating a home or tenant improvement or development application. Development customer services is typically a General Fund supported function. Additionally, active development services functions should sustain some level of ongoing development staffing to ensure a basic cadre of trained staff available to respond when a down market begins to recover.

Ten years ago, Planning Division’s management estimated that its staff was spending about 80% of its time processing current development applications, with about 20% to long range planning. In FY 2007-2008, staff estimates that about 55% of its staff time was allocated to supporting development activity, with about 45% on long range planning. This shift is not only a result of the changing market demand, but also a significant policy direction to address a range of land use issues to better position Tracy for development growth and demand in the long term, consistent with City Council goals and objectives. During this pause in development activity, Engineering has also been tapped to analyze and work on development related issues, e.g., infrastructure improvements, not specifically tied to a development application.

Management and Business Systems

Local government community development enterprises such as the City of Tracy's Development and Engineering Services Department (DES) are so influenced by economic fluctuations, and in California, local voter initiatives, that it is critically important to maintain good management information which accurately projects expected activity, work programs and allocates staff accordingly. Monitoring development revenue is only one indicator of changed work activity as not all the staff in DES historically, or at present, provide services directly related to development applications. Those that do provide development regulatory services do not do so 100% of the time each day. Certainly, it is reasonable to expect a decline in development revenue to be accompanied by a decline in staff allocated to that function, but in a way that it is accompanied by a re-allocation of staff to other non-development revenue work programs. After reviewing the information systems available to DES senior management, Management Partners believes the department is challenged as much by a lack of good information to project workload and then allocate staff as it is by declining development revenue. Implementing the recommendations of a different consulting report 1.5 years ago, DES is currently taking steps to address some elements of this challenge through upgrades in the development permitting system and other measures.

DES sustains operations from primarily three different funding sources to support three different areas of work performed by staff in the department:

1. **General Fund** – for work such as long range planning, infrastructure planning not tied to a specific development project, code enforcement, customer service, technology planning and emerging issues or initiatives that otherwise do not have a specific revenue source.
2. **Development Fees** – fees for providing the regulatory services associated with development.
3. **Capital Improvement Projects** – revenue allocated to fund staff costs (primarily engineering) for the design and construction of the City's capital improvement program.

There are other funding sources in DES, but these represent the main sources of revenue to support operations. Revenue is charted and accounted for in each of these areas and by specific project when one has been established, and time cards are filled out by staff in Engineering and Planning. However, the lack of consistent data and a mandatory documentation of time when filling out the time cards (except for standard items such as vacation, etc.) have resulted in little information with which to project the revenue required to support the department's work program for the fiscal year. Currently, revenue projections and allocations are made independent of work activities, driven primarily by declining development revenue. In other words, while management may believe they have a good sense of what staff is doing through the typical methods such as oversight, work deadlines, meetings etc., there is little aggregation of data to help inform decisions regarding workload, staff allocations and, in turn, the budget necessary to support it. Considering the expanded long range planning program undertaken by Planning Division staff in the last couple of years, for example, it is reasonable to expect an increase in the General Fund allocation to support the staff time to carry it out. It is equally important, though, to understand whether the actual staff time thought to be needed is actually required, or perhaps more is needed.

Recommendation 1: As part of the annual budget process, develop a cost allocation model to determine the revenue needed to support the work program and staffing levels of DES. The cost allocation model should

list all the staff with estimated percentages of time allocated to an agreed upon range of funds or fees, including indirect costs (support staff, training, staff meetings, etc.).

The cost allocation model is just that; a model to help inform department and City management what resource allocation will be required to meet an agreed upon work program from development services to constructing capital improvements. It should be considered a dynamic document, with staff allocations fluctuating a bit in any given year. Nonetheless, it should represent a reasonable estimate of what is expected to occur in the coming fiscal year and the revenue needed to support the level of staff activity. Also, professional service firms such as Planning or Engineering typically expect their staff to be directly working on projects from 60% to 70% of available hours. The remaining 30% is usually allocated to administrative tasks or indirect costs such as vacation or training. Management Partners provided a sample cost allocation model with this kind of a percentage spread to DES and Finance and Administration management, which may be found in Attachment E1.

Recommendation 2: Develop and implement a management information report which provides information based on actual staff activity rather than the cost allocation model. This information requires complete and well documented time sheets (see below) and should inform the department when staffing allocations may need to be shifted or reallocated to support varying service demands.

A brief review (not an audit) of engineering and planning time cards by Management Partners found that there are a number of “regular” hours not assigned to a specific program or project, such as development, General Fund, e.g., new affordable housing policies, or a capital project. This is not to say that no work was being performed; rather the work program or project being worked on by a particular staff member was not documented or categorized. We were informed that some staff consistently assign some of their hours to projects (whether development or other), while others are not so diligent. This can have particular consequences with respect to earning revenue and accurately accounting for costs associated with development projects.

Equally important, the current budget structure for DES and the approach to time cards does not establish accountability or expectations for work performed. Staff fills out a timecard to mark hours with respect to regular hours worked, vacation, etc. in accordance with established City time codes; however, there is no consistency with respect to whether a staff member actually assigns hours worked to a specific development project, long range planning project or even training. Based on a projected work (not revenue) program for Engineering and Planning for a given fiscal year based on well documented staff activity from the previous year, DES management would be able to set forth clearer expectations as to how staff would be utilized. Additionally, monitoring programmatic allocations of staff can only occur through data collected in a well documented timekeeping system. Through the budget process, if there is agreement that about 50% of Planning staff’s time will be allocated to long range planning and supported by the General Fund, then monitoring of staff time through well documented time cards (with specific hours allocated to established projects) is required to see if the budget will be on track. Similarly, if 40% of staff time is projected to be supported by development activity, then monitoring of time cards is required to ensure that hours are appropriately being charged to development applications or projects, when work is actually performed.

Recommendation 3: Develop a comprehensive list of charge codes for all Planning and Engineering staff. These should include, but not be limited to, general administrative functions such as staff meetings and training, customer service, long range planning and capital projects and development projects. Every development application should have a specific charge code assigned. The listing should be streamlined with respect to administrative codes and manageable in terms of numbers of codes to be maintained.

Recommendation 4: Require all Engineering and Planning staff to fill out time cards accounting for all their time, every day, against the established charge codes. Supervisors who sign time cards should be specifically assigned monitoring and oversight to ensure that this occurs.

Both of these recommendations will provide data to inform the management information report described above as well as ensure that all costs associated with fee recoverable projects are recovered.

As will be noted in the fee approach section which follows, Management Partners will be making some recommendations regarding staff hourly rates. The cost allocation model referred to earlier as well as establishing accurate hourly rates for charge out purposes requires a consensus and agreement regarding overhead. This includes overhead not only within the department, but what may need to be captured to reflect the general administrative support of the rest of the organization. While there are established accounting principles as well as state and federal accounting mandates which go into any overhead calculation, and these are well understood by the City's Finance and Administrative Department, Management Partners believes that it is fundamentally an organizational policy decision with respect to the exact functions that will be captured. Nonetheless, after reviewing the existing approach to the overhead calculation for DES, we believe that it does not include all the components that could reasonably be included, nor is it easily understood by DES department managers.

Recommendation 5: Review and revise the City's overhead calculation for DES to ensure that it reflects fully and appropriately the overhead necessary to support and administer DES. Ensure that the overhead rate is consistently included in all applicable chargeable fees.

Development Fee Approach and Adjustments

As discussed in the introduction to this entire section, Management Partners believes that the City of Tracy's development fee structure is not achieving full cost recovery for the development services it is providing. Again, full cost recovery does not mean that if fees were adjusted, updated or new fees enacted that all the operating costs of DES would be offset by such fees. Rather, it means that when a unit of development service is provided, the cost of that service would be offset through fee recovery. Management Partners believes that the following represent the main reasons why this is not now occurring:

1. Flat fees do not cover the full cost of providing the related unit of development service.
2. Hourly rates used to calculate either flat fees or hourly services charges do not capture either sufficient overhead or the full salary and benefits. (See previous discussion under the Management and Business Systems section of this report).

3. Units of development service are provided for which there is no fee collected.
4. Inconsistent charging (capture) of hours by staff to development projects. (See the Management and Business Systems section of this report).
5. Insufficient management information to assess staffing levels required to provide a sufficient level of development services or workload (see the Management and Business Systems section of this report).

Full Job Cost Recovery

Many local governments in California are moving toward a full job cost recovery for development services in planning and engineering. Through building permit fees, this has historically been the goal for building services. This movement by cities not only stems from continuing budget challenges and the inability of the General Fund to subsidize development services, but a realization that streamlined processes and predictability are more important to economic development than the actual cost of processing applications through the regulatory process.

Full job cost recovery can be achieved through more than one approach, with full costs recovered varying to more or lesser degrees.

1. **Job Cost** - A time and materials approach by applying an hourly charge (fully burdened rate) which captures the full cost of service including overhead and indirect costs. Typically, a deposit is made for a particular type of project, against which staff time and materials (consulting costs or document production) are charged. The deposit should represent the average cost of processing such an application, with billings above the deposit only when it is exhausted.
2. **Flat Fee** – Assessing the average cost for a particular unit of development service or project and requiring payment of the fee as the total cost for the project. An average cost means that some projects may actually cost less to process, while others can cost considerably more.
3. **Combination of Job Cost and Flat Fees** - Assessing flat fees for a range of projects and full job cost for other, larger development applications such as development agreements or specific plans, where an average cost is not possible to determine.

The advantages of a full job cost recovery approach can include:

- No hidden subsidies for development review.
- Concept is understood by the applicant, similar to professional service fees.
- Better application and material submittals by the applicant because the cost is based on the time needed to review and process the application documents.
- No need to adjust fees annually (except deposits when necessary) as the hourly fee is adjusted with labor rates.
- Policy objectives regarding certain fees for service for nonprofits can still be incorporated.
- Allows more accountability to both the applicant and City management for staff time because hours are tracked.

There are challenges as well and these include:

- Requires maintenance of a comprehensive charge code system.
- Potential expanded demand on Finance for project costing and billings, which is done to a limited extent for some projects now.
- Requires tracking system for project submittals and active monitoring of projects.

Planning and Engineering

Currently the City of Tracy uses a flat fee system for the majority of its planning and engineering fees. Table 5 represents a list of the major current planning and engineering processing fee types as well as those that Management Partners believes most effectively could migrate to a full job cost basis.

TABLE 5: CURRENT CITY OF TRACY DEVELOPMENT FEE TYPES AND PROPOSED ALTERNATIVES

Activity	Current Fee Type	Proposed Alternative Fee Type
Annexation	Flat Fee	Job Cost/Deposit
Application Open/Close Fee	N/A	Flat Fee
Appeals	Flat fee	
Conditional Use Permit		
Action required by Planning Commission	Flat fee	Job cost
Amendment to Planning Commission Use Permit	Flat fee	Job cost
Use Permit Extension	Flat fee	
Conditional Use Permit (Non-profit Org)	Flat fee	
Temporary	Flat fee	
Determination (Finding)		
Land Use (General Plan)	Flat fee	
Planning Commission	Flat fee	Job cost
Development Agreement		
Initial Development Agreement	Job Cost	
Development Agreement Review	No specific fee	Job cost
Minor Amendment	No specific fee	Job cost
Development Review (Site Plan & Architecture)	Flat fee	Job Cost
Encroachment Permits	Flat fee	
General Plan		
Amendment	Job Cost	
Specific Plan	Job Cost	
Specific Plan Amendment	Job Cost	
Consistency Determination	Job Cost	
Grading Permits (non-Subdivision)	Flat fee	Job cost
Environmental Impact Review		
Review and Negative Declaration	Flat fee	Job cost
Consultant services (includes special services)	Job Cost	
Administrative processing of EIR	None specified	Job cost

Residential Growth Allotment	Flat fee	Job cost
Sign Permits		
Master Sign Program	Flat fee	Job cost
Amendment to MSP or Complying Sign	Flat fee	
Other (Temporary)	Flat fee	
Subdivision Ordinance		
Tentative Tract Map	Flat fee	Job cost
Tentative Tract Map Extension	Flat fee	Job cost
Tentative Parcel Map	Flat fee	Job cost
Tentative Parcel Map Extension	Flat fee	
Lot Line Adjustments	Flat fee	Job cost
Lot Combination	Flat fee	
Variance	Flat fee	Job cost
Zoning Ordinance Amendment		
Rezoning	Flat fee	Job cost
Zoning Text Amendment, each	Flat fee	Job cost
Zoning Research Letter	Flat fee	
Planned Unit Development	Flat fee	Job cost
Planned Unit Development Amendment	Flat fee	Job cost

Attachment E2 lists the current City of Tracy Planning and Engineering development processing fees, which have not been updated since 2003. A sampling of the flat fees strongly indicates that the flat fees cannot represent the true cost of processing applications through the regulatory process at this time. A fully burdened labor rate of \$120 (salary and benefits, plus overhead) for a planner or engineer would result in the following hours allowed for processing the applicable project application, from the opening of the application through completion and archiving of the plans and documents:

1. Environmental Initial Study/Negative Declaration (\$1,420, not including outside costs) - 11 hours
2. Development Review, Class B (\$3,800) – 22.5 hours
3. Encroachment Permit (varies up to \$350) – 2.9 hours

Comments from DES management staff as well as our experience in other agencies indicate that the hours allocated to such processes exceed what the current fee levels support. For example, receiving a planning application, reviewing it for completeness, filling out an initial study, preparing and processing the negative declaration, writing a staff report and attending a Planning Commission meeting (if needed), drafting and issuing the applicable approval to the applicant would likely exceed 11 hours, especially if support costs are included. Planning management staff estimates that it takes about 40 to 60 hours for a typical development review process. Similarly, reviewing an encroachment permit can be fairly straightforward or it can be complex, depending on how intrusive the encroachment is into the right-of-way. Again, if this fee is intended to cover the costs of all three components – reviewing and processing a permit application, inspecting the encroachment in the field and closing out the permit – 2.9 hours may not be sufficient, on average. Five years has elapsed since the last

processing fee update. If the City chooses to stay with a flat fee based system for processing developments, an update of the flat fees is warranted at this time.

Recommendation 6: Migrate to a full job cost recovery development fee based system for development fees to reduce the subsidy of general tax dollars for the processing of development. If the City chooses not to proceed with a full job cost system for every application process, evaluate those application processes involving more in-depth staff time, e.g., residential growth allotment and conditional use permits, for full job cost recovery, while leaving others as flat fees.

Recommendation 7: Evaluate and update all flat fees for development processing to reflect current costs. An update of engineering and flat fees should include an evaluation of fee categorizations and a revision of the fee schedule document to ensure all processes and charges are clear to the applicant and staff.

Recommendation 8: Assign a charge code for every development project application and require Planning and Engineering staff to document their hours worked on such applications. This documentation and accountability should occur regardless of whether development applications are charged on a flat fee or full job cost basis.

General Plan Maintenance

Management Partners recommends that the City of Tracy impose a community planning fee on building permit fees in order to recover a portion of the costs required to update and maintain the City's General Plan and Zoning Ordinance. DES staff has been working on such a fee and we support its implementation. State law authorizes local governments to charge fees for services based on the estimated reasonable cost of providing the service for which the fee is charged. The Mitigation Fee Act was amended in 2003 to clarify that service fees may "include costs reasonably necessary to prepare and revise the plans and policies that a local agency is required to adopt before it can make any necessary findings and determinations." Management Partners recommends that Tracy analyze the annual costs for maintenance and comprehensive updates of the General Plan and for ensuring that the Zoning Ordinance reflects the requirements of state law and is consistent with the General Plan. Once the annual cost is determined, an appropriate allocation of such costs to new development can be determined and a percentage charge on building permits may be imposed.

If the policy objective is to recover full costs for community planning allocable to new development, this will be a new revenue source for Tracy. How much that will be depends upon the actual costs and the amount of building permit activity across which such costs can be spread. The more the building permit activity, the less of a percentage is required. First, though, a determination must be made as to how much revenue is needed to offset the costs.

While some communities who impose such fees allocate all such costs to new development, Management Partners recommends allocating costs among three specific beneficiaries: (1) the community at large, (2) existing property owners, and (3) new development. The first

two are effectively funded through the General Fund. Once an allocation is agreed upon, a basis for the percentage allocation to new development can be determined.

Table 6 below represents a small survey of other local government agencies and the fees they are charging for this purpose.

TABLE 6: BUILDING PERMIT SURCHARGES FOR COMMUNITY PLANNING

City/County	Amount of fee imposed	Permit types on which fee is imposed
City of Belmont	0.025%	Total value of fair market materials and labor for project
Contra Costa County	varies	Fee built into all Community Development fees
City of Riverside	10%	All development permit types
City of San Rafael	1.7%	Building and Planning permits
City of Fremont	15%	Building permits

Recommendation 9: Enact a community planning fee representative of new development's fair share of the costs of ongoing maintenance and updating of the City of Tracy's General Planning and Zoning Ordinance.

Building

The City of Tracy building function has been challenged considerably over the last three years as the amount of building permit revenue has declined significantly. Building activity is often considered the "end of the line" indicator of development activity because entitlement approvals have either been built or are on pause due to economic conditions. Residual residential development has been built-out, and projections for increased residential building in Tracy is projected by staff to be at least three to five years in the future, or 2011-2013. Nonetheless, Tracy remains of strong interest to the development community for both residential and commercial development and staff in Planning and Engineering continue to plan and work toward the future. Further, as evidenced by building valuation data, commercial development still requires Building Division plan checking and inspection.

Table 7 provides a five year history of building permit and inspection fee revenue, staffing history and General Fund revenue allocated to the City of Tracy Building Division.

TABLE 7: CITY OF TRACY BUILDING HISTORICAL DATA

	fiscal year				
	03/04	04/05	05/06	06/07	07/08*
Total Building permit and inspection fee revenue	\$4,568,890	\$3,708,550	\$2,101,564	\$1,564,228	\$912,440
<i>Building permit revenue</i>	\$1,164,196	\$880,646	\$634,667	\$469,501	\$415,000
<i>Building inspection fee revenue</i>	\$3,404,694	\$2,827,904	\$1,466,897	\$1,094,727	\$497,440
Building staffing (FTEs)**	11.85	11.00	12.03	14.23	13.23
<i>Building Inspector</i>	6.00	5.00	6.00	6.00	6.00
<i>Plan Examiner</i>	2.00	2.00	2.00	2.00	2.00
All General Fund revenues	\$207,101,490	\$157,181,279	\$208,299,600	\$191,782,622	\$202,356,350
*FY 07/08 are estimated figures					
**Does not include contract inspection					
As of October 30, 2008					

Plan check fees have not covered the costs of service for several years requiring a regular allocation of General Fund revenue. Building inspection revenue began a significant decline in 2007-2008 with a 45% reduction over FY 2006-2007 and less than 50% of what was originally projected. And over the five year history, staffing declined by one in building plan checking, and increased by about one in building inspection.

A related measure of building development activity, although not necessary workload, is the number of requested inspections associated with building permit issuance. In 2003, the Building Division responded to 75,336 requests for inspection, which declined to 18,080 in 2007. A more effective measure, though, of building permit workload (activity) is the number of stops per day by each Building Inspector. While more than one inspection may be conducted at each stop, an informal survey of a number of Building officials indicated that generally Building Inspectors are expected to make about 10 to 13 stops per day. This can reach a much higher number (15 to 20) during peak periods of development activity and can also vary based on geographic location (large distances between stops); however, many Building officials agree that ideally, quality inspections should not be compromised if the number of stops remains around 10 to 13 per day. Table 8 indicates the change in number of inspection stops sustained by the Building Division in 2002 compared to 2007. In 2002, the average number of stops for Tracy Building Inspectors was 18.55, clearly on the high end. In 2007, the average number was about nine stops per day, and in 2008, through July, the average was less than seven.

TABLE 8: INSPECTION STOPS

Month	2002	2003	2004	2005	2006	2007	2008
January	11.5	15.4	15.6		11.4	9	8
February	14.9	17.1	17	11.5	9.1	8.22	7.3
March	15.5	14.5	15.3		7.5	9.7	6.5
April	15.5	16	20.2		12.3	10	5.9
May	19.4	18.2	26.6		12.8	10.3	7.3
June	26	20.6	23.4		12.8	8.95	5.5
July	22.4	21.2	24.6		15.2	8.8	7.7
August	21.5	16.7	22.4		13.6	10.7	
September	19.9	17.3		14	10.6	9.5	
October	25.4	17.6		14	11.4	7.5	
November	16.6	17.5		12.8	11.5	7	
December	14	13.8		12.7	8.8	8.7	
Total	222.6	205.9	165.1	65	137	108.37	48.2

It is reasonable to expect that building plan check and inspection revenue should cover the cost of most building functions in California. Whether valuation or job cost-based building permit fees are in place, during relatively calm economic conditions, sufficient fees should be generated to support the required building services. In times of peak economic activity, building revenues may also peak, but those revenues should then be used to sustain a building services staffing level during the low times, ready to respond when activity increases. Recruiting plan check engineers or building inspectors is not easy, especially when development activity is on the rise and during peak economic periods when competition is severe. The challenge then becomes the ability to balance building staffing levels over the low activity periods to ensure a trained and competent work force is in place when needed.

Recommendation 10: Develop an enterprise-based Building Services fee program which requires the division to generate a reasonable fund balance to support an agreed upon level of staffing and services during fluctuating periods of development. Such a program should be based on no General Fund allocation except in direct support of non-building related services which may rendered by the division.

Management Partners also reviewed the building permit fee system currently implemented in the City of Tracy. It is fairly typical of the majority of building permit systems in California based on building valuation. Tracy last updated its building permit fees in 2003. There are a number of cities in California who have also migrated to a cost-based fee recovery approach, which employs a time and materials basis for each type of building permit and plan check service or product. These cities have contracted with consulting firms to capture the data and generate list of fees.

The advantages of a cost based fee recovery system include:

- Method of analysis (case study or time and materials) is understood by the consumer
- For units of service rendered, the system has the ability to assess the full cost of service including overhead and indirect costs
- No hidden subsidies for a unit of service
- Unit of service is specific to the jurisdiction, based on available data

The challenges for a cost based fee recovery system include:

- Data required to support the array of units of service is not always captured by the permit system, resulting in estimates by staff for certain services or products
- Requires detailed data collection initially, and an equally detailed system for maintenance as new units of service emerge and change
- Because of the need for estimation, time and materials may be no less subjective than valuation
- Likely shift to higher (may be significant) fees for residential, particularly small projects such as additions
- Extensive range of units of service (fees) categories may be challenging to administer by front line staff

Management Partners recommends that Tracy retain its valuation-based building permit system. State law requires development fees for service must be reasonably related to the cost of providing that service; valuation-based systems, with some exceptions, have met that standard successfully throughout the state. Over the last five years, revenues received for building services in Tracy have been in reasonable proportion to the services provided. Management Partners, though, is recommending an update of the building valuation permit fees to recognize five years of building construction (not land) valuation changes. Additionally, there are a number of building fees or adjustments to current fees that are commonly found in other jurisdictions that we recommend be implemented in Tracy to capture costs not currently offset through the current valuation based fee system. The building valuation-based permit system was developed at a time when many of the regulatory requirements now required of plan check and building inspection, particularly in California, were not in place. Examples of such fee categories include, but are not limited to:

- Increased plan check fees
- Administrative costs associated with contract plan check
- Revisions to approved plans
- **Actual** cost of inspections for re-inspection or inspection outside normal work hours
- Disabled access compliance
- Energy compliance
- Technology fee for maintaining and updating permit systems and issuance
- Alternative Methods (UBC)
- Planning review required for a building permit
- Special event permits

Recommendation 11: Retain the valuation-based building permit fee system with some adjustment to capture changes in building construction valuation over the last five years.

Recommendation 12: Enact additional building service fees to address those building services not currently covered by the building valuation-based permit system.

ATTACHMENT E1 – SAMPLE COST ALLOCATION MODEL

Estimated Labor Applied to Budget/Revenue Type Projects										
Annual Salary	Hours	Title	Indirect	General Fund	Development Fund	Capital Projects Fund	RDA Fund	Water Fund	Waste Water Fund	
1.00	71,296	Planning	70%	49,907	20%	14,259	0%	0	0%	0
0.50	82,828	Administrative Assistant II	15%	6,212	12%	4,970	11%	4,556	0%	0
1.00	73,297	Assistant Director DES	35%	25,654	40%	29,319	0%	5	3,665	0
1.00	103,026	Assistant Planner	35%	36,059	5%	5,151	50%	51,513	0%	0
1.00	122,674	Assoc Planner	35%	42,936	9%	11,041	25%	30,669	0%	0
1.00	122,674	Senior Planner	35%	42,936	20%	24,535	45%	55,203	0%	0
1.00	59,722	Senior Planner	70%	41,805	5%	2,986	15%	8,958	0%	0
0.50	77,063	Administrative Assistant II	35%	13,486	40%	15,413	5%	1,927	0%	0
1.00	107,705	Assistant City Engineer	35%	37,697	45%	48,467	20%	21,541	0%	0
1.00	107,705	Assistant City Engineer	35%	37,697	5%	5,385	60%	64,623	0%	0
0.50	88,540	Assistant Director DES/City Engineer	15%	6,641	12%	5,312	43%	19,036	25%	11,068
1.00	123,173	Associate Civil Engineer	35%	43,111	10%	12,317	5%	6,159	50%	61,587
1.00	120,316	Associate Civil Engineer	35%	44,911	15%	19,247	20%	25,663	0%	0
1.00	119,386	Associate Civil Engineer	35%	41,785	10%	11,939	37%	44,173	3%	3,582
1.00	88,262	Construction Inspector	35%	30,892	10%	8,826	25%	22,066	30%	26,479
1.00	88,262	Construction Inspector	35%	30,892	0%	0	55%	48,544	10%	8,826
1.00	79,986	Engineering Technician I	35%	27,995	0%	0	20%	15,997	45%	35,994
1.00	69,692	Engineering Technician I	35%	24,392	45%	31,361	5%	3,485	0%	0
1.00	78,966	Engineering Technician I	35%	27,645	5%	3,949	5%	3,949	45%	35,544
1.00	78,966	Engineering Technician I	35%	27,645	5%	3,949	45%	35,544	0%	0
1.00	79,986	Engineering Technician I	35%	27,995	0%	0	0%	0	65%	51,991
1.00	78,629	Executive Assistant	70%	55,040	5%	3,931	10%	7,863	5%	3,931
1.00	132,812	Senior Engineer	35%	46,484	30%	39,044	25%	33,203	5%	6,641
1.00	140,978	Senior Engineer	35%	49,342	10%	14,898	0%	0	55%	73,047
1.00	144,731	Senior Engineer	35%	50,656	0%	0	10%	14,473	55%	79,602
1.00	107,705	Project Manager	35%	37,697	0%	0	0%	0	0%	0
25,500				953,995		497,146		607,778		32,814
				345,074		497,146		607,778		103,976
										24,233

ATTACHMENT E2 – CURRENT CITY OF TRACY DEVELOPMENT FEES

City of Tracy Planning and Engineering Fees Effective October 2003

PLANNING

For Class Definitions and Symbol Key, see page below

Annexation	\$10,500.00
116-4541-405-R213	
Appeal to City Council	\$ 276.00 M
116-4545-405-R253	
Appeal to Planning Commission	\$ 276.00 M
116-4545-405-R252	
Conditional Use Permit	
116-4543-405-R233	
Class A	\$ 9,595.00
Class B	\$ 5,300.00
Class C	\$ 3,375.00
Conditional Use Permit (Non-Profit Organizations)	
116-4543-405-R233	
Class A	\$ 960.00
Class B	\$ 530.00
Class C	\$ 340.00
Development Review	
116-4544-405-R243	
Class A	\$ 3,800.00
Class B	\$ 2,700.00
Environmental Assessment	\$ 100.00
(charged for all projects not requiring a Negative Declaration or EIR, except as noted by M)	
116-4542-405-R221	
Environmental Initial Study/Negative Declaration	\$ 1,420.00
116-4542-405-R222	
Environmental Impact Report	Reimbursement Agreement
116-4542-405-R223	

General Plan Amendment 116-4541-405-R211	Reimbursement Agreement	
Lot Line Adjustment 116-4544-405-R245		\$ 408.00
Planned Unit Development 116-4544-405-R244		\$ 7,850.00
Planned Unit Development Amendment 116-4544-405-R248		\$ 4,500.00
Planning Commission Determination 116-4545-405-R251		\$ 1,005.00
Residential Growth Allotment 116-4544-405-R247		\$ 1,669.00
Security Deposits 116-2703-027	Project Dependent	
Sewer Allocation 116-4544-405-R246		\$ 865.00 M
Sign Permit 116-4318-403-R271		
Master Sign program		\$ 1,012.00 M
Individual Sign Complying w/MSP		\$ 75.00 M
All other signs		\$ 456.00 M
Specific Plan 116-4541-405-R218	Reimbursement Agreement	
Specific Plan Amendment 116-4541-405-R212		\$ 5,100.00
Temporary Use Permit 116-4318-403-R273		\$ 72.00 M
Tentative Parcel Map 116-4544-405-R241		\$ 7,300.00
Tentative Subdivision Map 116-4544-405-R242		
5 -100 lots		\$10,000.00
101 & over lots		\$15,600.00
Time Extension 116-4549-405-R291		\$ 420.00 M

Variance	\$ 672.00
116-4543-405-R234	
Zone Change	\$ 2,550.00
116-4543-405-R231	
Zone Text Amendment	\$ 2,500.00
116-4543-405-R232	
Zoning Research Letter	\$ 80.00 M
116-4543-405-R239	

Symbol Key

- Plus Actual Costs Incurred: fees for consultant services, environmental documentation filing fees, other agency fees, etc.
- Environmental Assessment Fee not applicable.

**Conditional Use Permit
Classifications by Project**

	Residential	Commercial	Industrial
Class A:	5 + lots	+5,000 sq. ft. or 5 lots	+20,000 sq. ft. or 5 lots
Class B:	3 - 4 lots	2,000 -5,000 sq. ft. or 3 – 4 lots	5,000 -20,000 sq. ft. or 3 – 4 lots
Class C:	1 - 2 lots	-2,000 sq. ft. or 1 – 2 lots	-5,000 sq. ft. or 1 – 2 lots

**Development Review Permit
Classifications by Project**

	Residential	Commercial	Industrial
Class A:	4+ units	+3,000 sq. ft.	+10,000 sq. ft.
Class B:	1-3 units	-3,000 sq. ft.	-10,000 sq. ft.

The above stated fees represent the Planning Division Application Processing Fees only, and do not reflect development fees, building permit fees, plan check fees, encroachment permit fees, inspection fees, school fees, or any other City or other agency fees or deposits that may be applicable to the proposed project.

ENGINEERING

Grading Plan Check (112-4532-405-R323)	0-10,000 CY 10,000-100,000 CY 100,000-200,000 CY 200,000+ CY	Additional \$134.00/ea 10,000 CY Additional \$114.00/ea 10,000 CY Additional \$89.00/ea CY	\$2,450.00
Grading Permit (112-4331-403)	5 or less lots More than 5 lots		\$1,385.00 \$3,500.00
Final Parcel Map Review (112-4531-405-R311)			\$2,269.00
Final Subdivision Map Review (112-4531-405-R312)			\$1,840.00
Public Improvement Plan Check (112-4532-405-R321)		3.5% of Improvement Construction Cost	
Public Improvement Inspection (Mars Acct. No. _____ T/B Assigned)		5.78% of Improvement Construction Cost	
Inspection Improvement Agreement, SIA, DIA, OIA, PIRA, ANY AMDT. (112-4532-405-R322)			\$6,254.00
Map Amendment Review (112-4531-405-R313)			\$1,130.00
Segregation of Assessment (112-4534-405)			\$ 65.00
Record of Survey (112-4531-405-R314)			\$ 296.00
Certificate of Compliance (LLA) (112-4531-405-R315)			\$2,700.00
Certificate of Correction (112-4531-405-R315)			\$3,450.00
Street/Easement Abandonment (112-4532-405-R324)			\$1,440.00
Encroachment Permit (112-4332-403)	Sidewalks (Plus \$15/sq.ft.) Or \$50/hr whichever is less		\$ 55.00
(112-4332-404)	Driveways, Curbs (Plus \$15/sq/ft) Or \$50/hr whichever is less		\$ 55.00
	Trees, Utility Boxes/hour (1 hr minimum)		\$ 50.00

Miscellaneous Encroachment Permit

(112-4339-403) \$85/hour for inspection and engineering review \$110.00

Permit (112-4339-403) Inspection & Eng. Review

Street Use Permit \$ 160.00
(112-4334-403)

Oversize Load Permit Single Permit \$ 16.00
(112-4334-403) Annual or Blanket Permit \$ 90.00

Record of Survey \$ 296.00
(112-4531-405-R314)

Map & Document Sales Standard Plans, Standard Specs,
(112-4511-405) Design Standards \$ 15.00
Parks Manual \$ 75.00
Storm Drainage Master Plans \$ 20.00
Subdivision Maps \$ 5.00

Reproduction Fees (18"x24") or (24"x36") \$ 5.00/sheet
(112-4512-405)

Water Fees for Assignment of \$1,000.00/lot
Water Rights from Plainview
Irrigation District
(511-4236-402)

Water Supply Fee – Edgewood Subdivision
(Adopted August 5, 2003 – Res. No. 2003-289)

Single Family Dwelling Unit (SFDU) \$1,363.00
Residential (2-4DU) \$1,131.00
Residential (5+DU) \$ 913.00
Commercial Development \$982.00/ac

New Address Mapping Fees Commercial/SFD \$64.00/address
(101-4522-405-R365) Multi-family Projects \$64.00/bldg plus
(Adopted 5/7/2002 - Res. No. 2002-176) Additional \$32.00/individual dwelling unit