

**TRACY FINANCE COMMITTEE**  
SPECIAL MEETING AGENDA  
Tuesday, March 10, 2026, 5:00 P.M.



Tracy City Hall Chambers, 333 Civic Center Plaza, Tracy  
Web Site: [www.cityoftracy.org](http://www.cityoftracy.org)

**THIS MEETING WILL BE OPEN TO THE PUBLIC FOR IN-PERSON AND  
REMOTE PARTICIPATION.**

**MEMBERS OF THE PUBLIC MAY PARTICIPATE REMOTELY IN THE MEETING  
VIA THE FOLLOWING METHOD:**

*As always, the public may view the Tracy Finance Committee meetings live on the City of Tracy's website at [CityofTracy.org](http://CityofTracy.org) or on Comcast Channel 26/AT&T U-verse Channel 99. To view from the City's website, open the "Government" menu at the top of the City's homepage and select "Finance Committee", then select "[View Finance Committee Meetings on YouTube](#)" under the "Boards and Commissions" section.*

*If you only wish to watch the meeting and do not wish to address the Finance Committee, the City requests that you stream the meeting through the City's website or watch on Channel 26.*

**Remote Public Comment:**

*During the upcoming Finance Committee meeting public comment will be accepted via the options listed below. If you would like to comment remotely, please follow the protocols below:*

- *Comments via:*
  - **Online by visiting** <https://cityoftracyevents.webex.com> and using the following **Event Number: 2551 347 7672** and **Event Password: Finance**
  - ***If you would like to participate in the public comment anonymously***, you may submit your comment in WebEx by typing "Anonymous" when prompted to provide a First and Last Name and inserting [Anonymous@example.com](mailto:Anonymous@example.com) when prompted to provide an email address.
  - **Join by phone by dialing +1-408-418-9388, enter [25513477672#3462623#](tel:25513477672#3462623#) Press \*3 to raise the hand icon to speak on an item.**
- *Protocols for commenting via WebEx:*
  - *If you wish to comment on the "Consent Calendar", "Items from the Audience/Public Comment" or "Regular Agenda" portions of the agenda:*
    - *Listen for the Chairperson to open that portion of the agenda for discussion, then raise your hand to speak by clicking on the Hand icon on the Participants panel to the right of your screen.*

- *If you no longer wish to comment, you may lower your hand by clicking on the Hand icon again.*
- *Comments for the “Consent Calendar” “Items from the Agenda/Public Comment” or “Regular Agenda” portions of the agenda will be accepted until the public comment for that item is closed.*

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy Finance Committee on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

Full copies of the agenda are available on the City’s website:  
[www.cityoftracy.org](http://www.cityoftracy.org)

#### CALL TO ORDER

#### DISCLOSURE OF PARTICIPATION BY TELECONFERENCE PURSUANT TO GOVERNMENT CODE SECTION 54953.8.3, IF APPLICABLE

#### ROLL CALL AND DECLARATION OF CONFLICTS

#### ORDER OF BUSINESS

1. CONSENT CALENDAR
  - 1.A. Adoption of Minutes of the October 13, 2025 Meeting.
  - 1.B. Staff recommends that the Tracy Finance Committee receive an informational report on the status of the City Council’s FY2025-26 Budget.
2. REGULAR AGENDA
  - 2.A. Committee Selection of a Chairperson
  - 2.B. Staff recommends that the Tracy Finance Committee receive a report on the Five-year forecast for the City’s General Fund and provide direction regarding the City’s preliminary Fiscal Year 2026-27 Operating and Capital Budget.
  - 2.C. Staff recommends that the Tracy Finance Committee receive a report and provide direction on funding and project prioritization of Public Safety facilities.

3. STAFF ITEMS

4. ADJOURNMENT

**Posting Date: March 09, 2026**

The City of Tracy is in compliance with the Americans with Disabilities Act and will make all reasonable accommodations for the disabled to participate in employment, programs and facilities. Persons requiring assistance or auxiliary aids in order to participate, should contact the City Manager's Office at (209) 831-6000 at least 24 hours prior to the meeting.

## TRACY FINANCE COMMITTEE

## MEETING MINUTES

**October 13, 2025, 5:00 p.m.**

City Hall, 333 Civic Center Plaza, Tracy

Web Site: [www.cityoftracy.org](http://www.cityoftracy.org)

CALL TO ORDER – Chairperson Evans called the meeting to order at 5:00 p.m.

ROLL CALL – Roll call found Chairperson Evans and Co-Chairperson Abercrombie present.

1. CONSENT CALENDAR – Motion was made by Chairperson Evans and seconded by Co-Chairperson Abercrombie to adopt the Consent Calendar. Roll call found all in favor; passed and so ordered.
  - 1.A. Adoption of May 27, 2025 Special Meeting Minutes. – **Minutes were approved.**
  - 1.B. Staff recommends that the Tracy Finance Committee receive an informational report on the status of the City Council's FY2025-26 Budget.
2. ITEMS FROM THE AUDIENCE – None
3. REGULAR AGENDA
  - 3.A. Staff recommends that the Tracy Finance Committee receive an informational report on the FY2024-25 quarter 3 and 4 Treasurer's report.

Ray McCray, City Treasurer, provided the staff report and sought committee feedback.

Committee asked clarifying questions.

Resident David McCray inquired about the interest that is earned in the Local Agency Investment Fund (LAIF) account.

Treasurer Ray McCray provided clarification to Mr. McCray's question.

Chairperson Evans thanked Mr. McCray for his many years of service to the City of Tracy.

**ACTION:** Item had no Committee consensus.

- 3.B. Staff recommends that the Finance Committee recommend the City Council adopt a resolution approving amendments to the City of Tracy Investment Policy.

Sara Castro, Finance Director, provided the staff report and sought committee feedback.

Committee asked clarifying questions.

There was no public comment.

**ACTION:** Motion was made by Co-Chairperson Abercrombie and seconded by Chairperson Evans that the Tracy Finance Committee make a recommendation that the City Council adopt a resolution approving amendments to the City of Tracy Investment Policy. Motion found all in favor: passed and so ordered.

3.C. Staff recommends that the Tracy Finance Committee receive an informational report and provide feedback on the allocation of interest earned on City funds.

Sara Castro, Finance Director, provided the staff report and sought committee feedback.

Committee asked clarifying questions.

Resident Ms. Mitracos stated that she is pleased to see that the Investment Review Committee has been combined with the Finance Committee. She understands why the interest earned on the Measure V funds isn't allocated to capital improvements. She asked how much money is being set aside for other costs. She stated that the interest is set aside but also other funds are set aside and requested the amounts of each. She stated that the Nature Park could have been up and running long before now.

Chairperson Evans requested that when Measure V documents are publicly posted that the interest be shown as a line item. He also requested that this information be brought to Council annually.

Co-Chairperson Abercrombie also requested that the interest information be brought to Council so that there are no delays. He'd also like a written report on an annual basis

**ACTION:** Item had no Committee consensus.

- 4. STAFF ITEMS – The quarter one budget report that would typically come to this committee were received from staff this past week and would not have met the publishing deadlines for this meeting. They will therefore go directly to City Council on November 4<sup>th</sup>.
- 5. COMMITTEE ITEMS – Chairperson Evans again recognized City Treasurer Ray McCray for his stewardship of 30 years of service to the City.
- 6. ADJOURNMENT – Time: 5:38 p.m.

**ACTION:** Motion was made by Co-Chairperson Abercrombie and seconded by Chairperson Evans to adjourn. Motion found all in favor; passed and so ordered.

The agenda was posted at City Hall on October 10, 2025. The above are action minutes. A recording of this meeting is available on the City of Tracy's website.

\_\_\_\_\_  
Chairperson

ATTEST:

\_\_\_\_\_  
Clerk

Agenda Item 1.B

RECOMMENDATION

**Staff recommends that the Tracy Finance Committee receive an informational report on the status of the City Council’s FY2025-26 Budget.**

EXECUTIVE SUMMARY

Staff prepared this quarterly informational report regarding the status of the Fiscal Year 2025-26 City Council budget.

BACKGROUND AND LEGISLATIVE HISTORY

The chart below depicts the status of the Fiscal Year 2025-26 City Council budget, as of February 28, 2026. The City’s fiscal year began July 1, 2025 and ends June 30, 2026. Reporting through February 28, 2026, the City Council’s budget is within the available balance for each account line.

| ORG      | OBJ  | PROJECT     | ACCOUNT DESCRIPTION            | REVISED BUDGET | YTD EXPENDED  | ENCUMBRANCES | AVAILABLE BUDGET | % USED       |
|----------|------|-------------|--------------------------------|----------------|---------------|--------------|------------------|--------------|
| 12561101 | 5212 |             | Office Services                | 4,000          | 469.80        | 0.00         | 3,530            | 11.70        |
| 12561101 | 5218 |             | Subscription Software > 50,000 | 15,500         | 15,759.00     | 0.00         | -259             | 100.00       |
| 12561101 | 5228 | NYGARD      | Travel, Training & Membership  | 20,000         | 6,000.39      | 0.00         | 14,000           | 30.00        |
| 12561101 | 5228 | ABERCROMBIE | Travel, Training & Membership  | 20,000         | 0.00          | 0.00         | 20,000           | 0.00         |
| 12561101 | 5228 | EBANS       | Travel, Training & Membership  | 20,000         | 0.00          | 0.00         | 20,000           | 0.00         |
| 12561101 | 5228 | BEDOLLA     | Travel, Training & Membership  | 20,000         | 0.00          | 0.00         | 20,000           | 0.00         |
| 12561101 | 5228 | ARRIOLA     | Travel, Training & Membership  | 30,000         | 8,214.79      | 0.00         | 21,785           | 27.40        |
| 12561101 | 5239 |             | Professional Services          | 16,000         | 0.00          | 0.00         | 16,000           | 0.00         |
| 12561101 | 5311 |             | Supplies                       | 3,200          | 0.00          | 0.00         | 3,200            | 0.00         |
| 12561101 | 5335 |             | Food                           | 4,600          | 3,600.27      | 0.00         | 1,000            | 78.30        |
|          |      |             | <b>TOTAL</b>                   | <b>153,300</b> | <b>34,044</b> | <b>0</b>     | <b>119,256</b>   | <b>24.74</b> |

Travel expenditures are allocated by Council Member. There are pending travel charges for Council Members related to recent and upcoming conferences. The expenditures related to the travel are pending, as they were paid with a City Cal-card, resulting in a 30-day period of time before the expense is payable and reported in the general ledger.

The Office Services line-item is for expenditures related to printing and mailing.

Professional services are contracted services related to the implementation of the City Council’s Strategic Priorities.

The Supplies line-item is utilized for supplies utilized by the City Council such as office supplies, nameplates, name tags, plaques, keys to the City and City branded clothing.

With February being the 8<sup>th</sup> month of the fiscal year, the budget is expected to be approximately 66% expended. The City Council's overall budget is 24.74% expended for the fiscal year.

The budget report is inclusive of expenditures occurring through February 28, 2026; however, it is important to note that some expenses do have a delay in posting to the general ledger. If a Cal Card was used for a purchase or has pending charges for recent travel, these expenditures may not be captured in the budget report.

The next quarterly report to the Finance Committee will be April 2026.

#### FISCAL IMPACT

The City Council's budget is funded through the City's General fund. There is no fiscal impact associated with this informational item.

#### STRATEGIC PLAN

This agenda item supports the Governance strategic priority, goal two, ensure short and long-term fiscal health.

#### ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the Tracy Finance Committee receive an informational report on the status of the City Council's FY2025-26 budget.

Prepared by: Sara Castro, Director of Finance

Reviewed by: Arturo M. Sanchez, Assistant City Manager  
L. David Nefouse, City Attorney

Approved by: Midori Lichtwardt, City Manager

March 10, 2026

## AGENDA ITEM 2.A.

### RECOMMENDATION

**Staff recommends that the Tracy Finance Committee receive a report on the Five-year forecast for the City's General Fund and provide direction regarding the City's preliminary Fiscal Year 2026-27 Operating and Capital Budget.**

### EXECUTIVE SUMMARY

This item presents the City's five-year General fund forecast. The financial forecast serves as a planning tool to support the development of a sustainable long-term financial vision for the City. The forecast uses projections based on current economic conditions, assumptions and known information. As a dynamic planning tool, the forecast is updated annually to assist the City in anticipating future fiscal challenges and opportunities and to support informed, strategic decision making. The forecast is designed to guide policy direction and staff in the development of the budget.

In addition to receiving this report, staff seeks direction on the City's preliminary Fiscal Year (FY) 2026-27 Operating and Capital Budget.

### BACKGROUND AND LEGISLATIVE HISTORY

The City Council remains committed to maintaining fiscal sustainability while providing high quality public safety, public works, and community development to meet its current and future needs. The City Council adopted a two-year Strategic Priority Work Plan and identified desired outcomes related to the City's social, economic, organizational, and environmental priorities. The City Council adopted the 2025-2027 Strategic Priorities outlining the City Council's long-term goals and immediate focus areas. The Council's strategic priorities, along with their goals, are the foundation for development of the budget and forecast.

To support these priorities, a five-year fiscal plan is prepared annually. This plan incorporates a multi-year financial forecast that evaluates current and projected fiscal conditions and informs policy and programmatic decisions. In developing the forecast, the City relies on historical, current and projected financial data and employs analytic tools to assess potential future fiscal impacts. This process ensures that the City can anticipate challenges and opportunities, maintain fiscal stability, and make informed decisions to support long-term financial sustainability.

The forecast includes two separate actuarial studies to analyze the impacts of employee retirement benefits on the City's finances over time. One is focused on the fiscal impacts of pension and one on retiree medical costs. These reports are updated every 2-3 years based on Government Accounting Standards Board (GASB) rules. Secondly, the City conducts three separate studies on revenue forecasts based on economic trends surrounding short and long-term retail and housing markets. The City overlays each of these studies into the planning documents to create a multi-layered approach to fiscal analysis and planning.

The City's annual Operating and Capital budget provides a plan to allocate resources in alignment with the needs and priorities of Tracy's residents. It balances projected revenues and expenditures while addressing community priorities and requirements. In developing the FY 2026-27 Operating and Capital budget, City staff reviewed the FY 2025-26 amended budget and estimated anticipated revenues and expenditures for the upcoming fiscal year. These projections inform the short-term budget outlook and help identify expected outcomes. The budget reflects current market conditions for both revenues and expenditures, while the long-term portion of the forecast applies more conservative assumptions to evaluate revenue constraints and current spending patterns, ensuring the City's ability to maintain a fiscally sustainable and balanced budget over time.

## ANALYSIS

### **Economic Outlook**

Tracy's economy continues to experience steady growth, supported by diverse sectors including logistics and manufacturing. The City's strategic location between the Bay Area and Central Valley has contributed to both business and residential expansion. Transportation connections, including the ACE line and the planned Valley Link, along with ongoing investments in the downtown area, have strengthened Tracy's position as an attractive community to live, work, and play.

Tracy's economy is diverse with over 4,000 businesses operating citywide. While the business parks are home to numerous supply chain and e-commerce companies, over half of Tracy's businesses are considered small businesses, which are the backbone of our community.

Over the last three years, the City of Tracy has experienced new job growth, with Tracy's total employment growing by 5%. As a result, Tracy's unemployment rate is at 4.6%, below that of the County (6.3%) and State (5.1%). The median household income is \$118,253.

The housing market in Tracy reflects moderate price adjustment with stable sales activity. Currently, there are 31,196 completed housing units in the City with the median detached single family home price being \$685,000, trending lower than the

prior year's median price of \$725,500, and higher than the County's median home price of \$505,000. Despite the decline, sustained buyer demand and steady market conditions indicate a balanced market.

The City's Economic Development Division has continued implementation of the City Council's Ten-Year Economic Development Strategic Plan, advancing business attraction, small-business support, and strategic asset management to strengthen and diversify the City's tax base.

Retail investment remained active during the year. Trader Joe's opened in a long-vacant building, reactivating the mall area. Sprouts Farmers Market broke ground at Ellis Village Center, representing the first grocery store serving the Ellis area, addressing a long-identified community need. Staff conducted proactive outreach to more than 30 national and regional operators, generating follow-up discussions with retail, restaurant, and entertainment brands to expand local amenities and reinforce Tracy's regional market position.

The Economic Development Division conducted over 350 business visits and administered two surveys to assess needs related to marketing, workforce recruitment, and access to capital. These efforts strengthened relationships with the local business community. Staff also maintained coordination with West Valley Mall ownership to address vacancies and encourage reinvestment.

Real property activities advanced fiscal objectives, including telecommunications lease negotiations and continued efforts to reposition City-owned assets, including the Westside Market to encourage redevelopment and community reinvestment. The Downtown Tracy Community Benefit District was renewed for a new ten-year term, generating approximately \$295,000 annually for maintenance, marketing, and special events that enhance downtown vitality.

While these efforts reflect continued progress toward strengthening the City's economic base, it is important to recognize that broader economic conditions ultimately influence local performance. The economy experiences natural cycles of growth and contraction that are beyond the City's control. Even with careful financial planning and long-term forecasting, not all future outcomes can be anticipated.

In recognition of this reality, the City has taken prudent steps to strengthen its financial position – building reserves, adopting sound fiscal policies, and approving key revenue measures to sustain essential services. Nevertheless, despite these proactive efforts, the City, like many public agencies, will continue to face unmet needs in an environment of constrained resources.

At the State and Federal level, the impacts of legislative changes remain uncertain. The forecast reflects current information and assumptions and will be updated throughout the budget process as new developments emerge.

Developing a financial forecast helps identify revenue and expenditure trends that may have immediate or long-term impacts on City policies, strategic priorities, funding commitments, and community services. The City uses its five-year financial forecast as a tool to anticipate short-term revenues and expenditures, and then extends those trends across a longer planning horizon to promote structural balance and long-term sustainability.

By modeling long-range strategies, the City can make measured adjustments over time, while maintaining reserves and continuing to enhance services for the community. As a result, the forecast has become an integral component of the budget process.

### **General Fund Fiscal Sustainability:**

In FY 2021-22, a change in tax reporting by a predominant sales tax producer shifted the tax allocation from a statewide allocation through the County sales tax pool where the tax was distributed pro-rata throughout the State, to a local sales tax allocation based upon the businesses' point-of-sale or fulfillment of the sale. The change has had a significant impact on the City's General Fund revenues; nearly doubling the Sales Tax revenues for the City.

However, this increase in revenue is not guaranteed as there is significant interest in having these funds reallocated to other jurisdictions. In 2022, the California Department of Tax and Fee Administration (CDTFA) published a study related to sales tax specific to e-commerce, which reviewed the impacts of changing the method of sales tax allocation from the point of fulfillment to the point of delivery. The study showed that if this change occurred, the impact to the City would be 25% or greater from the City's current allocation, estimated to be \$25-30 million annually.

Through the League of California Cities, a City Manager's sales tax working group was formed to provide input on possible legislation change in relation to sales tax specific to e-commerce. The working group made a recommendation to the League of California Cities Revenue and Taxation Policy Committee to split the allocation by 50% based on point-of-sale and 50% based upon point-of-destination, with a +/- of 10%, with a five-year phase in. The Revenue and Taxation Policy Committee voted to recommend this resolution to the Cal Cities board.

On February 20<sup>th</sup>, at the Cal Cities board meeting, the board heard the following recommendations:

1. A 50/50 split of Bradley-Burns sales and use tax revenues generated from e-commerce transactions.
2. A plus or minus 5% flexibility band
3. Prospective application, excluding revenues from existing sales tax sharing agreements from any split.

4. Five-year phase-in following CDTFA implementation.
5. A plus or minus 20% volatility band to be used when reallocating revenues, whereby revenues gained by a city in excess of 20 percent would be used to mitigate revenue losses greater than 20% for cities negatively impacted by the reallocation of Bradley-Burns.
6. County pool use tax dollars from out-of-state e-commerce transactions reallocated from the County pools to destination cities.

The resolution to change the in-state allocation of e-commerce sales tax was rejected, however, the motion to change the out of state sales tax from the County pool to destination cities passed. The City anticipates that the changes to out-of-state sales tax could result in a loss of \$3-4 million annually, however, it is not yet known in which fiscal year the change will occur.

The motion encouraged continued discussion on broader sales tax allocation reform. Staff will continue to update Council as more information becomes available.

Since the adoption of the FY 2022-23 operating budget, Council has annually adopted a set of strategies for use of the General Fund surplus, which included prepayment of CalPERS and retiree medical liabilities, funding to cover deferred maintenance for streets, parks and buildings, funding for new public safety facilities and an increase to City services and programs. To date, \$53.5 million has been funded to the Council Fiscal Sustainability Strategies. For the last four year, these one-time allocations were provided in addition to the City Council’s regular annual General Fund budget increases.

**Council Adopted Fiscal Sustainability Strategies**

| <b>City Council's Fiscal Sustainability Strategies</b> |                        |                        |                        |                          |                               |
|--|------------------------|------------------------|------------------------|--------------------------|-------------------------------|
|  | <b>Actual<br/>FY23</b> | <b>Actual<br/>FY24</b> | <b>Actual<br/>FY25</b> | <b>Budgeted<br/>FY26</b> | <b>Total<br/>To-<br/>Date</b> |
| CalPERS Liability Prefunding                           | \$2M                   | \$2.5M                 | \$0                    | \$0.5M                   | \$5M                          |
| Retiree Medical Program                                | \$2M                   | \$2.5M                 | \$0                    | \$0                      | \$4.5M                        |
| Public Safety Facilities                               |                        |                        |                        | \$11M                    | \$11M                         |
| Deferred Mtc. - Buildings                              |                        |                        |                        | \$0.5M                   | \$0.5M                        |
| Deferred Mtc - Streets                                 | \$3M                   | \$3.8M                 | \$4.2M                 | \$2.5M                   | \$13.5M                       |
| Deferred Mtc - Parks                                   | \$2M                   | \$2.5M                 | \$2.5M                 | \$1.0M                   | \$8.0M                        |
| City Services-Programs                                 | \$3M                   | \$3.7M                 | \$2.4M                 | \$2M                     | \$11.1M                       |
| <b>Total</b>   | <b>\$12M</b>           | <b>\$14.9M</b>         | <b>\$9.1M</b>          | <b>\$17.5M</b>           | <b>\$53.5M</b>                |

## **General Fund Fiscal Highlights**

### Revenue Trends

#### **Property Tax:**

New housing units added to the assessor's roll, combined with commercial developments in the community, and rising property values, have contributed to steady growth in local property tax revenues over the past several fiscal years. While new construction has begun to slow, modest declines in interest rates have supported continued demand for detached single family home sales. Tracy's housing market remains relatively more affordable compared to Bay Area communities. Commercial and industrial real estate sales have also experienced moderate growth.

Calendar year 2025 is the year that influences the FY 2026-27 property taxes. January 2025 saw mortgage rates of 6.7%, fluctuating throughout the year amid tariff-induced uncertainty. By December 2025, rates had dropped to the lowest level in a year at 6.19%. According to the California Association of Realtors, housing markets across the state are finally seeing improvement, albeit moderate, over the next twelve months with mortgage rates sliding a full percentage point since a year ago

Because property tax revenue typically lags 12-18 months behind market activity, the City estimates FY2026-27 will see an estimated increase in property tax revenues of 5%. Property tax will continue to grow in FY2027-28 by an estimated 4% annually over the following 3 years based on anticipated market turnover and valuation growth. Over the longer term (5-year term), the City will see property tax slow to the 2% annual growth cap as allowed under Proposition 13.

#### **Sales Tax (Bradley-Burns):**

Sales Tax generated under the Bradley-Burns allocation has made up nearly 50% of the City's total General Fund revenues for the last several years as a result of Tracy's warehousing and e-commerce industries. Although the Cal Cities board did not advance a resolution to shift the Bradley-Burns sales tax allocation for e-commerce to destination based, the City continues to face revenue volatility associated with the warehousing sector.

The City was recently notified that a large fulfillment center will cease operations in June 2026 to undergo retrofitting, and upon reopening, will operate as a distribution center. At this time, it is unknown whether any fulfillment activity will transition to another fulfillment center in Tracy or be relocated to fulfillment centers in other jurisdictions. The fiscal impacts from this change are expected to first be reflected in the sales tax receipts received in Fall 2026. Based on current information, staff estimates a reduction of approximately \$13 million in sales tax revenue compared to the prior fiscal year. Staff will continue to closely monitor

sales tax performance and provide updates to the City Council as part of the Mid-year budget review.

**Measure V Sales Tax (Local Sales Tax):** In November 2016, the City Council and voters passed an additional ½ cent local sales tax (known as Measure V) that has a twenty-year sunset (expires April 2037). Over the last five years, the City Council has adopted several resolutions, which prioritized Measure V Sales Tax to fund multiple amenities located in the City: The Aquatic Center, TRAC (formerly the Multigenerational Recreation Center), Legacy Fields Sports Complex, Ritter Family Ball Park, and the Nature Park. These capital expenditures demonstrate the City Council’s Strategic Priority for improved Quality of Life and Economic Development. Measure V has historically produced an average of \$12 million in revenue annually, the forecast expects this amount to remain consistent for FY 2026-27.

**Transient Occupancy Tax (TOT):** The Transient Occupancy Tax (TOT), is a tax collected on hotel stays within the City of Tracy. The TOT is currently 10%. With tourism statewide remaining strong, the City has seen TOT revenues remain steady at \$2 million in tax revenue annually. There are currently two new hotels under construction and three approved but not yet constructed. It is expected that the two under construction will be completed in the upcoming fiscal year and as a result, the City can likely expect to see an increase in TOT revenue.

### **Business License and Cannabis Tax:**

In November 2022, voters approved the modernization of the Business License Tax. The updated tax, which took effect on July 1, 2023, shifted the methodology from a system based largely on number of employees (established in the 1980s) to a structure based on a percentage of gross receipts, depending on business category. Implementation of the updated tax initially increased Business Tax revenues from approximately \$1 million to about \$8 million annually.

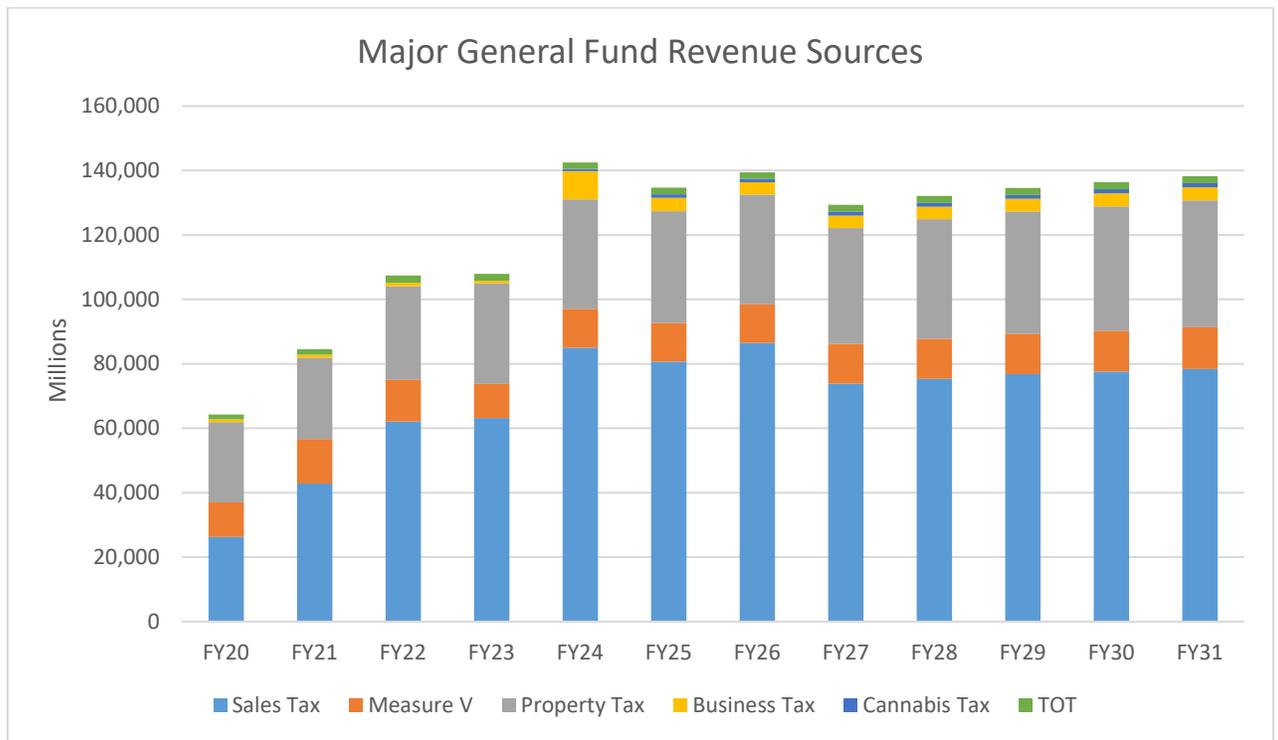
In August 2024, following public discussion and workshops, the City Council amended the tax to reduce rates and establish a cap on the amount paid by large businesses in order to provide relief to the business community. The cap and rate adjustments substantially reduced projected revenues. As a result, the Business Tax generated approximately \$3.5 million in revenue in the current fiscal year and is forecasted to generate approximately \$3.8 million in FY 2026–27.

Business Tax revenues provide important funding for community priorities, including maintaining City streets and roads, supporting public safety services, and funding recreation programs.

Additionally, Cannabis tax is an overlay component of business license tax classifications. The City Council and voters approved a Cannabis Tax in 2020, which provided a gross receipts tax on retail, distribution, and manufacturing and a

square foot tax on cultivation. In July 2023, Tracy’s first Cannabis business opened. There are currently six Cannabis businesses open in Tracy. Like the Business Tax, Cannabis taxes are based on the gross receipts of the business. It is estimated that FY2026-27 Cannabis revenues will be \$1.2 million.

### Historical and Forecasted Major General Fund Revenues



### Expenditure Trends & Assumptions

Because people provide City services, the City’s General Fund personnel costs are more than 50% of operating expenses. In July 2025, new four-year labor contracts became effective, and the 4% annual cost of living adjustments are incorporated into the forecast. Other drivers of cost as it relates to personnel expenses over the forecast horizon include but are not limited to: health care, CalPERS normal cost and unfunded liability.

The General Fund forecast is based upon the assumption of full staffing levels. Although some attrition can be expected, it is difficult to rely upon personnel savings to reduce annual expenditures. In addition, it is uncertain when and where the vacancies may occur and their potential impact on service demands. It is not a good practice to rely upon salary savings as a permanent cost saving measure.

The General Fund forecast includes an inflation factor of 3% for non-personnel expenses in the short term and flattens to 1-2% in the long-term. This factor is used to maintain the current buying power of the City. The inflation factor may

result in the City’s costs rising higher than the forecast and reducing the overall buying power. The City will continue to monitor the inflation rate on goods and services as it has historically outpaced the City’s revenue growth due to regulatory restrictions on revenues. Staff will continue to monitor the costs of goods and services and their impacts on a quarterly basis.

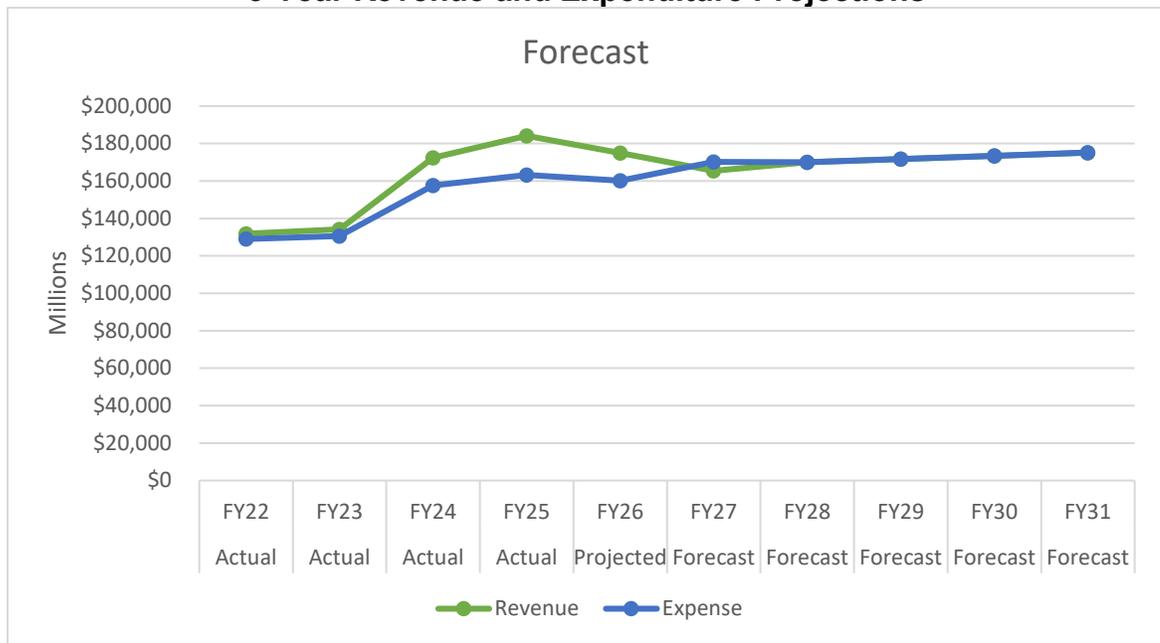
Five-Year Forecast

The City’s General fund five-year forecast presents anticipated revenues, expenditures and capital needs based on the current economic conditions, policy direction and planned initiatives. To provide context, the forecast is presented alongside the previous four years of actual results and the current fiscal year’s amended budget.

While the City’s sales tax revenue is projected to decline, anticipated increases in property tax revenue are expected to partially offset that reduction, resulting in a net General fund revenue decrease of \$9.5 million in FY 2026-27.

Forecasted expenditures include increases to personnel costs, previously approved contractual commitments, planned capital obligations and rising costs of non-discretionary expenses such as utilities and required regulatory compliance. It does not assume the use of Council’s Fiscal Sustainability Strategies.

**5-Year Revenue and Expenditure Projections**



|                        | Actual<br>FY22 | Actual<br>FY23 | Actual<br>FY24  | Actual<br>FY25  | Projected<br>FY26 | Forecast<br>FY27 | Forecast<br>FY28 | Forecast<br>FY29 | Forecast<br>FY30 | Forecast<br>FY31 |
|------------------------|----------------|----------------|-----------------|-----------------|-------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Revenue</b>         | \$131,831      | \$134,187      | \$172,431       | \$184,098       | \$174,984         | \$165,420        | \$170,035        | \$171,736        | \$173,453        | \$175,187        |
| <b>Expense</b>         | \$128,984      | \$130,635      | \$157,603       | \$163,284       | \$160,215         | \$170,111        | \$170,035        | \$171,736        | \$173,453        | \$175,187        |
| <b>Surplus/Deficit</b> | <b>\$2,847</b> | <b>\$3,552</b> | <b>\$14,828</b> | <b>\$20,814</b> | <b>\$14,769</b>   | <b>(\$4,691)</b> | <b>\$0</b>       | <b>\$0</b>       | <b>\$0</b>       | <b>\$0</b>       |

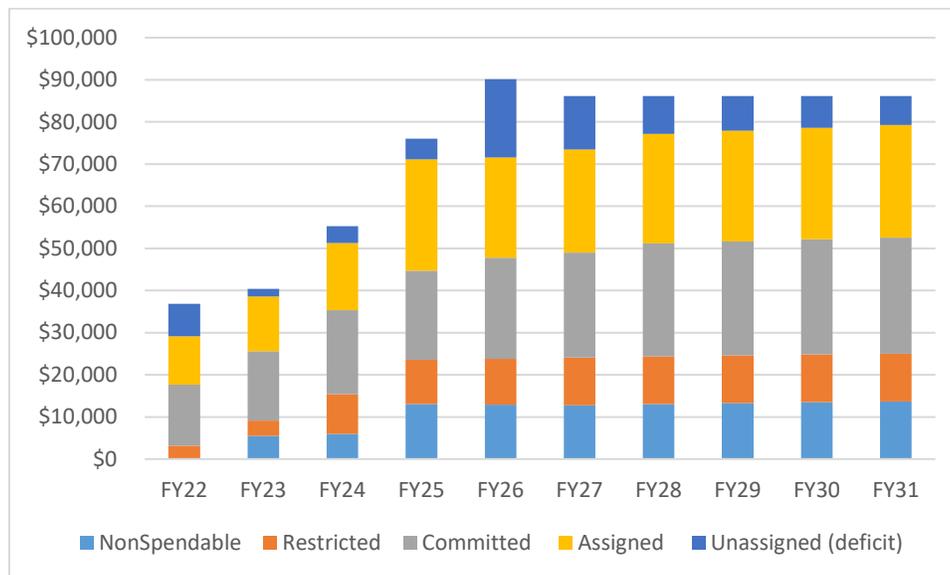
**GENERAL FUND RESERVES:** The City maintains General Fund reserve policy of 30% reserves, with 17% designated for emergency and contingency purposes and 13% designated for Economic Stability reserves.

The City has maintained the full 30% reserve level along with additional unassigned fund balance, for the past four fiscal years and is anticipated to end FY 2025-26 with a surplus.

As reflected in the five-year forecast, FY 2026-27 will require the use of \$4.9 million in unassigned fund balance to achieve a balanced budget.

Maintaining strong reserve levels positions the City to respond effectively to changing economic conditions and financial uncertainties.

### General fund Reserves



|                      | Actual<br>FY22  | Actual<br>FY23  | Actual<br>FY24  | Actual<br>FY25  | Projected<br>FY26 | Forecast<br>FY27 | Forecast<br>FY28 | Forecast<br>FY29 | Forecast<br>FY30 | Forecast<br>FY31 |
|----------------------|-----------------|-----------------|-----------------|-----------------|-------------------|------------------|------------------|------------------|------------------|------------------|
| Non-Spendable        | \$0             | \$5,535         | \$5,989         | \$13,064        | \$12,923          | \$12,777         | 13,065           | 13,290           | 13,483           | 13,641           |
| Restricted           | \$3,175         | \$3,596         | \$9,433         | \$10,466        | \$10,832          | \$11,332         | 11,332           | 11,332           | 11,332           | 11,332           |
| Committed            | \$14,505        | \$16,489        | \$19,919        | \$21,189        | \$24,046          | \$24,882         | 26,790           | 27,058           | 27,328           | 27,602           |
| Assigned             | \$11,435        | \$12,952        | \$15,897        | \$26,388        | \$23,809          | \$24,481         | 25,973           | 26,211           | 26,453           | 26,697           |
| Unassigned (deficit) | \$7,762         | \$1,857         | \$4,017         | \$4,960         | \$18,554          | \$12,670         | 8,984            | 8,253            | 7,548            | 6,872            |
| <b>Total</b>         | <b>\$36,877</b> | <b>\$40,429</b> | <b>\$55,255</b> | <b>\$76,067</b> | <b>\$90,164</b>   | <b>\$86,142</b>  | <b>\$86,144</b>  | <b>\$86,144</b>  | <b>\$86,144</b>  | <b>\$86,144</b>  |

Fiscal Sustainability Strategies

The Council’s Fiscal Sustainability Strategies, established during the fiscal year 2023 budget process, have been instrumental in maintaining the City’s fiscal strength and reducing future liabilities. Although the strategies were originally intended to remain in place through fiscal year 2028, the projected reduction in sales tax revenue reflected in the forecast has resulted in all strategies, except City services and programs to excluded from the current forecast.

As shown in the chart below, several allocated funding categories remain unspent. Staff requests Committee direction on recommending FY 2026-27 funding for any Council Fiscal Sustainability Strategy categories, and if so, whether to utilize unspent funds or unassigned fund balance reserves.

| <b>City Council's Fiscal Sustainability Strategies</b> |                    |                    |                    |                      |                      | <b>Funds Unspent</b> |
|--|--------------------|--------------------|--------------------|----------------------|----------------------|----------------------|
|  | <b>Actual FY23</b> | <b>Actual FY24</b> | <b>Actual FY25</b> | <b>Budgeted FY26</b> | <b>Total To Date</b> |                      |
| CalPERS Liability Prefunding                           | \$2M               | \$2.5M             | \$0                | \$0.5M               | \$5M                 | \$0                  |
| Retiree Medical Program                                | \$2M               | \$2.5M             | \$0                | \$0                  | \$4.5M               | \$3.8M               |
| Public Safety Facilities                               |                    |                    |                    | \$11M                | \$11M                | \$11M                |
| Deferred Mtc. - Buildings                              |                    |                    |                    | \$0.5M               | \$0.5M               | \$0.5M               |
| Deferred Mtc - Streets                                 | \$3M               | \$3.8M             | \$4.2M             | \$2.5M               | \$13.5M              | \$9.3M               |
| Deferred Mtc - Parks                                   | \$2M               | \$2.5M             | \$2.5M             | \$1.0M               | \$8.0M               | \$0.8M               |
| City Services-Programs                                 | \$3M               | \$3.7M             | \$2.4M             | \$2M                 | \$11.1M              | \$0                  |
| <b>Total</b>   | <b>\$12M</b>       | <b>\$14.9M</b>     | <b>\$9.1M</b>      | <b>\$17.5M</b>       | <b>\$53.5M</b>       | <b>\$25.4M</b>       |

FISCAL IMPACT

There is no fiscal impact associated with this item. However, the five-year forecast is a critical tool for establishing financial policy and guiding decision making. Forecasted outcomes have the potential to improve or worsen based on a variety of factors.

Factors that could improve the forecast include higher tax revenues, higher employee vacancy rates, stronger than anticipated CalPERS investment returns, and economic development activity exceeding current projections.

Potential outcomes that could worsen the forecast include: CalPERS investment losses (or additional discount rate cuts), weaker revenue growth, fewer new hotels, delays, or closures in commercial activities, inflationary or recessionary losses, adjustment in labor COLAs, staffing beyond current levels assumed in the forecast, impacts from changes in Federal legislation, and unplanned, one-time expenditures.

STRATEGIC PLAN

This agenda item supports the Government Accountability strategic priority, goal 2, maintain fiscal responsibility.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the Tracy Finance Committee receive a report on the Five-year forecast for the City's General Fund and provide direction regarding the City's preliminary Fiscal Year 2026-27 Operating and Capital Budget.

Prepared by: Sara Castro, Director of Finance

Reviewed by: Arturo M. Sanchez, Assistant City Manager  
L. David Nefouse, City Attorney

Approved by: Midori Lichtwardt, City Manager

ATTACHMENTS

Attachment A – Five-Year Forecast Power Point Presentation



**CITY OF TRACY  
FINANCE COMMITTEE  
FIVE-YEAR FORECAST  
GENERAL FUND UPDATE FY 2026-2031**

MARCH 10, 2026

# City of Tracy Five-Year Forecast

- Annual five-year fiscal plan to begin budget planning process.
- Forecast incorporates:
  - Council's adopted 2025 – 2027 Strategic Priorities
  - Past, current and projected financial conditions
  - Known economic conditions



# Agenda

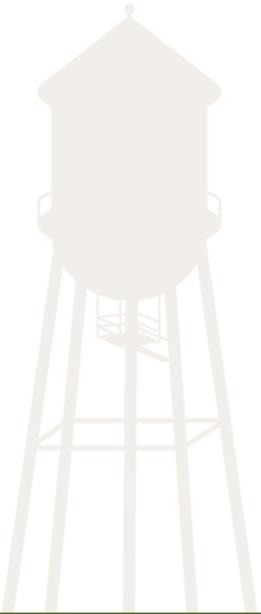
- Economic Outlook
- General Fund Fiscal Sustainability
- Revenue and Expenditure Trends
- Forecast
- Fiscal Sustainability Strategies
- Next Steps



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# Economic Outlook



# Economic Trends - Local

- Tracy's local economy remains stable
  - Over 4,000 businesses, with over half being small businesses
  - 4.6% unemployment rate, lower than County/State
  - Median household income \$118,253
- Home sales have remained steady
  - Tracy housing remains more affordable than neighboring Bay Area homes
  - Median home price of \$685,000



# Economic Trends - Local

The City continues work on the adopted Economic Development Strategic Plan, a 10-year roadmap to maintain and expand the City's tax base by:

- Bringing new retail amenities
- Getting resources to small businesses
- Partnering with advanced industries



# Economic Trends – State & Federal

- Impacts of legislative changes at the State and Federal level that have unknown impacts:
  - Tariffs
  - Grant funding
  - State's budget deficit

Staff will continue to monitor changes as they occur and will report out any significant impact.



# General Fund Fiscal Sustainability



# General Fund

- FY22 - Sales Tax allocation change for major E-commerce business resulted in increased sales tax for the City
- Since then, Council has invested in one-time capital projects, deferred maintenance and paying down liabilities.

# Fiscal Sustainability Strategies

## City Council's Fiscal Sustainability Strategies

|                              | Actual       | Actual         | Actual        | Budgeted       | Total          |
|------------------------------|--------------|----------------|---------------|----------------|----------------|
|                              | FY23         | FY24           | FY25          | FY26           | To-Date        |
| CalPERS Liability Prefunding | \$2M         | \$2.5M         | \$0           | \$0.5M         | \$5M           |
| Retiree Medical Program      | \$2M         | \$2.5M         | \$0           | \$0            | \$4.5M         |
| Public Safety Facilities     |              |                |               | \$11M          | \$11M          |
| Deferred Mtc. - Buildings    |              |                |               | \$0.5M         | \$0.5M         |
| Deferred Mtc - Streets       | \$3M         | \$3.8M         | \$4.2M        | \$2.5M         | \$13.5M        |
| Deferred Mtc - Parks         | \$2M         | \$2.5M         | \$2.5M        | \$1.0M         | \$8.0M         |
| City Services-Programs       | \$3M         | \$3.7M         | \$2.4M        | \$2M           | \$11.1M        |
| <b>Total</b>                 | <b>\$12M</b> | <b>\$14.9M</b> | <b>\$9.1M</b> | <b>\$17.5M</b> | <b>\$53.5M</b> |



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# Revenue and Expenditure Trends



# Revenue Trends

## Property Tax

- Short Term: 4-5% growth
- Long Term: 2% growth



# Revenue Trends

## Sales Tax

Prominent fulfillment center to go offline in June 2026, will convert to a distribution center. Estimated sales tax loss of \$13m annually.

Undetermined if fulfillment to remain in Tracy or if it will occur in another city.

Staff to monitor and report back during mid-year budget update

# Revenue Trends, Continued

- Other Revenues
  - Business License tax
    - Short Term: 3% growth
    - Long Term: 1-2% growth
  - TOT
    - Short Term: 10% growth
    - Long Term: 15% growth
  - Cannabis tax
    - Short Term: 3% growth
    - Long Term: 1-2% growth

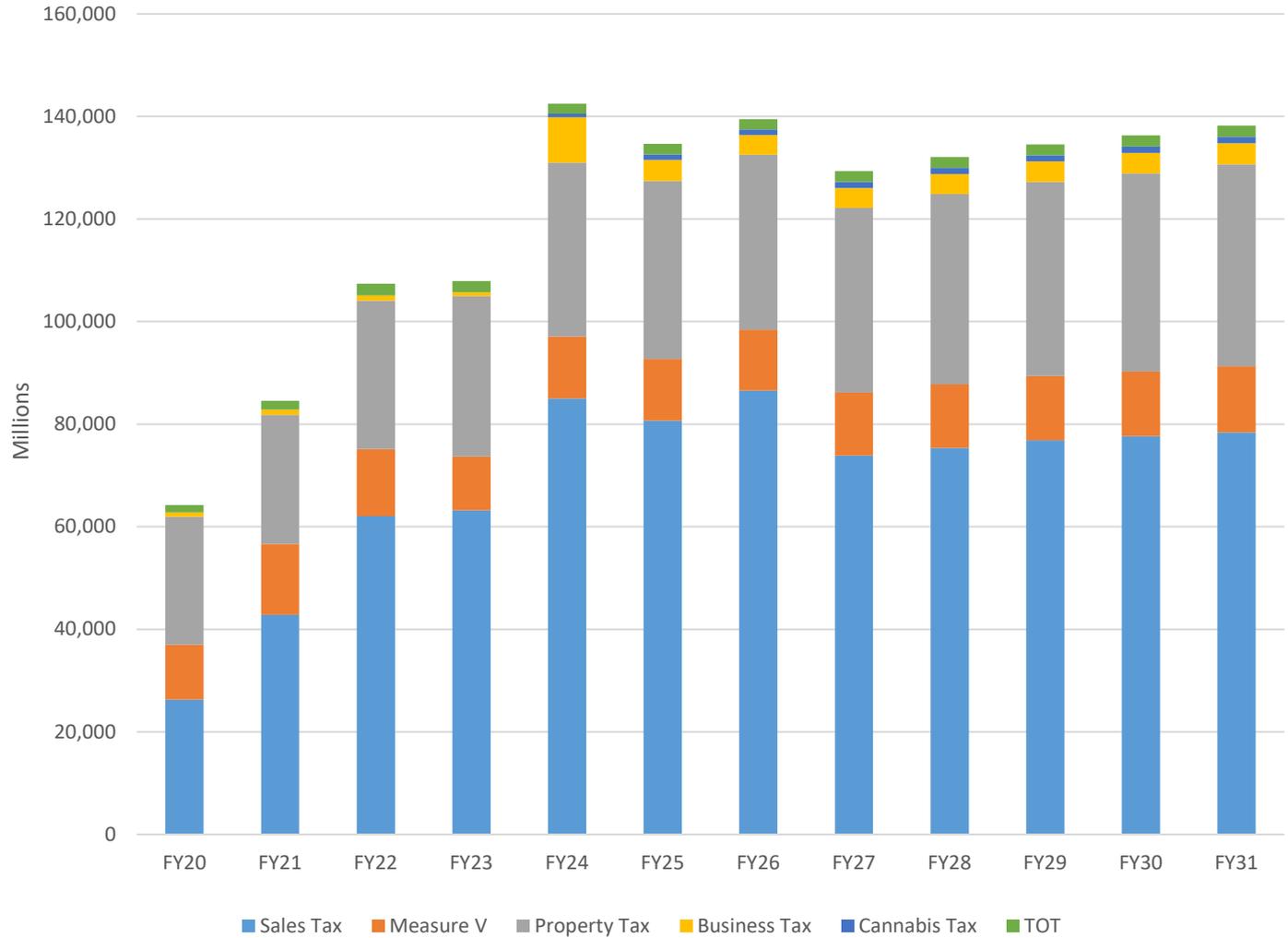




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# Historical and Forecasted General Fund Revenues

Major General Fund Revenue Sources



# Expenditure Trends

- Salary and Benefits
  - Labor contracts – four-year contracts approved, 4% cost of living increases annually
  - Long Term: 1-2% growth
- Non-personnel
  - Short Term: 3% growth for inflation
  - Long Term: 1-2% growth



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# Forecast





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# Sales Tax

- The California Department of Tax and Fee Administration (CDTFA) studied changing the sales tax allocation method from point of fulfillment to point of delivery.
- The study showed that if such a change occurred, Tracy's allocation would be impacted by 25% or greater, estimated to be \$25 – 30 million annually.



# Sales Tax, Continued

- The League of California Cities formed a City Manager's sales tax working group to provide input on possible legislation change specific to e-commerce.
- A recommendation to the Cal Cities board was made to split the allocation 50% based on point of sale and 50% based on point of destination, with a +/- of 10%, with a 5-year phase in.



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# Sales Tax, Continued

On February 20<sup>th</sup>, at the Cal Cities board meeting, the board heard the following recommendations:

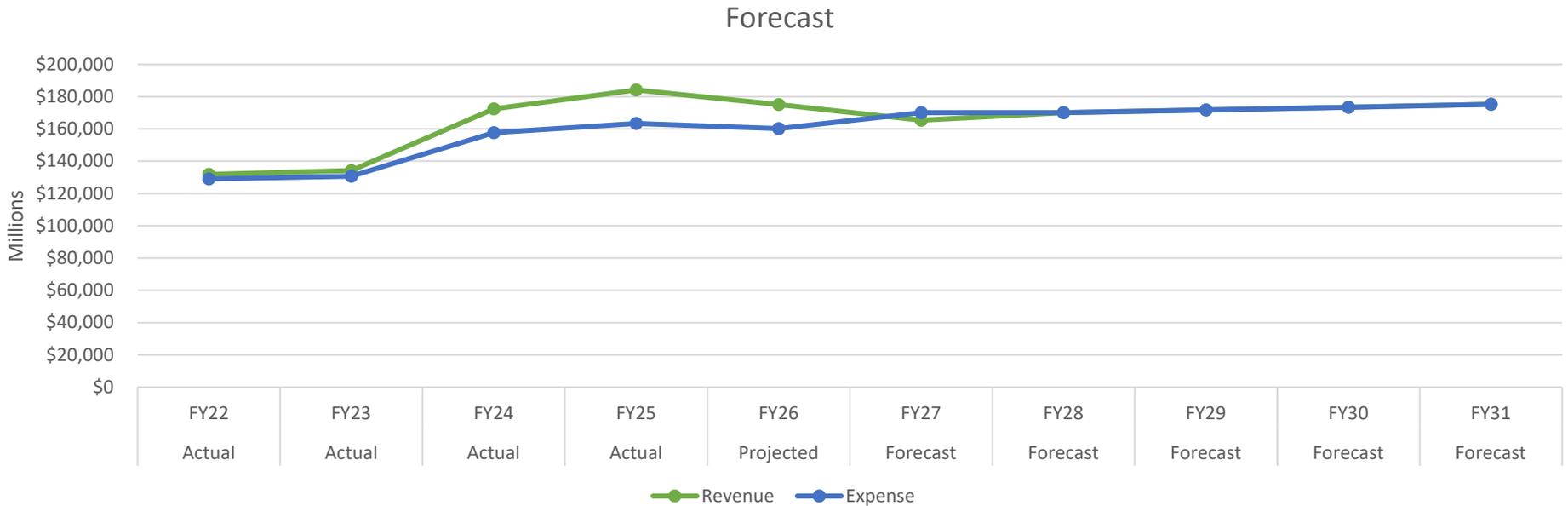
1. A 50/50 split of Bradley-Burns sales and use tax revenues generated from e-commerce transactions.
2. A plus or minus 5% flexibility band
3. Prospective application, excluding revenues from existing sales tax sharing agreements from any split.
4. Five-year phase-in following CDTFA implementation.
5. A plus or minus 20% volatility band to be used when reallocating revenues, whereby revenues gained by a city in excess of 20 percent would be used to mitigate revenue losses greater than 20% for cities negatively impacted by the reallocation of Bradley-Burns.
6. County pool use tax dollars from out-of-state e-commerce transactions reallocated from the County pools to destination cities.



# Sales Tax, Continued

The resolution to change the in-state allocation of e-commerce sales tax was rejected, however, the motion to change the out of state sales tax from the County pool to destination cities passed. The City anticipates that the changes to out-of-state sales tax could result in a loss of \$3-4 million annually, however, it is not yet known in which fiscal year the change will occur.

# General Fund 5-year Forecast FY 2026-2031



|                        | Actual<br>FY22 | Actual<br>FY23 | Actual<br>FY24  | Actual<br>FY25  | Projected<br>FY26 | Forecast<br>FY27 | Forecast<br>FY28 | Forecast<br>FY29 | Forecast<br>FY30 |
|------------------------|----------------|----------------|-----------------|-----------------|-------------------|------------------|------------------|------------------|------------------|
| <b>Revenue</b>         | \$131,831      | \$134,187      | \$172,431       | \$184,098       | \$174,984         | \$165,420        | \$170,035        | \$171,736        | \$173,453        |
| <b>Expense</b>         | \$128,984      | \$130,635      | \$157,603       | \$163,284       | \$160,215         | \$170,111        | \$170,035        | \$171,736        | \$173,453        |
| <b>Surplus/Deficit</b> | <b>\$2,847</b> | <b>\$3,552</b> | <b>\$14,828</b> | <b>\$20,814</b> | <b>\$14,769</b>   | <b>(\$4,691)</b> | <b>\$0</b>       | <b>\$0</b>       | <b>\$0</b>       |



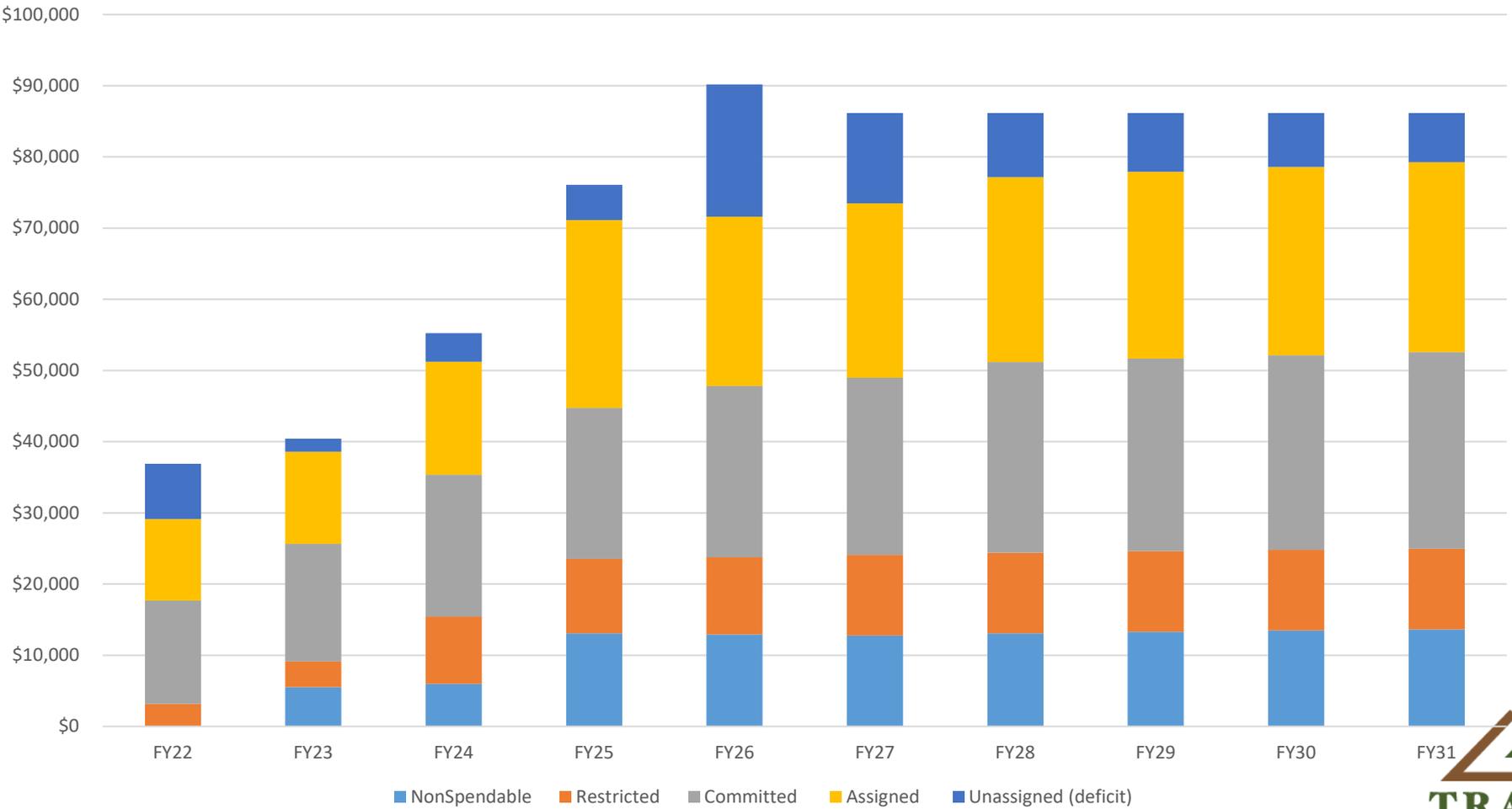
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# General Fund Reserves



# General Fund Reserves



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# General Fund Reserves

|                         | Actual<br>FY22  | Actual<br>FY23  | Actual<br>FY24  | Actual<br>FY25  | Projected<br>FY26 | Forecast<br>FY27 | Forecast<br>FY28 | Forecast<br>FY29 | Forecast<br>FY30 | Forecast<br>FY31 |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-------------------|------------------|------------------|------------------|------------------|------------------|
| Non-Spendable           | \$0             | \$5,535         | \$5,989         | \$13,064        | \$12,923          | \$12,777         | 13,065           | 13,290           | 13,483           | 13,641           |
| Restricted              | \$3,175         | \$3,596         | \$9,433         | \$10,466        | \$10,832          | \$11,332         | 11,332           | 11,332           | 11,332           | 11,332           |
| Committed               | \$14,505        | \$16,489        | \$19,919        | \$21,189        | \$24,046          | \$24,882         | 26,790           | 27,058           | 27,328           | 27,602           |
| Assigned                | \$11,435        | \$12,952        | \$15,897        | \$26,388        | \$23,809          | \$24,481         | 25,973           | 26,211           | 26,453           | 26,697           |
| Unassigned<br>(deficit) | \$7,762         | \$1,857         | \$4,017         | \$4,960         | \$18,554          | \$12,670         | 8,984            | 8,253            | 7,548            | 6,872            |
| <b>Total</b>            | <b>\$36,877</b> | <b>\$40,429</b> | <b>\$55,255</b> | <b>\$76,067</b> | <b>\$90,164</b>   | <b>\$86,142</b>  | <b>\$86,144</b>  | <b>\$86,144</b>  | <b>\$86,144</b>  | <b>\$86,144</b>  |

(in millions)



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# Fiscal Sustainability Strategies



# Fiscal Sustainability Strategies

## City Council's Fiscal Sustainability Strategies

|                              | Actual<br>FY23 | Actual<br>FY24 | Actual<br>FY25 | Budgeted<br>FY26 | Total<br>To Date | Funds<br>Unspent |
|------------------------------|----------------|----------------|----------------|------------------|------------------|------------------|
| CalPERS Liability Prefunding | \$2M           | \$2.5M         | \$0            | \$0.5M           | \$5M             | \$0              |
| Retiree Medical Program      | \$2M           | \$2.5M         | \$0            | \$0              | \$4.5M           | \$3.8M           |
| Public Safety Facilities     |                |                |                | \$11M            | \$11M            | \$11M            |
| Deferred Mtc. - Buildings    |                |                |                | \$0.5M           | \$0.5M           | \$0.5M           |
| Deferred Mtc - Streets       | \$3M           | \$3.8M         | \$4.2M         | \$2.5M           | \$13.5M          | \$9.3M           |
| Deferred Mtc - Parks         | \$2M           | \$2.5M         | \$2.5M         | \$1.0M           | \$8.0M           | \$0.8M           |
| City Services-Programs       | \$3M           | \$3.7M         | \$2.4M         | \$2M             | \$11.1M          | \$0              |
| <b>Total</b>                 | <b>\$12M</b>   | <b>\$14.9M</b> | <b>\$9.1M</b>  | <b>\$17.5M</b>   | <b>\$53.5M</b>   | <b>\$25.4M</b>   |



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# Direction Requested from Committee

Should funding for Fiscal Sustainability Strategies be:

- Deferred to mid-year, when more information about sales tax revenues is available?
- Funded through reallocation of unspent Fiscal Sustainability strategies?
- Funded through unassigned fund balance reserves?

# Use of Forecast

- The forecast is meant to provide the Finance Committee and City Council with potential impacts that could have a long-term impact of the fiscal sustainability of the General Fund.
- It provides indicators based on current trends and potential impacts as they are known today.



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# Next Steps





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# Next Steps

March 17, 2026

Five-year forecast presented to City Council

April 2026

Staff will present preliminary FY 27 budget and CIP augmentations to Finance Committee

May 2026

- Staff will present the proposed FY 27 Operating budget to Finance Committee at a special meeting
- Staff will present the five-year capital plan to the City Council.

June 2, 2026

Staff will present the proposed FY27 budget to the City Council for adoption.

# Questions



Agenda Item 2.B.

RECOMMENDATION

**Staff recommends that the Tracy Finance Committee receive a report and provide direction on funding and project prioritization of Public Safety facilities.**

EXECUTIVE SUMMARY

As Tracy continues to grow, demand for public safety services has increased, creating the need for additional public safety facilities to maintain timely police and fire response across expanding neighborhoods.

Funding for public safety facilities comes from a combination of Public Safety development impact fees, which are collected from new development, and the City's General fund. The total estimated cost of the facilities is approximately \$33.6 million, with \$15.3 million from impact fees, \$13.8 million from the General fund, and \$4.5 million from other sources. The City Council has allocated \$11 million from the General fund in FY 2025-26, and staff seeks Committee direction on the use of these funds and prioritization of the facilities.

BACKGROUND AND LEGISLATIVE HISTORY

As the City has grown, so have the demands for public safety services and facilities. In 2024, Council adopted the Citywide Public Safety Master Plan (Master Plan) to establish a clear set of community objectives for public safety, establish a vision of the future and include strategies to achieve that vision. The Master Plan is intended to be used as a guideline for the identification of public safety facilities needed to serve future land development projects within the City's Sphere of Influence, as well as identifies public upgrades needed to adapt existing spaces to new or expanded uses. The Master Plan included an evaluation of current conditions, space standards, staff and space need projections, alternative facility plans and comparative cost estimates.

Included in the Master Plan was the identified need to construct a new Police substation and to relocate Fire station 97. A Police substation on 2.3 acres will provide the Police department the ability to serve the growing southern areas of the City and improve response times. Fire station 97, constructed in 1986 is roughly 40% of the size the South San Joaquin County Fire Authority now needs. Moving Fire station 97 to a 2-acre site in the Valpico area east of Tracy Blvd will include an extra 700 square feet for an extended ladder truck bay. The Master plan proposes that the City would sell the decommissioned property once the replacement station has been built. The City has also received a request to fund renovations at Fire station 91 to increase the number of

bedrooms and maintain ADA accessibility, however, it the renovation was not included in the Master plan.

The City collects development impact fees, which are one-time charges assessed on new development to fund public infrastructure and facilities needed to serve growth. These fees are restricted to eligible capital improvements and may not be used for ongoing operational expenses.

The City also prepares a Nexus Study to identify the share of new public safety facilities, such as police and fire stations, that is needed to serve future growth. This study determines the portion of project costs that can legally be funded through Public Safety Impact Fees paid by new development. The portion not attributed to growth is expected to be allocated through the City’s General Fund. The current balance of Public Safety-Police impact fees is \$2,151,519 and the balance of the Public Safety-Fire impact fees is \$374,431.

Because the rate of development varies from year to year, the accumulation of funds in the Public Safety development impact fee funds occur gradually. However, the need for a police substation and relocation and renovation of fire stations is immediate. To begin to address the need, the City Council included \$11 million in General fund allocations towards the General Fund’s share of cost and will consider allocating additional funds through a loan to the Public Safety Impact Fee fund through its Fiscal Sustainability Strategies. As funds are available in upcoming fiscal years, staff will recommend appropriation through the Council’s Fiscal Sustainability Strategies during the annual budget process.

ANALYSIS

The City’s current public safety needs are for a Police substation, relocation of Fire station 97 and renovation of Fire station 91. The total estimated costs of the projects are approximately \$33.6 million, with \$15.3 million anticipated from Public Safety impact fees, \$13.8 million from the City’s General Fund, and \$4.5 million from other sources.

| <b>Project</b>                       | <b>Impact Fees</b>  | <b>Other Funding Sources</b> | <b>General Fund</b> | <b>Total Project Cost</b> |
|--------------------------------------|---------------------|------------------------------|---------------------|---------------------------|
| Police Substation                    | \$9,502,464         | \$0                          | \$9,497,536         | \$19,000,000              |
| Fire Station 97 - Valpico Relocation | \$5,856,301         | \$4,470,000                  | \$1,673,699         | \$12,000,000              |
| Fire Station 91                      | \$0                 | \$0                          | \$2,600,000         | \$2,600,000               |
| <b>Total</b>                         | <b>\$15,358,765</b> | <b>\$4,470,000</b>           | <b>\$13,771,235</b> | <b>\$33,600,000</b>       |

Police Substation – as Tracy continues to grow, the operational capacity of police facilities must evolve to maintain service levels. The current police station has reached maximum capacity, resulting in operational fragmentation and the continued use of outdated facilities, including the former 10<sup>th</sup> Street site. The City has identified City owned land on W. Schulte Road that would meet the growing needs in the southern portion of the City, providing closer access to new residential and commercial development and improving response times by reducing officer travel distance. Once a Police substation is constructed, a portion of the Police department’s existing staff would transfer to the substation. New staff would be gradually phased in as the City grows. The project is estimated to cost \$19 million, with \$9,502,464 million in funding from the Public Safety-Police impact fees and the remaining \$9,497,536 coming from the City’s General Fund. The current balance of the Public Safety – Police impact fees is \$2,151,519 leaving a shortfall in of impact fees. Council has not established a capital project or allocated funding for the Police substation.

|                                     |              |
|-------------------------------------|--------------|
| Police Substation - Estimated Cost  | \$19,000,000 |
| General Fund Contribution           | \$9,497,536  |
| Police Impact Fee - Current Balance | \$2,151,519  |
| Police Impact Fee Shortfall         | \$7,350,945  |

Fire Station 97 Relocation – Station 97 was built in 1986 as a temporary station in a retrofitted residential structure and no longer meets essential facility of safety standards. This 40-year-old station is in fair condition and is 40% of the size SSJCF A now needs. The master plan supports relocation of station 97 to a 2-acre site in the Valpico area to meet the growing needs of the City. The estimated cost of this project is \$12,000,000 with \$5,856,301 funded through the Public Safety Impact fees, \$1,673,699 from the City’s General fund, and \$4,470,000 funded through other sources. The current balance of the Public Safety – Fire impact fees is \$374,431 leaving a shortfall of impact fees in the amount of \$5,481,870. Council has not established a capital project or allocated funding for Fire station 97’s renovation. Land is still being evaluated for purchase before design and construction can begin.

|   |              |
|---|--------------|
| Fire Station 97 Relocation-Estimated Cost | \$12,000,000 |
| General Fund Contribution                 | \$1,673,699  |
| Other funding sources                     | \$4,470,000  |
| Fire Impact Fee - Current Balance         | \$374,431    |
| Fire Impact Fee Shortfall                 | \$5,481,870  |

Fire Station 91 Renovation – this station is in need of renovation as it does not provide adequate accommodations for current staffing or the permanent assignment of a Battalion Chief. The initial scope of the project was to add additional bedrooms and restroom renovations to maintain ADA compliance and gender equality. Initially in 2021, \$365,000 was allocated to the project. Since that time, the project’s scope has changed to include an increase to the number of bedrooms to eight, creating private gender-

neutral restrooms, creation of a new day room, a new ADA accessible restroom, and additional accessibility and system upgrades. The estimated cost of the renovation is \$2,600,000. The project is not eligible for Public Safety impact fees, requiring funding to come from the City's General fund. There is currently an established capital project, CIP 71113 Station 91 Renovations, that has a project budget of \$365,000, creating a shortfall of \$2,235,000. To construct the renovations, a General fund appropriation is required.

|  |             |
|--|-------------|
| Fire Station 91 Renovations-Estimated Cost | \$2,600,000 |
| CIP 71113 budget                           | \$365,000   |
| Project Shortfall                          | \$2,235,000 |

In the current fiscal year's budget, \$11 million has been allocated towards public safety facilities. Staff seeks direction regarding how the Committee recommends prioritization of projects and allocation of the existing and future funds. To advance projects now, ahead of Public Safety impact funds collection, a loan from the General fund would be required. The City's interfund loan policy requires any loan to be repaid with interest at the current Local Agency Investment Fund (LAIF) rate. The table below shows the three public safety facility project, all eligible funding sources, the amount currently available for the project, and the remaining funding needed. The funding is only for the construction of the facilities and does not include any funding for additional staffing or equipment.

| Project  | Impact Fees to be collected | Other Funding Sources | General Fund Obligation | Total Project Cost  | Funds Currently Available | Appropriation Needed for Project |
|--|-----------------------------|-----------------------|-------------------------|---------------------|---------------------------|----------------------------------|
| Police Substation  | \$9,502,464                 | \$0                   | \$9,497,536             | \$19,000,000        | \$2,151,519               | \$16,848,481                     |
| Fire Station 97 - Valpico Relocation   | \$5,856,301                 | \$4,470,000           | \$1,673,699             | \$12,000,000        | \$4,844,431               | \$7,155,569                      |
| Fire Station 91  | \$0                         | \$0                   | \$2,600,000             | \$2,600,000         | \$365,000                 | \$2,235,000                      |
| <b>Total</b>   | <b>\$15,358,765</b>         | <b>\$4,470,000</b>    | <b>\$13,771,235</b>     | <b>\$33,600,000</b> | <b>\$7,360,950</b>        | <b>\$26,239,050</b>              |
| <b>Fiscal Year 2025-26 Fiscal Sustainability Funds Allocated to Public Safety Facilities</b> |                             |                       |                         |                     |                           | <b>\$11,000,000</b>              |
| <b>Remaining Allocation Required for Projects</b>  |                             |                       |                         |                     |                           | <b>\$15,239,050</b>              |

FISCAL IMPACT

Funding for the City's public safety facilities is funded in part through the Public Safety impact fees collected from new development and in part through the City's General fund. Council has allocated \$11 million from the General Fund in the FY 2025-26 adopted budget towards public safety facilities. If recommended by Council, future allocations beyond the General Fund's required contribution of \$13.8 million would be issued as a loan from the General Fund to the Public Safety impact fee funds and repaid with interest at the current LAIF rate.

STRATEGIC PLAN

This agenda item supports the following Council Strategic Priorities:

1. Public Safety: Support Construction of Public Safety Facilities
2. Government Accountability: Maintain Fiscal Responsibility
3. Infrastructure: Develop Funding Strategies for Amenities, Infrastructure, and Utilities

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the Tracy Finance Committee receive a report and provide direction on funding and project prioritization of Public Safety facilities.

Prepared by: Sara Castro, Director of Finance

Reviewed by: L. David Nefouse, City Attorney  
Arturo M. Sanchez, Assistant City Manager

Approved by: Midori Lichtwardt, City Manager

Attachments:

Attachment A - Public Safety Facilities Power Point



# PUBLIC SAFETY FACILITIES

Finance Committee  
March 10, 2026

# BACKGROUND

As Tracy continues to grow, demand for public safety services has increased, creating the need for additional public safety facilities to maintain timely police and fire response across expanding neighborhoods.

Funding for public safety facilities:

- Public Safety Development Impact Fees
- General Fund



# BACKGROUND

- 2024 Council adopted the Citywide Public Safety Master Plan that establishes objectives for public safety and strategies to achieve them.

## Projects Identified in Master Plan:

- Police substation
- Relocation of Fire Station 97

# BACKGROUND

Development Impact fees – one-time fees assessed on new development to fund infrastructure

Nexus study identifies share of new public safety facilities project costs legally funded through impact fees.

Remaining project costs funded through General fund or other sources



# Public Safety Facility Projects



# Overview of Projects

| <b>Project</b>                       | <b>Impact Fees</b>  | <b>Other Funding Sources</b> | <b>General Fund</b> | <b>Total Project Cost</b> |
|--------------------------------------|---------------------|------------------------------|---------------------|---------------------------|
| Police Substation                    | \$9,502,464         | \$0                          | \$9,497,536         | \$19,000,000              |
| Fire Station 97 - Valpico Relocation | \$5,856,301         | \$4,470,000                  | \$1,673,699         | \$12,000,000              |
| Fire Station 91                      | \$0                 | \$0                          | \$2,600,000         | \$2,600,000               |
| <b>Total</b>                         | <b>\$15,358,765</b> | <b>\$4,470,000</b>           | <b>\$13,771,235</b> | <b>\$33,600,000</b>       |



# Police Substation

The current police station has reached maximum capacity, resulting in operational fragmentation and the continued use of outdated facilities, including the former 10<sup>th</sup> Street site.

The City has identified City owned land on W. Schulte Road that would meet the growing needs in the southern portion of the City, providing closer access to new residential and commercial development and improving response times by reducing officer travel distance.

Once a Police substation is constructed, a portion of the Police department's existing staff would transfer to the substation. New staff would be gradually phased in as the City grows.

Council has not established a capital project or allocated funding for the Police substation.

|                                     |              |
|-------------------------------------|--------------|
| Police Substation - Estimated Cost  | \$19,000,000 |
| General Fund Contribution           | \$9,497,536  |
| Police Impact Fee - Current Balance | \$2,151,519  |
| Police Impact Fee Shortfall         | \$7,350,945  |



# Fire Station 97 Relocation

Station 97 was built in 1986 as a temporary station in a retrofitted residential structure and no longer meets essential facility of safety standards.

This 40-year-old station is in fair condition and is 40% of the size SSJCFA now needs.

The master plan supports relocation of station 97 to a 2-acre site in the Valpico area to meet the growing needs of the City.

Council has not established a capital project or allocated funding for Fire station 97's renovation. Land is still being evaluated for purchase.

|   |              |
|---|--------------|
| Fire Station 97 Relocation-Estimated Cost | \$12,000,000 |
| General Fund Contribution                 | \$1,673,699  |
| Other funding sources                     | \$4,470,000  |
| Fire Impact Fee - Current Balance         | \$374,431    |
| Fire Impact Fee Shortfall                 | \$5,481,870  |



# Fire Station 91 Renovations

Station 91 is in need of renovation as it does not provide adequate accommodations for current staffing or the permanent assignment of a Battalion Chief.

The initial scope of the project was to add additional bedrooms and restroom renovations to maintain ADA compliance and gender equality.

In 2021, \$365,000 was allocated to the project. Since that time, the project's scope has changed to include an increase to the number of bedrooms to eight, creating private gender-neutral restrooms, creation of a new day room, a new ADA accessible restroom, and additional accessibility and system upgrades.

The project is not eligible for Public Safety impact fees, requiring funding to come from the City's General fund. There is currently an established capital project, CIP 71113 Station 91 Renovations, that has a project budget of \$365,000, creating a shortfall of \$2,235,000. To construct the renovations, a General fund appropriation is required.

|  |             |
|--|-------------|
| Fire Station 91 Renovations-Estimated Cost | \$2,600,000 |
| CIP 71113 budget                           | \$365,000   |
| Project Shortfall                          | \$2,235,000 |



# Project Funding

- Because the rate of development varies from year to year, the accumulation of funds in the Public Safety development impact fee funds occur gradually.
- Due to the immediate need of the projects, the City Council appropriated \$11 million in General fund allocations towards the General Fund's share of cost
- Council to consider allocating additional funds through a loan to the Public Safety Impact Fee fund through its Fiscal Sustainability Strategies with adoption of the budget



# Project Funding

| Project  | Impact Fees to be collected | Other Funding Sources | General Fund Obligation | Total Project Cost  | Funds Currently Available | Appropriation Needed for Project |
|--|-----------------------------|-----------------------|-------------------------|---------------------|---------------------------|----------------------------------|
| Police Substation  | \$9,502,464                 | \$0                   | \$9,497,536             | \$19,000,000        | \$2,151,519               | \$16,848,481                     |
| Fire Station 97 - Valpico Relocation   | \$5,856,301                 | \$4,470,000           | \$1,673,699             | \$12,000,000        | \$4,844,431               | \$7,155,569                      |
| Fire Station 91  | \$0                         | \$0                   | \$2,600,000             | \$2,600,000         | \$365,000                 | \$2,235,000                      |
| <b>Total</b>   | <b>\$15,358,765</b>         | <b>\$4,470,000</b>    | <b>\$13,771,235</b>     | <b>\$33,600,000</b> | <b>\$7,360,950</b>        | <b>\$26,239,050</b>              |
| <b>Fiscal Year 2025-26 Fiscal Sustainability Funds Allocated to Public Safety Facilities</b> |                             |                       |                         |                     |                           | <b>\$11,000,000</b>              |
| <b>Remaining Allocation Required for Projects</b>  |                             |                       |                         |                     |                           | <b>\$15,239,050</b>              |



Think Inside the 'Triangle'



# Direction Requested from Committee

- Staff seeks direction from the Committee regarding:
  - prioritization of projects
  - allocation of the existing funds
  - future funds



# Interfund Loan

To advance projects now, ahead of Public Safety impact funds collection, a loan from the General fund would be required. The City's interfund loan policy requires any loan to be repaid with interest at the current Local Agency Investment Fund (LAIF) rate.

The current shortfall for the three projects is:  
\$15.3 million

# Discussion

