Tracy Rural County Fire Protection District

Board of Directors
John Muniz
John Vieira
Pete Reece
Matthew Kopinski
Jeff Ramsey

Raychel Jackson, Clerk of the Board
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Board of Directors – Special Meeting Agenda
Tuesday, March 2, 2021 at 11:00 AM PST

To join the meeting via GoToMeetings:
https://global.gotomeeting.com/join/482383917
By phone: 1 (646) 749-3122
Access Code: 482-383-917

Due to COVID-19, and in accordance with California Executive Orders N-25-20 and N-29-20, *the District Board meeting will not be physically open to the public*. To maximize public safety while still maintaining transparency and public access, members of the public can observe the meeting by accessing clicking the link above and may provide public comment by sending comments to the Board Clerk via email at raychel.jackson@tracyruralfire.org. Please make sure all public comments are submitted prior to 10:00 a.m. March 2, 2021. Comments will then be read into the record, with a maximum allowance of 3 minutes per individual comment, subject to Chair's discretion.

1. Roll Call and Pledge of Allegiance

2. Public Comment

Please, give your name, entity (if any), and address as well as what agenda item you wish to speak about to the Clerk of the Board so that your comments may be heard at the appropriate time. Comments must be limited to 3 minutes.

3. Information/Update Only

3.1 Discuss City of Tracy's Fiscal Impact Analysis Report

4. Public Comment

For any items not on the agenda.

5. Board Member Comment

For any items not on the agenda and requests for future agenda items. No action will be taken on any questions or matters raised by the Board at this time

6. Adjournment until Next Regular Session – March 9, 2021

March 2, 2021

AGENDA ITEM 3.B

REQUEST

ACCEPT CITY OF TRACY FISCAL IMPACT ANALYSIS REPORT OF SOUTH SAN JOAQUIN COUNTY FIRE AUTHORITY (SSJCFA) PERSONNEL TRANSITION AND PROVIDE DIRECTION TO STAFF

EXECUTIVE SUMMARY

On September 1, 2020, South San Joaquin County Fire Authority (SSJCFA) Fire Chief Randy Bradley provided an update to the City Council about the status of its Fire Personnel Transition Plan, a plan to transition the SSJCFA to a semi-autonomous agency with full authority over fire service and fire employees, including labor negotiations.

In February 2018, the City Council and Tracy Rural Fire District dissolved the South County Fire Authority (SCFA) and formed the South San Joaquin County Fire Authority (SSJCFA). This change created a new governance structure, which would facilitate the Authority's future transition to a "standalone" agency, while helping to preserve the Authority's partnership with Tracy Rural Fire District and create an equitable decision making authority between the member agencies.

As a follow up to the update, Council directed the City Manager to engage a third party to conduct a comprehensive fiscal impact analysis of the transition plan and its impact on the Authority and City of Tracy.

DISCUSSION

In 1999, the City of Tracy (City) and the Tracy Rural Fire Protection District (District) entered into a joint powers agreement forming the South County Fire Authority (SCFA), with the City providing nearly all administrative and management support. In 2018, the District and the City determined that they would benefit by dissolving the SCFA and creating a new Joint Powers Authority (JPA) that would operate more autonomously (Attachment A).

In February 2018, the City and the District formed the South San Joaquin County Fire Authority (SSJCFA) via a Joint Powers Agreement ("JPA Agreement"), with the future desire to transition the SSJCFA to a semi-autonomous agency with full authority over fire service and fire employees, including labor negotiations.

The transition began with a first phase, in which the SSJCFA would operate under a new governance structure. Under the new structure, the Fire Chief serves as the Authority's Executive Officer in lieu of the City Manager, the Treasurer-Controller is an

employee of the SSJCFA instead of the City Finance Director, and the Authority employs its own legal counsel. The composition of the Authority Board is the same as the previous governance structure; it includes two representatives from the City Council, two representatives from Tracy Rural Fire District, and an option for a 5th at-large Board member. Additionally, the role of the elected officials transitioned from an advisory capacity to one with authority to enter into contracts, leases, and purchases, and collect fees/payments. This phase (Phase 1) has been completed.

The second phase, which is still in process, involves the development of a Personnel Transition Plan that details how SSJCFA will implement the transition of City fire employees to the Authority. The development of a Personnel Transition Plan is required by Section 1.6 of the SSJCFA JPA Agreement. This process requires that the City of Tracy transition its employer of record status of sworn and non-sworn fire employees to the SSJCA. As a result, SSJCFA would become an employer of more than 80 staff and the SSJCFA Board will have full authority over fire service and fire employees, including labor negotiations. The City and the District will continue to fund their share of costs based on an agreed-upon formula and, as future stations and staffing are added outside the City limits, these funding ratios will change, and the City's share reduced.

On September 1, 2020, SSJCFA provided Council with an update about the status of the Fire Personnel Transition Plan (Attachment B). As part of that discussion, Council directed City staff to engage a professional consultant to conduct a comprehensive fiscal impact analysis of the transition plan and its impact on the Authority and City of Tracy. Upon completion of the fiscal analysis, staff indicated it would schedule the Personnel Transition Plan for a future Council meeting. It is anticipated that the Plan will be agendized for Council consideration by late Spring.

Personnel Transition Plan Fiscal Impact Analysis Report

In response to Council's request for a fiscal analysis, the City of Tracy engaged Municipal Resource Group, LLC (MRG) to provide an independent and comprehensive review of the fiscal impacts associated with the personnel transition. The attached report and presentation provides the City with an inventory of potential costs, and suggestions for additional analysis (Attachment C & D). It is important to note that the report does not address revenue projections for the City or its member agency partner.

That being said, as part of its fiscal sustainability efforts, the City developed a 10-year financial forecast, which projects significant challenges for both future revenue and expenditures. Additionally, according to SSJCFA, Tracy Rural recently completed a fiscal assessment which indicated that the District's current situation is stable; however, the study does not address future revenues and expenditure projections.

MRG's report found that the transition could have significant fiscal impacts for the City in three broad categories:

1. Operational costs incurred by the Authority and shared between the District and the City
2. Operational costs incurred directly by the City
3. Long-term liabilities (for both the City and the District)

The fiscal impact analysis report provides a background of the methodology used and provides an overview of the fiscal impact of operational costs and long-term liabilities. Expense categories that were assessed include, but are not limited to the following:

- Authority Health Care Insurance Costs and Long-Term Liabilities
- Administrative & Support Services
- Classification & Compensation
- CalPERS Contribution Rates
- Future City Health Care Expenses
- General Liability and Workers Compensation
- Stations, Apparatus & Equipment Operational Costs and Long Term Liabilities
- CalPers Unfunded Accrued Liabilities
- Retiree Medical Leave Bank

Personnel Transition Plan Fiscal Impact Analysis Report Findings

MRG found that the transition, as it is currently envisioned, will initially increase operating costs for the Authority and City, which may also increase over time. The majority of these costs relate to the discontinuance of the City's more cost-effective provision of health insurance, administrative services, and similar costs. According to MRG, some of the cost increases could be reduced and recommends that the City consider three areas for discussion or additional analysis:

- *CalPERS Unfunded Liability:* The City and the District will need to confer and agree on a methodology for allocating the existing and future CalPERS UAL. This is a substantial liability that will grow over time, and the City and District would be wise to agree on a funding strategy before the transition.

- *Health Insurance Benefits for Employees:* While the proposal to provide CalPERS health insurance benefits provides new options for employees, it also triggers a requirement for contributions to retiree medical insurance. In the long run, this will increase expenses and, most notably, add considerable liability. Higher annual premium costs from non-CalPERS providers might be justified to avoid this long-term liability.

- *Administrative and Support Services:* The transition to a semi-autonomous Authority will create the need for administrative, legal, technical, fiscal and similar

services that are, to some extent, duplicative of services provided by the City. In the long run, the Authority will experience costs in excess of those charged by the City for these services. As new stations and fire personnel are added outside the City's boundaries, the City's proportionate share of costs will be reduced from the current amount of 72%, reducing the City's burden for Authority administrative and overhead costs.

Additionally, as outlined in MRG's report, many details of the transition remain to be resolved; however, as transition details are created, additional impacts may be identified, while others may be resolved. The Authority previously planned to transition to the employer of record by 1Q or 2Q 2021. However, it is MRG's recommendation that the Authority delay this implementation date until the details of the transition are further developed and/or has explored the suggested areas for additional analysis.

STRATEGIC PLAN

This agenda item aligns with the 2021-2023 Council's Strategic Plan, including Multi-Year and Short-Term Priorities under Public Safety: (1) SSJCFA to complete Phase 2 of the Personnel Transition Plan and (2) Complete and Present Fiscal Analysis of the SSJCFA Personnel Transition Plan (Phase 2).

FISCAL IMPACT

There is no fiscal impact associated with accepting the Fiscal Impact Analysis Report of the SSJCFA Phase 2 Personnel Transition.

RECOMMENDATION

It is recommended that City Council accept the Fiscal Impact Analysis Report completed by MRG, LLC and provide direction to staff.

Prepared by: Jennifer D. Haruyama, City Manager

Reviewed by: Leticia Ramirez, City Attorney
Karin Schnaider, Finance Director

Approved by: Jennifer D. Haruyama, City Manager

ATTACHMENTS

A. SSJCFA Joint Powers Agreement
B. September 1, 2020 Staff Report – Receive Update from the SSJFCA on the Employee Transition Plan and Provide Direction to Staff
C. Fiscal Impact Analysis Report of the South San Joaquin County Fire Authority Phase 2 Personnel Transition by MRG, LLC.
D. City of Tracy Fiscal Impact Analysis of SSJCFA Power Point Presentation by MRG, LLC

AMENDMENT NO. 1 TO THE JOINT POWERS AGREEMENT OF THE SOUTH SAN JOAQUIN COUNTY FIRE AUTHORITY

THIS AMENDMENT is entered into by an between the City of Tracy, a municipal corporation ("City"), and the Tracy Rural Fire Protection District, a fire protection district formed pursuant to Health and Safety Code sections 13000 and following ("Fire District"). City and Fire District are collectively referred to as "Member Agencies."

RECITALS

WHEREAS, City and Fire District entered into a "Joint Powers Agreement of the South San Joaquin County Fire Authority" (the "Agreement") on February 20, 2018, and

WHEREAS, The parties wish to amend the Agreement to align with requirements of the California Government Code sections 6508.1-6508.2 regarding joint powers agreements that participate in or contract with a public retirement system and the liability of member agencies upon termination.

NOW, THEREFORE, THE PARTIES MUTUALLY AGREE AS FOLLOWS:

1. Incorporation by Reference. This Amendment incorporates by reference all terms and conditions set forth in the Agreement, unless specifically modified by this Amendment. All terms and conditions set forth in the Agreement which are not specifically modified by this Amendment shall remain in full force and effect.

2. Terms of Amendment.

A. Section 1.7 "Obligations of Authority" of the Agreement is amended to read as follows:

"Section 1.7 Obligations of Authority

The debts, liabilities, and obligations of the Authority shall not be the debts, liabilities, and obligations of any Member Agency unless otherwise specified in Section 2.11 of this agreement.

B. Subsection (b) "Continued Liabilities" of Section 2.11 of the Agreement is amended to read as follows:

"Section 2.11 Termination of Authority; (b) Continued Liabilities.

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

Each Member's Agency's proportionate share of CalPERS liability is determined by the cost allocation formula defined in Section 5.4 and in effect at the time the Authority is dissolved or insolvent. In the event the Authority is dissolved or becomes insolvent, or the agreement with CalPERS is terminated, each Member Agency is responsible for its

proportionate share of all other outstanding Authority liabilities and obligations incurred during the Member Agency's membership in the Authority, allocated in accordance with the formula defined in Section 5.4 and in effect at the time of said dissolution or insolvency, so that the Member Agencies together have fiscal responsibility for 100% of the Authority's outstanding liabilities and obligations upon dissolution or insolvency."

3. **Modifications**. This Amendment No. 1 may not be modified orally or in any manner other than by agreement in writing signed by both parties, in accordance with the requirements of the Agreement.

4. **Severability**. In the event any term of this Amendment is held invalid by a court of competent jurisdiction, the Amendment shall be construed as not containing that term, and the remainder of this Amendment shall remain in full force and effect.

5. **Signatures**. The individuals executing this Amendment No. 1 represent and warrant that they have the right, power, legal capacity, and authority to enter into and to execute this Amendment No. 1 on behalf of the District and the City. This Amendment No. 1 shall inure to the benefit of and be binding upon the parties thereto and their respective successors and assigns.

IN WITNESS WHEREOF the parties do hereby agree to the full performance of the terms set forth herein.

CITY OF TRACY

By: _____
Robert Rickman
Title: Mayor

Date: 10-17-19

Attest:

By: _____
Adrianne Richardson
Title: City Clerk

Date: 10/18/19

Approved as to form

By: _____
Leticia Ramirez
Title: Interim City Attorney

Date: 10/16/19

TRACY RURAL FIRE PROTECTION DISTRICT

By: _____

Title: Board Chairperson

Date: 10-15-19

Attest:

By: _____
Natalie Bowman
Title: Clerk of the Board

Date: 10-15-19

Approved as to form

By: _____
Mark C. Bowman
Title: Attorney at Law, District Counsel

Date: 10-15-19

JOINT POWERS AGREEMENT OF THE SOUTH SAN JOAQUIN COUNTY FIRE AUTHORITY

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

RECITALS

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

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

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

AGREEMENT

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

SECTION 1. PURPOSE AND POWERS

1.1 Authority.

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

1.2 Purpose.

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

(a) Administer and direct the personnel that provides the Fire Protection Services and provide the necessary administrative support for its programs and operations, which shall include, but not be limited to,

(i.) Provide fire safety plan checks and inspections for all commercial, residential and industrial buildings.

(ii.) Coordinate abatement activities for hazardous materials and nuisances.

(iii.) Promote fire prevention.

(iv.) Respond to fire and emergency calls to provide fire suppression, rescue, emergency medical advanced life support, and hazardous materials response services.

(v.) Provide and manage a training program involving all facets of departmental functions and operations, for career, reserve, and volunteer personnel.

(vi.) Contract for or provide fire dispatch services ("Fire Dispatch Services") within the Authority's jurisdictional area.

(b) Adopt performance objectives of the Authority.

1.3 General Powers.

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

1.4 Specified Powers.

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

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

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

(b) Make and enter into contracts, including contracts with its Members; provided, however, the Authority may not enter into real property development agreements pursuant to Government Code Section 65865.

(c) To hire and employ personnel or to contract for personnel to fulfil its mission.

(d) Assume existing contracts relating to fire suppression, protection, prevention and related services.

(e) Lease, acquire, hold and dispose of real and personal property.

(f) Invest reserve funds.

(g) Incur debts, liabilities, or obligations, provided that all long term bonded indebtedness, certificates of participation or other long-term debt financing require the prior consent of the Member Agencies.

(h) Sue and be sued in its own name.

(i) Apply for grants, loans, or other assistance from persons, firms, corporations, or governmental entities.

(j) Use any and all financing mechanisms available to the Authority, subject to the provisions of this Agreement.

(k) Prepare and support legislation related to the purposes of the Agreement.

(l) Lease, acquire, construct, operate, maintain, repair and manage new or existing facilities, apparatus and equipment as well as to close or discontinue the use of such facilities, apparatus and equipment.

(m) Levy and collect payments and fees for Fire Protection Services.

(n) Impose new special taxes or assessments as authorized by law to the extent allowed by law, and in coordination with the underlying jurisdiction(s).

(o) Provide related services as authorized by law including, but not limited to, emergency medical services, emergency preparedness, mitigation of hazardous materials incidents and confined space rescue.

(p) Contract for the services of attorneys, accountants, consultants and other services as needed.

(q) Purchase insurance or to self-insure and to contract for risk management services.

(r) Adopt rules, regulations, policies, bylaws and procedures governing the operation of the Authority, including the determination of compensation of Directors.

(s) Exercise the power of eminent domain.

(t) Advise its Members of the impact of land development on the provision of fire suppression, protection, prevention and related services.

(u) Recommend approval of an annual fire department budget to the Member Agencies, including, but not limited to, staffing levels at each fire station and all related costs for each fire station and the administrative, training and fire prevention budget activities.

(v) Develop finance, procurement and conflict of interest policies.

(w) Establish fire department operational policies for fire protection.

(x) Receive, accept, and utilize the service of personnel offered by the Member Agencies, or their representatives or agents and to receive, accept and utilize real or personal property from the Member Agencies.

(y) Mitigate fire protection impacts caused by development within the jurisdiction of the Authority.

1.5 Restrictions on Exercise of Powers.

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

1.6 Employment of Personnel and Administration of Services.

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

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

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

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

1.7 Obligations of Authority.

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

1.8 Conflict of Interest.

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

1.9 Identification.

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

SECTION 2. GOVERNANCE.

2.1 Governing Board.

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

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

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

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

2.2 Officers.

(a) Chief Executive Officer.

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

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

The Chief Executive Officer shall have the power:

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

- To make recommendations to the Member Agencies for the purchase or construction of new fire station(s) apparatus and equipment, the replacement of existing property and/or the acquisition of new property; and

- To perform such other duties as directed by the Board of Directors.

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

(b) Secretary/Clerk.

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

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

(c) Controller/Treasurer.

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

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

(d) Officers in Charge of Property.

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

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

(e) Official Bonds.

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

(f) Legal Counsel.

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

2.3 Meetings of the Board of Directors.

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

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

2.4 Chairperson and Vice-Chairperson.

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

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

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

2.5 Required Votes.

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

2.6 Voting.

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

2.7 Minutes.

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

2.8 Bylaws.

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

2.9 Appointment of Officers/Employees.

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

2.10 Expenditures for the Approved Budget.

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

2.11 Termination of Authority.

(a) Notice Required.

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

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

(b) Continued Liabilities.

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

(c) Disposition of Leased Facilities.

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

(d) Surplus Money.

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

(e) Obligations Survive Termination.

The obligations of Section 2.11 survive termination of this Agreement.

2.13 Dispute Resolution.

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

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

2.14 Cooperation and Disclosure.

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

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

SECTION 3. LEVEL OF SERVICE.

3.1 Basic Services.

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

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

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

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

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

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

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

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

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

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

3.2 Additional Services.

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

SECTION 4. FACILITIES AND EQUIPMENT.

4.1 Member Agency Ownership

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

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

4.2 Lease of Facilities.

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

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

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

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

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

4.4 New Facilities.

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

4.5 Improvements and Maintenance of Facilities and Apparatus.

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

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

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

4.6 Authority-Owned Facilities.

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

4.7 Authority's Assumption of Liability.

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

4.8 Indemnification and Insurance.

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

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

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

SECTION 5. FINANCES.

5.1 Accounting Procedures.

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

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

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

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

5.2 Audits.

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

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

5.3 Annual Budget.

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

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

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

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

5.4 Responsibility for Maintenance and Operations Costs.

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

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

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

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

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

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

5.5 Limitations on Exceeding Budget Allocations

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

5.6 Funding.

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

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

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

5.7 Additional Services.

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

SECTION 6. MEMBERSHIP.

6.1 Adding Member Agencies.

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

6.2 Withdrawal of a Member Agency.

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

SECTION 7. MISCELLANEOUS.

7.1 Conflict of Interest.

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

7.2 Recitals.

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

7.3 Effective Date of Agreement.

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

7.4 Operational Date of Authority.

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

7.5 Term.

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

7.6 Headings.

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

7.7 Consent.

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

7.8 Law Governing.

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

7.9 Amendments.

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

7.10 Severability.

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

7.11 Non-Liability of Agents.

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

7.12 Successors.

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

7.13 Notice.

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

To City:	City of Tracy 333 Civic Center Plaza Tracy, California 95376 Manager@cityoftracy.org
With copy to:	City Attorney 333 Civic Center Plaza Tracy, California 95376 attorney@cityoftracy.org
To District:	Bowman & Berreth Tracy Rural Fire Protection District 1820 Kettleman Lane, Suite F Lodi, California 95242

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

7.14 No Continuing Waiver.

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

7.15 No Third Party Beneficiary.

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

7.16 Entire Agreement.

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

7.17 Construction of Agreement.

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

[SIGNATURES ON NEXT PAGE]

CITY OF TRACY

By: _____
Robert Rickman
Mayor

ATTEST

By: _____
Adrianne Richardson, City Clerk

APPROVED AS TO FORM

By: _____
Thomas Watson, City Attorney

TRACY RURAL FIRE PROTECTION DISTRICT

By: _____ Vice Chair for
Tim Smith
District Chair

ATTEST

By: _____
Ginger Root
District Secretary

APPROVED AS TO FORM

BOWMAN & BERRETH, LLP

By: _____
Mark Charles Bowman
District Counsel

September 1, 2020

AGENDA ITEM 3.C

REQUEST

RECEIVE UPDATE FROM THE SOUTH SAN JOAQUIN COUNTY FIRE AUTHORITY ON THE EMPLOYEE TRANSITION PLAN AND PROVIDE DIRECTION TO STAFF

EXECUTIVE SUMMARY

The City Council will receive an update on the status to the fire employee transition plan to stand alone with South San Joaquin County Fire Authority (SSJCFA).

DISCUSSION

During the May 19, 2020 Council items, Mayor Rickman requested a status update on the employee transition plan from the South San Joaquin County Fire Authority. This request was seconded by Council Member Ransom. The attached report will be presented by the SSJCFA Fire Chief. The report provides information and action steps taken to date by SSJCFA and provides an update on pending information needed to complete a full assessment of the transition.

STRATEGIC PLAN

This agenda item relates to Council's Public Safety Strategy.

FISCAL IMPACT

The fiscal impacts of the fire transition plan are under review by the City. Further information is anticipated from SSJCFA to determine the short-term and long-term costs associated with the transition.

RECOMMENDATION

Receive a report from Fire Chief Randall Bradley.

Prepared by: Karin Schnaider, Finance Director

Reviewed by: Midori Lichtwardt, Assistant City Manager

Approved by: Jenny Haruyama, City Manager

ATTACHMENTS

A - South San Joaquin County Fire Authority Staff Report

SOUTH SAN JOAQUIN COUNTY FIRE AUTHORITY

Fire Administration

In 1999, the City of Tracy (City) and the Tracy Rural Fire Protection District (District) entered into a Joint Powers Agreement (JPA) that formed the South County Fire Authority (SCFA). On the same date SCFA contracted with the City to provide fire protection services within the jurisdictional boundaries of SCFA (City of Tracy and Tracy Rural Fire Protection District). Two Tracy City Council Members and two District Board Members made up the SCFA Board with the Tracy City Manager serving as the Chief Executive Officer for the SCFA. The City of Tracy's Finance Director also served as the Treasurer-Controller of the SCFA. The SCFA was formed to accomplish the following goals:

- To improve fire protection services within the region through improved efficiencies by the elimination of redundant administrative and operational services.
- To limit the impact of annexations to the residents that live in the unincorporated areas.
- To maintain the District ad valorem tax allocation increment (average of approximately 11% of each property tax dollar) and the special fire tax ($0.03 per square foot) in areas that are annexed into the City.

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

- Future City annexations would not detach from the District.
- All employees would work for the City and redundant administrative staff would be eliminated through attrition, increasing efficiencies and overall service levels.
- The City would provide administrative services (Human Resources, Budget/Finance/Risk Management and Legal) to SCFA.
- The City would fund any District financial shortfalls (with a reimbursement agreement) until revenues increased to sustainable funding levels through the annexation and development of land that would remain in the District.

In 1999, the expectation was the City of Tracy would continue to grow and the District and the City of Tracy would benefit by securing fire protection property tax revenues through the non-detachment strategy. Limited growth initiatives and economic downturns slowed growth projections through 2014. In 2014, the City of Tracy began to realize extensive growth in the twelve annexed areas that did not detach from the District. Over 30 million square feet of commercial and industrial facilities and over 8,000 residential units have now been built or are entitled to be built in those annexed areas. With the growth in the annexed areas, the District revenues have seen unparalleled growth since 2014 and are expected to triple their 2014 total within the next five to six years.

With extensive growth, additional responsibility and increased revenues, the District Board of Directors requested that the original JPA be revised to allow the District to have

835 Central Avenue, Tracy, CA 95376 | Tel: (209)831-6702 Fax: (209)831-6732

an equal governance footing with the City of Tracy. In 2017, staff completed a study concerning the JPA governance. Staff utilized two previous consultants' studies and developed four different governance options to evaluate. The following were the four options with brief summaries:

1. Dissolving the current JPA and returning to a two-agency model. Under this option revenues would be lost to the County and fire protection efficiencies would be lost and service levels would suffer.

2. The District could contract with the City to provide fire protection services. This option is was very similar to the model that was in effect at the time the study was completed. This model was unacceptable to the District due to a lack of budgetary oversight, collective bargaining influence and a desire for responsibilities to be commensurate with their authorities over fire protection within their jurisdictional boundaries.

3. Annex the City into the District for fire protection. The City would be required to enter into a new tax sharing agreement with the County to fund the newly created District. The outcome of the agreement is unknown and therefore a thorough analysis is not possible. Also, because the District has a special tax that was implemented in 1982, it would be difficult to overlay a special tax on City residents without a vote that would require two-thirds approval. Last, the City would give up control and budgetary flexibility over the portion of the City that is not within the Rural District.

4. Create a strong JPA that operates as an autonomous agency.

Option number four was chosen because it addressed the District's concerns while protecting the City's ability to maintain fire protection revenues and continue to influence public policy and prioritization of fire protection services within the City limits. In 2017, the JPA agreement was reevaluated and in March of 2018 (effective date July 1, 2018) a new agreement was adopted by both agencies. Implementation of the new agreement was divided into two phases:

Phase 1 (complete): Create a stronger semi-autonomous governance and fire protection organization through the implementation of structural, organizational and financial elements. The following are the Phase 1 elements that were completed upon initiation of the new JPA and the associated dissolution agreement:

- Entered into an agreement with the City of Tracy to continue to serve as the employer of record until the new JPA is able to transition all employees to the new JPA.

- The JPA's Board of Directors was provided oversight responsibility for fire protection within the JPA boundaries based on the service levels determined by the member agencies.

- The Board appointed the Fire Chief who serves as the JPA's Chief Executive Officer at the will of the Board. Prior, the Tracy City Manager served as the JPA's Chief Executive Officer.

- Amendments to the previous JPA were removed and incorporated into the new document. The amendments were difficult to interpret, implement and track. The Supplemental Services Agreement (Amendment 3), Smoothing Agreement, and the Pre-paid Services Agreement (Amendment 4 and 6), were all eliminated and replaced with an intuitive, fair and equitable cost allocation model.

- The JPA appointed a Finance Manager with budgetary responsibility and hired an independent auditor. The JPA is in the process of hiring an independent Controller/Treasurer. Previously, the City of Tracy provided these services on behalf of the JPA.

- The JPA has hired an independent Counsel with responsibility to provide legal advice to the JPA independent of member agencies.

- The proposed JPA is designed to add additional member agencies to improve overall service levels by reducing overhead costs through economies of scale.

- With the corresponding dissolution agreement, the proposed JPA addressed fire station ownership concerns.

Phase 2: Transition employees to become employees of the South San Joaquin County Fire Authority (Authority) and the Authority would become a full standalone agency. Phase 2 of the transition plan was codified in Section 1.6 of the new JPA agreement:

> *"The Initial Member agencies desire to transition to having the Authority employ its own personnel to provide any or all of the services the Authority elects to provide. In the event the Authority elects to employ its own personnel, the Chief Executive Officer shall, with the assistance of the staffs and consultants of the Member Agencies, prepare a personnel plan detailing how the Authority would employ its own personnel. The personnel plan shall detail the treatment of matters such as transfer of employees from the Member Agencies to the Authority (and the transfers effect on existing collective bargaining agreements, the allocation of pension liabilities and obligations, the treatment of accrued leave, civil service and seniority rights, and other employee benefits and rights), risk management, and other administrative matters required at the start-up of new organizations".*

For the past 18 months the JPA staff has worked with staff and consultants of the member agencies to develop an employee transition plan. Below is the status and a timeline for implementation of the plan.

Transition Plan Timeline

Date	Milestone
August 15, 2020	Provide completed "Draft" transition plans to staff of member agencies for review and comment.
September 15, 2020	Present transition plan to elected bodies of member agencies for consideration of approval.
October 31, 2020	JPA Board reviews and considers ratification of labor contracts, approval of CalPERS contracts, employee benefits and personnel policies and procedures (including EERR)
November 30, 2020	Lease agreements and liability insurance contract approvals
January 1, 2021	Employees transition to South San Joaquin Fire Authority

Transition Plan Overview

CalPERS Retirement	The Authority submitted an application for a new CalPERS contract on February 1st, 2019. A few months after submitting the application the Authority was advised by CalPERS that the joint powers agreement language would need to be amended. Staff worked with legal counsel from both member agencies to make the necessary amendments which were approved by both elected bodies in October of 2019. Once that language was amended CalPERS conducted a thorough CalPERS Financial Analysis of the Authority. The Authority was given the approval to move to the next stage of contract formation from the CalPERS financial team in February of 2020. Where the COVID-19 pandemic has slowed the final stage of actuarial analysis, progress continues to be made, and we are hopeful to have contract formation complete in September of 2020. The new retirement plan will transition to a Public Employee Pension Reform Act (PEPRA) plan. While all current employees that transfer will maintain their current retirement status (classic or PEPRA) future employees hired will all fall under the PEPRA pension status with reduced pension benefits. The new pension contract will begin with no unfunded liabilities. Current pension liabilities will remain with the member agencies. The District will be required to pay their pro-rata share of the

	City's unfunded liabilities that were created during the time that the City acted as the employer of record.
Workers Compensation / General Liability	Staff worked with the Special District Risk Management Association to obtain comprehensive quotes for both workers' compensation and general liability insurance. The quotes will be codified into coverage policies by the JPA Board when the transition agreement has been approved by member agencies.
Employee Health Benefits	A Health Benefits Committee was established and all fire authority employees were invited to participate. The committee initially met in May of 2019. Staff worked with the committee, CalPERS Health, Keenan Insurance Brokerage and Macleod Watts, Inc. actuarial firm to determine the most cost effective and comprehensive benefit packages available. Those plans have been identified and staff is ready to begin enrollment once the transition plan is approved by the member agencies and the JPA Board approves the Health benefit plans.
Payroll	Denali Fund, the Authority's current financial software, offers a comprehensive payroll module which the Authority will utilize as our payroll platform. This platform is utilized by hundreds of public agencies and non-profit organizations. The Authority's staffing software will be utilized for timekeeping and electronically interfaced with the payroll module. Existing staff will manage the payroll module and bi-weekly payroll processing. Payroll and timekeeping modules and interfaces will begin running in parallel with the City payroll and timekeeping systems within the next 60 days.
Human Resources	Staff has completed a comprehensive review and subsequent transfer of all City personnel policies and procedures that are relevant to the Fire Authority. Fire Administration staff has been working with an HR consultant and City Human Resources personnel to facilitate the personnel transition process. It is the intent of the Authority to utilize the City Human Resources Department to continue to support the Authority post-transition and have the Authority continue to pay the City for that service provision. If the City HR elects not to continue to support the Authority post-transition, then staff will work with the HR consultant to bridge the gap utilizing the existing funding paid to the City for HR services. There is no anticipated cost increase or savings for the provision of HR services.

Labor Agreements	Staff has undergone significant discussions with two bargaining groups that will be transitioning to the Authority. The Authority has worked with the represented labor groups and a City recommended labor attorney to develop labor agreements that mirrors existing pay and benefits for the employee groups. Non-represented employees will be provided pay and benefits that are equivalent to current pay and benefits. The discussions with the employee groups have been one of mutual respect with a focus on long-term sustainability which has yielded a verbal consensus that can be implemented after approval of the transition. The Authority will create a finance oversight committee that will include the Fire Chief, Authority Finance Manager, City Manager (or designee) and a representative from the District.
Financial Policies and Procedures	The Authority created independent financial policies and practices in 2018 once the standalone JPA was created and implemented (Phase 1). Transitioning employees and payroll processing will be the final step in the Authority operating independently from either of its member agencies. As stated above, a finance oversight committee will be developed that will include the Fire Chief, Authority Finance Manager, City Manager (or designee) and a representative from the District.
City/District Financial Impacts	JPA staff completed an analysis of potential City financial impacts from transitioning employees from the City to the JPA. The City continues to evaluate potential impacts and the JPA will continue to support that process. JPA staff has completed a significant analysis of the long-term sustainability of the District. The analysis confirms that the District will have the resources to support future fire protection requirements in the unincorporated areas and the areas that have been annexed but not detached from the District. That analysis has been provided to the Council.

CITY OF TRACY

Fiscal Impact Analysis
South San Joaquin County Fire Authority
Phase 2 Personnel Transition

Prepared by:

Mike Oliver, President
Dana Shigley, Consultant
Brian Kelly, Consultant
Municipal Resource Group, LLC

February 2021

Post Office Box 561 Wilton CA 95693 (916) 314-3889

TABLE OF CONTENTS

Page

I. EXECUTIVE SUMMARY

In 1999, the City of Tracy (City) and the Tracy Rural Fire Protection District (District) entered into a joint powers agreement forming the South County Fire Authority (SCFA), with the City providing nearly all administrative and management support. In 2018, the District and the City determined that they would benefit by dissolving the SCFA and creating a new joint powers authority that would govern more autonomously. In February 2018, the City and the District formed the South San Joaquin County Fire Authority (Authority), with the Fire Chief serving as the Authority executive officer. The composition of the Authority Board did not change with the creation of a new JPA. The new agreement calls for the Authority to, over time, provide administrative, legal counsel, and other services separate from the City.

Notably, the Authority plans to become the employer for more than 80 employment positions, transitioning them from the City. The City and the District will each continue to fund their share of costs based on an agreed-upon formula and, as future stations and staffing are added outside the City limits, these funding ratios will change, and the City's share reduced.

This transition could have significant fiscal impacts for the City in three broad categories:

1. Operational costs incurred by the Authority and shared between the District and the City,
2. Operational costs incurred directly by the City, and
3. Long-term liabilities (for both the City and the District).

The City requested that Municipal Resource Group, LLC (MRG) provide an independent and comprehensive review of the fiscal impacts it may face as a result of the transition in order to minimize their potential impact. This report provides the City with an inventory of potential costs, and suggestions for additional analysis the City may consider. This report does not address City nor Authority revenue projections. In evaluating overall fiscal impacts, the City would need to compare projected costs to anticipated revenues. Cost increases may be justified as necessary to support an organization that could generate new revenues and provide expanded and/or improved services.

Operational Costs Incurred by the Authority and shared between the District and City

Authority Health Insurance Costs

The Authority plans to offer employee health insurance through CalPERS. The cost to provide health insurance benefits will increase after the transition, potentially significantly. In the first year, the direct cost for health insurance benefits will be about the same as the City would have incurred; future costs will vary depending on employee enrollment and rates offered by CalPERS. It is likely that, over time, new employees may select more expensive non-Kaiser plans, and fewer may choose to opt out of coverage, increasing costs up to $160,000 per year. The Authority could offer incentives to encourage employees to select less expensive plans and moderate this potential increase. Because additional employees will opt out of insurance coverage and the *Flores* ruling which requires cash in lieu of payments to be factored into overtime rates, the Authority will incur an additional $29,000 in overtime costs in the first year, varying from year to year. Most significantly, the plan to provide medical benefits through CalPERS will result in a requirement to contribute toward retiree health insurance premiums. This will generate significant annual costs as well as long-term liabilities. In the first year, the Authority will incur approximately $124,000 in annual costs to fund required contributions; this amount will increase annually as additional personnel are hired.

First Year: Increased Costs of $153,000
Future Years: Increased costs $153,000 or more, plus up to $160,000 in the long-term

Administrative and Support Services

The Authority currently pays approximately $466,500 to $501,500 for certain administrative, legal, IT and related support costs, including $175,000 paid to the City. The Authority anticipates using existing staff for all finance functions, including payroll. However, we believe the Authority will require additional staff for to perform finance functions, consistent with comparable fire agencies. Adding staff to perform finance and human resources functions could increase costs by an additional $229,000 to $364,000 per year. These costs can be reduced by continuing to contract with the City for some services, including payroll. The Authority and its members would be best served by taking a comprehensive look at how the Authority will provide administrative services in the future so that members can plan for the costs necessary to provide professional administrative support.

First and Future Years: Increased Costs of $229,000 to $364,000

Classification and Compensation

The Authority is proposing the same number of employees as currently employed by the City. However, certain changes to positions and benefits will result in an increase of $50,000 to $75,000 per year.

First and Future Years: Increased Costs of $50,000 to $75,000

Total *First Year: Authority Increased Costs of $432,000 to $592,000; City share (72%) of $311,000 to $426,200*
Total *Future Years: Authority Increased Costs up to $592,000 to$ 752,000; City share (72%) of $426,200 to $541,000*

Operational Costs Incurred Directly by the City

CalPERS Contribution Rates

For fiscal year 2021/22, the City will likely experience an increase in total CalPERS costs of approximately $149,000. This increase is attributable to the City's higher employer Normal Cost after removal of fire personnel from the blended rate. However, this analysis looks at a single year and is not reflective of cost differences in future years. Depending on CalPERS actuarial assumptions, benefit changes, and other factors, future Normal Cost rates may be more or less.

First Year: Increased Costs of $149,000.
Future Years: Costs could be more or less, depending on CalPERS contribution rates.

Future City Health Insurance Costs

The City will experience an increase in health insurance rates for its remaining employees after the transition date, as the City's employee pool will be smaller. The City will need to consult with Kaiser and other providers to determine the potential impact on health insurance rates in the future.

First and Future Years: Increased Costs TBD

General Liability and Workers' Compensation Insurance

The Authority expects to realize substantial one-time cost savings in its insurance program in the first year of operation, saving JPA members $282,000. This cost savings is mostly the result of the Authority

insurance provider's lack of claims experience with the Authority, and the cost will increase in the future to levels more consistent with the City's experience. The City will also experience savings with its own insurance bringing the total savings in the first year to $700,000 for the City.

First Year: Decreased Costs of $700,000 (one-time)
Future Years: Over time, Authority costs will increase and this savings will be reduced or eliminated.

Stations, Apparatus and Equipment

Although the lease terms are not yet resolved, it appears that the City and District will largely continue with current practices for facility maintenance with no significant change in maintenance costs. The proposed insurance requirements might result in increased costs as a result of duplicate coverage. This cost could range from $150,000 to $350,000 per year, depending on coverage levels. The potential impacts on costs for insurance coverage should be investigated as the terms of the proposed leases evolve, and the lease terms could be amended to minimize these duplicate costs.

First and Future Years: Increased Costs of $150,000 to $350,000

***Total** First Year: Savings of $201,000 to $401,000, and unknown impacts from health insurance costs*
***Total** Future Years: Increased Costs up to $499,000, depending on CalPERS rates, plus health insurance costs TBD*

Long-term Liabilities

CalPERS Unfunded Accrued Liabilities

The City and the District are each responsible for their share of the City's current $22 million CalPERS unfunded liability for fire personnel, as well as future liabilities that will accrue to the Authority. The City and the District will need to jointly determine an appropriate methodology for allocating the current liability. In the future, the Authority should provide annual actuarial analyses to allocate future liabilities among its members. The transition of employees to the Authority, on its own, does not change the overall amount of the liability. However, decisions made by the Authority in the future can impact the amount of the liability prior to the transition date. For example, if the Authority offers improved retirement benefits to employees who were formerly employed by the City, the City's UAL will increase, along with the City's and the District's share of this liability.

First and Future Years: This is an existing liability; current amount not impacted by transition, unless changes are made to benefits.

Retiree Medical Leave Bank

The City and the District jointly fund their share of the retiree medical leave bank. Current liabilities are fully funded in a trust account, and the City and the District each pay their required share as additional employees retire. While the City and the District will need to plan for these future deposits the contributions do not represent an increase in costs beyond current obligations resulting from current and continuing employee benefits. The medical leave bank program does result in an implicit subsidy of retiree health insurance premiums and, therefore, represents a long-term liability. The present value of these benefits is $4.9 million. After the transition date, future employees will retire from the Authority and this liability will increase.

First and Future Years: This is an existing liability; current amount not impacted by transition.

Authority Health Insurance Costs

The Authority's plan to provide medical benefits through CalPERS will result in a requirement to contribute toward retiree health insurance premiums. This will generate significant annual costs as well as long-term liabilities. The liability for current employees who will retire in the future is estimated to increase from the current liability of $4.9 million to $10.1 million, increasing further as new employees are hired.

First and Future Years: The current liability of $4.9 million will increase to $10.1 million immediately when CalPERS health benefits are contracted, increasing further as new employees are hired.

Stations, Apparatus and Equipment

Additionally, the Authority and its members would benefit by a robust capital improvement plan for long-term replacement of apparatus, vehicles and equipment.

First and Future Years: This is an existing liability; current amount not impacted by transition.

Conclusion

The transition, as it is currently envisioned in the transition plan, will initially increase operating costs for the Authority and City over time. The majority of these costs result from the discontinuance of the City's more cost-effective provision of health insurance, administrative services, and similar costs. However, some of the cost increases can be reduced through careful planning and implementation. For example, the City and the Authority could consider more affordable options for employee health plans and administrative support services.

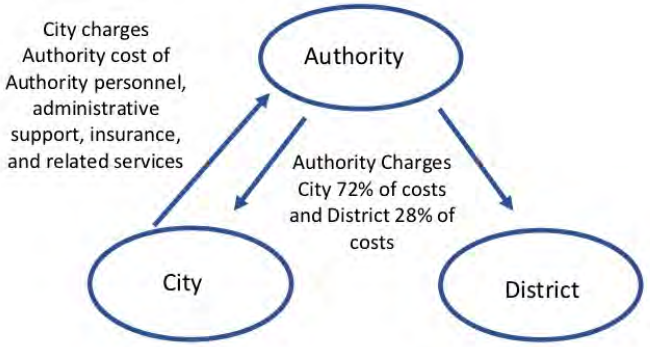
We are recommending three areas the City may want to prioritize for additional discussion or analysis.

- The City and the District funding of current and future CalPERS liabilities;
- Long-term liabilities associated with switching to CalPERS medical insurance, and further consideration of alternatives; and
- A broad look at how the Authority will provide human resources, finance and other administrative support services, and the associated costs and options.

The 2018 JPA Agreement provides a platform for increased independence of the Authority from the City and a reasonable and well-considered solution to long-term fiscal and operational challenges facing the City and the District. However, the devil is in the details, and many details of the transition remain to be resolved, as outlined in this report. As these transition details are created, additional impacts may be identified, while others will be resolved. Additionally, future costs will be impacted by Authority Board actions that cannot be predicted at this time.

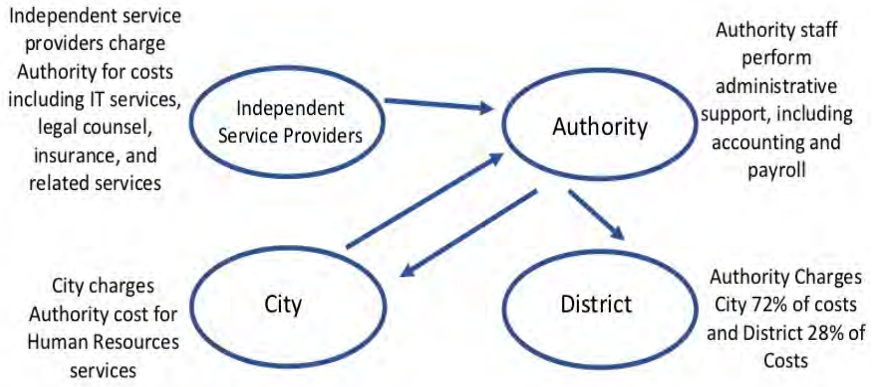
The Authority previously planned to transition to the employer of record on January 1, 2021. However, we recommend that the Authority delay this implementation date until the details of the transition are further developed.

II. BACKGROUND



In 1999, the City and the District entered into a joint powers agreement forming the South County Fire Authority. In order to improve efficiencies, the City and the District agreed that the City would serve as the employer of record for fire personnel, providing compensation and benefits as negotiated in various labor agreements, and through contracts with CalPERS and other providers. The City Manager served as the SCFA executive officer and the City provided all administrative support to the JPA, including finance, human resources, legal counsel, information technology, insurance, and similar support services. In this model, the Authority paid the City for all direct costs, including Authority personnel, finance, human resources, legal counsel, IT support, fleet and facilities support, and related costs. The Authority then charged the City and the District for their shares of the costs, 72% to the City and 28% to the District. The arrangement successfully provided services to City and District customers for many years. However, as growth in the unincorporated area increased revenues to the District, and new fire stations were planned outside the City limits, the District sought a more equal role in governance and administration.

In 2018, the District and the City determined that they would benefit by dissolving and creating a new JPA with a governance structure allowing the Authority to operate more autonomously. In February 2018, the City and the District formally dissolved SCFA and created a new Joint Powers Agreement of the South San Joaquin County Fire Authority (JPA Agreement). The composition of the Authority Board did not change with the creation of a new JPA, and the City and the District continue to each have equal ability to influence policy choices made by the Authority Board. The Fire Chief serves as the Authority executive officer, and the new JPA Agreement calls for the Authority to, over time, provide administrative, legal counsel, insurance and other services separate from the City. Notably, the Authority plans to become the employer of record for the Authority's more than 80 employment positions. As with the former model, the City will fund 72% of Authority costs, and the District will fund 28% of costs. However, as future stations and staffing are added outside the City limits, these ratios will change.



The transition to the new JPA was planned in two phases. Phase 1, which is largely complete, included creating structural, organizational and fiscal changes that shifted responsibilities away from the City and to the Authority. This includes hiring legal counsel, an independent auditor and a controller/ treasurer; transitioning accounting functions and financial systems to the Authority; adopting a standalone budget; hiring a Fire Chief reporting directly to the Authority Board; and adopting various policies and ordinances. Fire stations and apparatus will remain in the ownership of the City and the District and will be leased to the Authority.

During this interim period between the first and second phase, the City continues to serve as the employer of record for Authority personnel.

The second phase is to transition the Authority as the employer of record. This is no small task, and requires extensive preparation and planning. For example, the transition requires:

- New labor agreements with unions and unrepresented employee groups;
- New classification and compensation plans;
- New agreements with CalPERS for retirement benefits;
- New contracts with insurance providers for medical and related insurance benefits;
- New workers' compensation, liability, and related insurance coverage; and
- Creating resources and processes for payroll and human resources support.

Each of these steps involves considerable planning and coordinating with the City, labor groups, CalPERS, legal counsel, contractors and other providers. The Authority created a Phase 2 Personnel Transition Plan and anticipates asking the City Council, District Board, and Authority Board to consider and adopt the plan at future meetings.

This transition could have significant fiscal impacts for the City. While the Authority has provided some analysis of potential fiscal impacts, the City requested that MRG provide an independent review of the fiscal impacts it may face as a result of the transition, identifying key assumptions and areas where additional study is needed.

III. METHODOLOGY AND OVERVIEW OF FISCAL IMPACTS

In order to assist MRG with this analysis, City and Authority staff provided MRG with an extensive array of documents that describe the history, transition plans, and potential fiscal impacts of the new JPA. The City and the Authority also provided supporting information in emails and other correspondence. City and Authority staff were very accommodating with their time, and participated in several phone calls and meetings to answer questions and provide additional information.

In this report, we quantify fiscal impacts where possible. However, quantifying some of the fiscal impacts will require analyses beyond the scope of this study. This report attempts to provide the City with a comprehensive inventory of potential costs, and suggestions for how costs might be quantified. Additionally, while most impacts can be reasonably estimated, ultimately some impacts depend on future actions that are not currently known.

This report does not address City or Authority revenue projections. The City and Authority have completed several reports and analyses that address Authority revenue projections based on anticipated growth. In evaluating overall fiscal impacts, the City would need to compare projected costs to anticipated revenues. Cost increases may be justified as necessary to support an organization that could generate new revenues and provide expanded and/or improved services. However, fiscal prudence is always wise and this report analyzes costs in order to minimize their potential impact.

In our analysis, we found fiscal impacts in three broad categories: Operational costs incurred by the Authority and shared between the District and the City, operational costs incurred directly by the City, and long-term liabilities (for both the City and the District).

Operational Costs Incurred by the Authority and Shared Between the City and the District

The composition of the Authority Board did not change with the creation of a new JPA, and the City and the District continue to each have equal ability to influence policy choices made by the Authority Board. However, the new, semi-autonomous structure will shift administrative decision making, as well as labor negotiations, away from the City and to the Authority. This will shape recommendations to the Board as well as administrative decisions that don't require Board direction. To the extent that the Authority actions are different than the City would have taken, costs could be either more or less than the City would have incurred. Additionally, because the Authority will have fewer employees than the City, it may not receive the same prices for certain benefits. Because the Authority will need to employ its own administrative staff, there may be some duplication of services with City staff in the areas of finance, human resources, legal counsel, and others.

Currently, the City pays 72% of Authority costs, and the District pays 28%. To the extent costs for the Authority are more or less than would have been incurred by the City, the City and the District will either bear or benefit from those cost changes.

Operational Costs Incurred by the City

As a result of the transition to a new JPA, 77 current full-time employees will no longer be employees of the City, and instead will be employees of the Authority. The City organization will be "smaller" than it was, and, as a result, some City costs will either increase or decrease. For example, this could include changes to workers' compensation, liability, health, and property insurance; pension rates; and staffing/contract services for administrative functions that cannot easily be reduced to meet the new, reduced demand for services.

Long-Term Liabilities for the City and the District

The City and the District each have long-term liabilities associated with the employment of personnel, including CalPERS retirement benefits, other post-employment benefits (health insurance), and leave accruals. Prior to 1999, the City and the District were separate entities, and each responsible for their own long-term liabilities. Between 1999 and the transition date for the new JPA, the City is the employer of record, and the City and District liabilities are blended together under the City's purview. The City and the District will need to jointly determine their respective shares of these liabilities and develop a plan to fund associated costs in the future. Finally, after the transition date, the Authority will be responsible for managing the long-term liabilities. The Authority, with the City and the District as Board members, will need to similarly develop a long-term plan for funding the long-term costs associated with CalPERS, health insurance and leave accruals.

Most of these liabilities have existed for many years, and the transition to a new JPA doesn't necessarily impact the amount of the liability. However, dissolution of the previous JPA and creation of a new JPA do bring the issues to the forefront and require the City and the District to develop a funding strategy. Going forward, decisions made by the Authority will impact the amount of these liabilities.

The City and the District also have individual long-term obligations related to facility and apparatus maintenance and replacement. These are managed individually by the City and the District.

This report addresses potential fiscal impacts in each of these three categories.

IV. CalPERS UNFUNDED ACCRUED LIABILITIES

A CalPERS retirement is a tremendous benefit for employees and helps employers attract and retain qualified staff. However, that benefit does not come without substantial cost. Broadly speaking, the amount an agency pays for its CalPERS retirement programs falls into two categories: The Normal Cost and the Unfunded Accrued Liability (UAL). The Normal Cost represents the annual cost of service accrual for the current year for active employees. The Normal Cost is paid as a percentage of payroll, and a portion of the Normal Cost is paid by the employee. Anticipated changes in Normal Cost rates are discussed in detail in the next section.

The Unfunded Accrued Liability is an amortized dollar amount, determined through actuarial analysis, that is needed to fund past service credit earned for members who are currently receiving benefits, active members, and for members entitled to deferred benefits, as of the valuation date. The UAL is expressed as a dollar amount, and the member agency is required to make minimum contributions to the UAL annually. Generally, the payment against the UAL is applied as a percentage of payroll, although it is paid in a fixed sum. This section of the report addresses the anticipated changes in CalPERS Unfunded Accrued Liability as a result of the transition of employees from the City to the Authority.

In 1999, the City and the District entered into an agreement regarding employment of personnel for the provision of fire services. This agreement provides that the City, as the employer of record for the then-new SCFA, would offer employment to the employees of the District. At the time, the District was a CalPERS member providing retirement benefits to its employees. As a result of the agreement, these employees became part of the City's CalPERS plan, including long-term liability for any retirement benefits provided to them. The District's long-term liability associated with its employees prior to 1999 remained with the District and the District continues to pay against this liability when required by CalPERS. Any subsequent employees hired by the City, on behalf of the SCFA, to serve areas outside of the City's jurisdiction, became members of the City's CalPERS plan and received appropriate retirement benefits.

On February 20, 2018, the City and the District entered into a dissolution agreement terminating the 1999 JPA and related agreements, and entered into the new JPA Agreement. This new JPA Agreement indicates that, while the City will continue to serve as employer of record initially, the members intend to transition employees to the Authority, with the Authority serving as employer of record in the future. In anticipation of the transition of employees to the Authority as employer of record, the Authority prepared a proposed Phase 2 Personnel Transition Plan that includes, among other topics, a discussion of future CalPERS benefits. This plan indicates,

> The new CalPERS agreement will require all member agencies to pay their respective share of any future retirement liabilities regardless of Authority status. This required language change identifies and addresses an inequitable liability exposure that exists from the previous JPA. Although an argument can be made that all members have an obligation to fund the pension unfunded accrued liabilities that are created by the employees whom are allocated to service their respective areas, there is no current contract language that codifies such an obligation.

In a report to the Authority Board dated August 18, 2020, the Fire Chief notes that the Authority's "new contract with CalPERS will begin with no unfunded liabilities. However, current unfunded pension liabilities will remain with the member agencies and the District will be required to pay its pro-rata share of the City's unfunded liabilities that were created during the time that the City acted as the employer of

record." Going forward, the Authority will accrue a liability for costs incurred by current and future employees after the transition date, which will be split between the City and District based upon the agreed upon formula.

Allocating Current and Future Liabilities

A portion of the City's current UAL for pension costs is a direct result of the City's employment of personnel serving areas outside the City's jurisdiction. The City's unfunded liability will remain a component of the City's CalPERS contract and will not shift to the Authority with the employee transition. As such, in the future, even after fire personnel are transferred to the Authority, the City will make annual contributions toward this unfunded liability, as required by CalPERS, including costs associated with employees who served within the District's jurisdiction. Just as the District remains responsible for its UAL from benefits provided prior to 1999, the District would share in the responsibility for the long-term liability incurred by the City, which will continue for many years.

After the transition, the Authority will begin with a $0 balance in its UAL, and the current liability will remain with the City. Over time, as employees are hired and actuarial assumptions change, the Authority will also accrue a liability. For example, in the 18-year period from 2001 to 2019, the City's UAL for their safety employees (police and fire) grew by 900%, from $6 million to $54 million. However, the Authority's future liability will represent costs incurred by current and future employees *after* the transition date, while the City's UAL will change as a result of changes in actuarial assumptions and benefits provided to current employees for their service *before* the transition date. Thus, while both the City and the Authority may see their unfunded liabilities grow, there will not be any duplication of unfunded liabilities. The overall long-term liability will not be impacted by the transition alone; however, the liability will be separated into two different accounts (City and Authority).

As employees receive raises in the normal course of employment, the cost of their retirement benefits increases and the liability for both the City (for service before the transition) and the Authority (for service after the transition) increases. If the Authority offers improved retirement benefits to employees who were formerly employed by the City, the City's UAL will increase, along with the City's and the District's share of this liability.

The City has one contract with CalPERS for all its safety employees, including both police and fire personnel. CalPERS combines both unfunded liabilities and contribution rates into one amount for all safety employees, and CalPERS does not determine how much of the unfunded liability is attributable to police and fire personnel. As of June 30, 2019, the City's total combined UAL for safety employees was $53,898,486 and, in the 2021/22 fiscal year, the City will contribute an estimated $4,122,136 toward this liability.

The City will need to complete a two-step calculation to determine the amount of the liability resulting from City versus District operations. The first step is to separate the City's unfunded liability between police and fire personnel. The City recently contracted with Bartel Associates to complete this task. The Bartel Associates analysis indicates that, as of June 30, 2019, 40.8% of the UAL is attributable to fire personnel, or $21,990,582. The relative proportions will change over time based on CalPERS actuarial assumptions, investment results, the number of police and fire personnel, and employee demographics for both police and fire personnel. It will be necessary to update this analysis annually to ensure continued accuracy.

The second step would be to determine how much of this $22 million liability would be the result of City versus District service. One approach might be to apply the 72%/28% ratio; however, there may be other

factors to consider before finalizing a methodology. For example, the UAL includes City service prior to 1999, but does not include the District's similar service liability. It would be beneficial for the City and the District to meet and agree on a methodology for allocating the $22 million liability, consulting with Bartel Associates during the process to assist with education and clarification of issues. Once the City and the District agree on the allocation, they can each make annual contributions based on the annual update from Bartel Associates.

It is important to also recognize that the unfunded liability continues to accrue during this interim period while the City remains the employer of record. The liability is still accruing currently by the City for the benefit of District personnel, and the City and the District should include this interim period in any future discussion about the disposition of the City's unfunded CalPERS liability.

As indicated in the Authority's new CalPERS agreement, the individual JPA members are each responsible for their share of any future liability accrued by the Authority. Going forward, the Authority would be wise to ensure that, after it becomes the CalPERS employer of record, it obtains an annual actuarial report identifying how much of the Authority's CalPERS liability is obligated to each member so each jurisdiction is aware of its share. The Authority could plan carefully to fully fund this obligation, setting aside funds in addition to making required CalPERS contributions, avoid benefit increases or reducing plan liabilities by reducing benefit costs. Before the Authority considers any improvements to retirement benefits offered to current employees, a cost analysis that includes impacts on both the Authority's and the City's (including the District's share) unfunded liability should be considered by the City and the District as members of the Authority Board. The JPA Agreement notes that the personnel plan will "detail the treatment of such matters as…the obligation of pension obligations and liabilities." The proposed Phase 2 Personnel Transition Plan does not provide any details regarding the allocation of these future liabilities, and we recommend the JPA members work out details for addressing these future liabilities before the transition plan is adopted.

Summary

For the period from 1999 to the transition date, the City and the District are each responsible for their share of the City's current $22 million CalPERS unfunded liability for fire personnel. The City and the District will need to meet and discuss how to develop a cost allocation methodology and make payments to CalPERS each year. The transition of employees to the Authority, on its own, does not change the overall amount of the liability. However, decisions made by the Authority in the future can impact the amount of the liability prior to the transition date.

Beginning with the transition date, the Authority will need to obtain annual actuarial reports that establish each member's share of the new liability and make plans to fund this liability over time. To minimize the liability, Authority members could set aside funds in addition to making required CalPERS contributions and avoid offering increased benefits.

V. CALPERS CONTRIBUTION RATES

The City currently provides the following retirement benefits to its employees:

	Tier 1	Tier 2	PEPRA (hires after 1/1/13)
Miscellaneous	2.5%@55 single highest year	2@%55 highest 3 years (hires after 12/17/10)	2@%62 highest 3 years
Safety Police	3%@50 single highest year	3@55 single highest year (hires after 7/2/10)	2.7%57 highest 3 years
Safety Fire	3%55 single highest year	n/a	2.7%@57 highest three years

For purposes of this analysis, we are focusing on fire safety personnel. Safety personnel represent 89% of the full-time employees transitioning to the Authority, and 94% of total salary cost. The weighted average employer contribution rate for City non-safety employees is 9.84% for 2020/21 and 9.83% for the Authority, not significantly different. The transition will not significantly change pension costs for non-safety employees.

The proposed Memoranda of Understanding between the Authority and the South County Fire Chief's Association and the Firefighters Association do not propose any changes to these benefit levels.

For fiscal year 2021/22, the City will pay the following CalPERS Normal Cost contribution rates:

	Police and Fire
Total Normal Cost	31.65%
Less: Employee Contributions	9.76%
Net Employer Normal Contribution Rate	21.89%
City Contribution Amount	$4,499,771

This is in addition to contributions toward the unfunded liability, addressed previously.

As noted previously, the City's safety plan includes both police and fire personnel, and CalPERS does not provide total contribution rates separately for each benefit tier or group. However, the CalPERS actuarial report does include rates for the Total Normal Cost for each benefit group, and the weighted average rates for fire and police personnel are shown below.

	Police	Fire
Weighted Average Normal Cost	33.62%	29.11%
Employee Contribution	9.00%	13.00%
Weighted Average Employer Normal Cost	23.89%	19.37%

After the Authority transitions to the employer of record, the City and the Authority will each have separate contribution rates. For fiscal year 2021/22, the Authority will pay the following weighted average Normal Cost rates:

	Fire
Weighted Average Normal Cost	31.71%
Employee Contribution	9.73%
Weighted Average Employer Normal Cost	21.97%

As noted in the previous discussion concerning CalPERS unfunded liabilities, the Authority will start with a $0 unfunded liability, so, for 2021/22, the above Normal Cost rates are also the total rate paid by the Authority. This will change in the future as the Authority accrues a CalPERS liability.

Anticipated Changes in Normal Cost rates

The Authority's Normal Contribution rate for 2021/22 after employee contributions is 21.97%, approximately equal to the City's current blended rate of 21.89%. Thus, the City's contribution toward fire personnel in the future will be approximately the same as it is currently. However, because the weighted average rate for fire personnel is lower than police personnel, the City's Normal Cost rate for police personnel in the future will be higher after fire personnel are removed from the City's plan.

CalPERS will pool employers with fewer than 100 covered employees together and determine Normal Cost rates based on the pool, rather than each individual employer separately. After the fire personnel are transitioned to the Authority's CalPERS contract, the City will have fewer than 100 employees in its safety contract and it is likely that CalPERS will combine the City into a similar risk pool. The Authority, with fewer than 80 covered employees currently, will also be included in a risk pool with other employers. Although CalPERS has not yet selected a specific risk pool for the City's contract, Bartel Associates estimates the City's employer Normal Cost rate will be 23.23% after the fire personnel transition to the Authority. This rate is 1.34% greater than the City's current rate of 21.89%. The following table summarizes the potential for changes in City costs in the 2021/22 fiscal year.

	Employer Normal Cost	Covered Payroll as of June 30, 2019	Total Normal Cost	City Share (72% or 100%)
Current				
Police	21.89%	10,735,373	2,349,973	2,349,973
Fire	21.89%	8,214,191	1,798,086	1,294,622
				3,644,595
After Transition				
Police	23.23%	10,735,373	2,493,827	2,493,827
Fire	21.97%	8,214,191	1,804,658	1,299,354
				3,793,181
				148,585

For fiscal year 2021/22, the City will likely experience an increase in total CalPERS costs of approximately $149,000. This increase is attributable to the City's higher rate after removal of fire personnel from the blended rate. This analysis looks at a single year, and may not be reflective of cost differences in future years.

Summary

For fiscal year 2021/22, the City will likely experience an increase in total CalPERS costs of approximately $149,000. This increase is attributable to the City's higher employer Normal Cost after removal of fire personnel from the blended rate. However, this analysis looks at a single year and is not reflective of cost differences in future years. Depending on CalPERS actuarial assumptions, benefit changes, and other factors, future Normal Cost rates may be more or less.

VI. HEALTH INSURANCE AND LEAVES

Future City Health Insurance Costs

Public agencies in California have options for providing medical insurance to their employees, which include contracting directly with insurance providers, working with a broker, and joining insurance pools. One of the largest insurance pools for public agencies in California is offered by CalPERS. The City provides medical, vision and dental insurance to its employees directly from insurance providers, not through the CalPERS health insurance program. For medical insurance, the City offers only Kaiser sponsored HMO, POS, and PPO plans that range in cost (for 2021) from $786 to $1,707 monthly for employee only, to $2,044 to $4,438 monthly for employee and family. In 2020, the City contributed a maximum of approximately $2,900 toward the employee's cost of medical, dental and vision insurance; any cost for insurance in excess of that amount is paid by the employee. Nearly all employees have selected plans with costs that are fully covered by the City; only a few employees pay for insurance in excess of the City contribution. In very limited situations, an employee may opt out of the insurance plan and instead receive a monthly stipend ranging from $904 to $996 per month. The City negotiates rates for medical insurance with Kaiser and its rates are based on many factors, including the number of insured employees.

The City currently has approximately 533 employees, including 77 employees planned for transition to the Authority. The City's insurance broker has indicated that the City will experience an increase in insurance rates for its remaining employees as a result of the smaller employee pool; the amount of this increase is unknown at this time. Prior to the transition of employees to the Authority, the City could obtain updated pricing from Kaiser and other providers.

Summary

The City will experience an increase in health insurance rates for its remaining employees after the transition date, as the City's employee pool will be smaller. The City will need to consult with Kaiser and other providers to determine the impact on health insurance rates in the future.

Retiree Medical Leave Bank

The City allows fire personnel, under certain circumstances, to convert their unused accumulated sick leave into cash upon retirement. This cash is held by the City in a medical leave bank and used to pay the premiums for the retiree's health insurance coverage. The City does not contribute directly to the medical leave bank and the retiree is responsible for payment of insurance premiums after the balance in their leave bank is expended. The Authority proposes to continue the same program with employees after the transition.

The dissolution agreement identifies the balance in the medical leave bank, including the City and District shares, as of February 20, 2018 and requires the City and District to pre-fund this liability in cash. Subsequent to the dissolution agreement, additional employees have retired and the City and the District have made the required cash deposit into this fund. Note that, even if the Authority does not continue to offer this benefit to active employees, the current retirees have accrued this benefit and it must be paid pursuant to previous agreements. These funds are held for the benefit of employees who have already retired from the City, and it would likely be easiest for the City to continue to provide their medical insurance and manage their medical leave bank. There may be exceptions, and the City and the Authority will need to discuss and agree on a specific procedure for managing the existing medical leave bank.

After the transition, the Authority will set up a new trust fund and deposit the value of sick leave accruals when employees retire in the future. In order to ensure the cash is available to fund retiree health insurance premiums, the City and the District could consider pre-funding the employee medical leave bank upon each retirement, as they do now. The City indicates that active fire employees have a current sick leave balance of approximately $6.8 million; however, not all employees will retire from the City, nor will all employees be eligible to participate in the medical leave bank program. Nonetheless, the City and the District will each have an obligation to fund a significant cost for this program in the future. While the City and the District will need to plan for these deposits, which could be substantial, the deposits do not represent an increase in costs beyond current obligations.

Although the City does not offer a direct subsidy of retiree health insurance premiums, the current medical leave bank program does result in an implicit subsidy of retiree health insurance premiums and, therefore, represents a long-term liability. An actuarial report prepared by MacLeod Watts dated February 27, 2020 estimates the present value of these benefits to be $4.9 million for employees as of June 30, 2019. This represents the projected value of benefits for current employees who retire. After the transition date, future employees will retire from the Authority and this liability will increase.

Summary

For retirees prior to the transition date, the City and the District jointly fund their share of the retiree medical leave bank. Current liabilities are fully funded in a trust account, and the City and the District each pay their required share as additional employees retire. After the transition, this arrangement may not need to change.

For retirees subsequent to the transition date, the Authority will establish a new trust account to fund the retiree medical leave bank and will make arrangements with member agencies to fund the account as each employee retires.

While the City and the District will need to plan for these future deposits, which could be substantial, the contributions do not represent an increase in costs beyond current obligations.

Authority Health Insurance Costs

The Authority solicited proposals to provide health insurance to its employees and received several price quotes. Because the Authority has relatively few employees, it does not attract the lowest rates and, with the exception of the CalPERS medical insurance plans, all the proposals were considerably more costly than the rates currently paid by the City. As a result, the Authority is proposing to offer medical insurance benefits through CalPERS. CalPERS offers several medical plans for employees, including Kaiser, as well as others. CalPERS rates in 2021 range from $567 to $1,308 monthly for employee only to $1,473 to $3,400 monthly for employee and family. It is difficult to compare the medical plans offered by the City to the plans offered by CalPERS. The City offers Kaiser HMO, POS, and PPO plans only, while CalPERS offers Kaiser HMO (no Kaiser POS or PPO), plus another 13 plans from other providers. Exact benefits vary among plans and providers. For 2021, the Kaiser HMO rate (the only plan offered by both the City and CalPERS) is higher for CalPERS than for the City; however, that may not always be the case in the future.

The overall cost for an employee health insurance program will cost more for the Authority to provide under the CalPERS health program than the City's current cost, for several reasons.

Insurance rates

60% of fire employees are enrolled in the Kaiser HMO plan. The CalPERS rate for this plan in 2021 is 3.5% more than the rate available to the City. The remaining employees are enrolled in the Kaiser POS plan or opt out of insurance coverage. However, employees will have new choices in plans and an increased opportunity to opt out of coverage; comparing costs based on current enrollment may not reflect actual experience. In order to more accurately project costs for the first year, the Authority surveyed employees to determine which plans employees are most likely to choose if given new options from the CalPERS plan. The survey responses indicate that most employees will remain in the Kaiser HMO plan, while additional employees have access to other health care plans and will opt out of Authority coverage altogether, obtaining coverage through a spouse's plan. Based on the employee survey responses, and factoring in the 2021 insurance rates, costs for medical insurance will be approximately equal for the City and the Authority in 2021. Although rates are higher for the Authority, leaving the City's Kaiser plan creates an option for additional employees to opt out of coverage altogether, reducing costs and offsetting the rate increase. The cost savings from an increased number of employees choosing to opt out should be considered a one-time savings; additional opt outs will not likely be sufficient to offset future cost increases.

Looking forward, the costs for health insurance will vary each year depending on the plan each employee selects, how many opt out, and rates negotiated by CalPERS. Because all currently insured employees are enrolled in Kaiser plans, they are more likely to remain with their Kaiser doctor after the transition. As new employees are hired, they are not necessarily loyal to Kaiser and may select a non-Kaiser plan. Kaiser HMO plans are low-cost compared to other plans, and if more employees select non-Kaiser plans, costs will increase over time. Non-Kaiser HMO plans offered by CalPERS cost between $3,600 and $7,200 more per year per employee than Kaiser HMO plans. If employees switch to these plans, insurance costs will increase. (Note that the City also offers more expensive Kaiser POS plans and it is possible that, in the future, employees could switch to these plans, similarly increasing costs.) Additionally, the Authority projects that 25% of the employees will opt out of coverage and receive an in-lieu payment. For single employees, the cost to provide insurance or an in-lieu benefit are approximately equal. However, the cost of insurance for a family exceeds the in-lieu benefit by $14,000 to $24,000 per year, depending on the plan. If fewer employees opt out of coverage than anticipated, costs could increase significantly. Although future costs are difficult to estimate, if 20% of the employees opt out of coverage (rather than 25%) and enrollees are evenly split between Kaiser HMO and other plans, costs could increase by $160,000 per year. The Authority could offer incentives to encourage employees to select less expensive plans and moderate this potential increase.

The *Flores* Ruling

As noted, the Authority plans to allow employees to opt-out of medical insurance coverage and receive a monthly stipend in lieu of insurance. According to the employee survey, 8 additional employees will opt out of coverage and receive a stipend of $904 each month in lieu of insurance. As a result of the ruling in *Flores v. City of Gabriel*, the amount of the stipend must be included in employees regular pay for purposes of calculating overtime pay rates, increasing overtime costs. The Authority has calculated this additional cost at $29,000 per year (split between the City and the District). In the future, this additional cost will vary depending on the number of employees choosing to opt out of insurance, and overtime hours worked.

Retiree Medical Insurance

By joining the CalPERS medical program, the Authority will be required to make certain agreements related to retiree medical insurance. Currently the City does not contribute directly toward the premiums for retiree medical insurance. CalPERS regulations require that employers participating in the CalPERS medical insurance program contribute an amount toward retiree medical insurance premiums, creating both an annual expense as well as a long-term liability for the Authority. Currently, the amount required by CalPERS is $139 per employee per month, and this amount will increase by approximately 4% each year. However, CalPERS allows a lengthy phase-in of these costs. Authority costs would equal only $1 per month per employee in the first year, increasing each year until the minimum (currently $139/month) is reached in 20 years.

In addition to the monthly payments, the Authority will accrue a long-term liability as a result of the new benefit offered to retirees. Currently, the City provides retirees access to discounted group insurance rates, creating an implicit liability for future discounted insurance rates. If the Authority also directly contributes toward retiree health insurance premiums, as would be required by CalPERS, it will also accrue an explicit liability for these future contributions. The Authority contracted with MacLeod Watts to estimate the amount of this liability. The report from MacLeod Watts indicates that the present value of projected benefits in the current plan of $4.9 million will increase to $10.1 million after the transition to CalPERS medical insurance plans. This value reflects the projected value of benefits for *current employees when they retire; it does not include liability for employees hired in the future*. Existing retirees will not participate in the plan. If the Authority chooses to prefund this liability over a 20-year period, the annual payment would be approximately $124,000 in the first year (shared between the City and the District). This amount will increase as new employees are added, if the usage rate increases, if employees switch to more expensive medical plans, as the required minimum contribution increases, and other factors.

Similar to the CalPERS unfunded liability, the Authority would be wise to ensure that it obtains an annual actuarial report that quantifies the current liability, identifies each member's share, and evaluates options for funding this plan. Because the change to CalPERS medical benefits creates this significant long-term liability, the Authority Board should carefully consider the long-term fiscal implications to its member agencies before making a final decision.

Summary

The cost to provide health insurance benefits will increase after the transition, potentially significantly. In the first year, the direct cost for health insurance benefits will be about the same as the City would have incurred; however, future costs will vary depending on employee enrollment and rates offered by CalPERS. Because all insured employees are currently enrolled in Kaiser plans, they are more likely to remain with Kaiser after the transition. However, over time, new employees may select more expensive non-Kaiser plans, increasing future costs by as much as $190,000 per year. Additionally, because additional employees will opt out of insurance coverage and the impacts of the *Flores* ruling, the Authority will incur an additional $29,000 in overtime costs in the first year, and varying from year to year.

Most significantly, the plan to provide medical benefits through CalPERS will result in a requirement to contribute toward retiree health insurance premiums. This will generate significant annual costs as well as long term liabilities. In the first year, the Authority will incur approximately $124,000 (split between the City and the District) in annual costs to fund required contributions; this amount will increase annually as additional personnel are hired. The liability for current employees who will retire in the future is estimated to increase from $4.9 million to $10.1 million, increasing further as new employees are hired.

Higher annual insurance premiums from non-CalPERS providers might be justified to avoid this long-term liability. Because the change to CalPERS medical benefits creates this significant long-term liability, the Authority Board should carefully consider the long-term fiscal implications to its member agencies before making a final decision.

Leave Accruals

The City currently provides fire personnel with certain leave benefits, including vacation and sick leave. If not used, these leaves can be accrued to certain maximum amounts. The Authority proposes to offer the same leave benefits to employees as offered by the City, and to credit each employee with the same leave balance they accumulated while employed by the City. While the normal use of accrued leave is budgeted and paid as part of the ongoing salary expense, in some situations, employees are allowed to cash out portions of their leave bank (either during the year or at termination).

These accumulated leaves represent a liability to the City and the District. The dissolution agreement dated February 20, 2018 indicates that "the City and District shall jointly fund the cost of accumulated leave and any other accruals due to District's Former Employees who separate from the City." This statement only addresses employees who were employed by the District prior to 1999, are still employed by the City, and transition to the Authority (or otherwise leave the City). This section of the dissolution agreement does not indicate the value of the accumulated leave, nor the amounts owed by the City and the District, beyond the expectation that they will jointly fund the costs. Additionally, the dissolution agreement does not address accrued leave for employees working in the District's service area that were hired after 1999. During the term of the 1999 JPA, the District was billed for its share of current salary and benefit costs, including leave taken by employees. However, the District did not contribute toward the long-term liability associated with leave accrued but not yet paid. It is common for agencies to fund employee leave taken on a pay-as-you-go basis and not have funds set aside to fund all future leave.

Upon transition, the Authority will credit each employee with existing leave balances, and will pay employees as they use the leave over time or cash out the leave. The District and the City could jointly determine the value of accumulated leave for all the employees and develop a funding plan for leave balances that are cashed out by the employee. Alternately, the Authority could continue the pay-as-you-go model and invoice each agency for its share of leaves cashed out as part of the normal billing process. The value and cost for these accrued leaves will not increase as a result of the transition unless the Authority changes policies related to use of leave balances.

VII. GENERAL LIABILITY AND WORKERS' COMPENSATION INSURANCE

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA) and acquires both liability and workers' compensation insurance as part of its overall insurance program. The coverage for the Authority has been a constituent part of the insurance costs and the City charges the Authority its pro-rata share each year. For fiscal year 2020/21, the City's total cost (for all employees) for workers' compensation insurance is $3.4 million, and $1.4 million for liability insurance. For the 2020/21 fiscal year, the Authority expects to pay approximately $900,000 (or 26.5%) of the City's workers' compensation premium and $122,440 (8.6%) of its liability insurance premium.

As part of the planning for the transition of these insurance coverages, the Authority obtained quotes for liability and workers' compensation insurance from the Special District Risk Management Authority (SDRMA), a statewide insurance risk management joint powers agency. The cost comparison below outlines the cost for the existing and proposed insurance coverages for the first fiscal year.

Current City Workers' Compensation	$900,000
Proposed SDRMA Workers' Compensation	$578,883
Difference	-$332,375
Current City Liability Insurance	$122,440
Proposed SDRMA Liability Insurance	$172,363
	+$ 49,923
Net Insurance Cost Change Year 1 (split between City and District – one time savings)	-$282,452

The cost reduction in workers' compensation insurance is primarily due to the lack of any loss experience with the Authority operations. After the first year, these rates will return to levels more consistent with the City's rates. The liability insurance rate increase is likely due, in part, to the "stand alone" insurance profile the Authority will assume going forward. In addition, the insurance costs may increase further after lease terms between the City and the Authority are fully resolved. The liability rates will also be dependent on the insurer's experience with the Authority.

Comparing rates is difficult because the City is able to obtain rates for the entire organization, and may benefit from the economies of scale. We are unable to confirm that the proposed coverage for liability and workers' compensation insurance are the same for the CSJVRMA and SDRMA, including limits of liability and impacts of self-insured retention. While the insurance proposed by the Authority may be sufficient, it may reflect different coverage levels than the City provides. If a more detailed comparison is needed, the City will need to consult with insurance professionals.

Both the City's insurance provider (CSJVRMA) and the Authority's provider (SDRMA) are large and experienced risk management pools. The CSJVRMA has more than 50 members in its worker's compensation and liability pools, and total revenues of $53 million annually. The SDRMA has 440 members in its workers' compensation pool and more than 500 in its liability pool, with $74 million in annual revenues. The two pools will be able to provide competitive rates to the City and the Authority, and, in the long run, the differences between the rates the City can offer the Authority and the rates the Authority obtains from SDRMA are not likely substantial.

With the transition of employees to the Authority, the City's workers' compensation and liability insurance costs will be reduced. Worker's compensation insurance rates for fire personnel are among the highest of all employees, and the City should see a significant decrease in workers' compensation premiums. The City contacted CSJVRMA and received an initial estimate that premiums for workers' compensation will decrease by $1.154 million and premiums for liability insurance will decrease by $389,000, for a total cost reduction of $1.55 million. While this estimate is subject to change, it does indicate that the City may see significant savings in overall insurance costs. The table below shows current City insurance and anticipated costs for the first year after the transition.

	Workers' Compensation Insurance	Liability Insurance	Total
Current			
City Insurance Cost with CSJVRMA	3,393,636	1,420,255	4,813,891
Less: Amount Reimbursed by Authority	900,000	122,440	1,022,440
Net City Direct Insurance Cost	2,493,636	1,297,815	3,791,451
Plus: City Share of Authority Cost	648,000	88,157	736,157
Total City Insurance Cost	3,141,636	1,385,972	4,527,608
After Transition, Initial Cost			
New City Insurance Cost with CSJVRMA	2,239,746	1,030,984	3,270,730
New Authority Insurance Cost	578,883	172,363	751,246
City share of Authority Cost	416,796	124,101	540,897
Total City Insurance Cost	2,656,542	1,155,085	3,811,627
Savings	485,094	230,886	715,981

In the first year, the City may see a reduction in costs in excess of $700,000. However, this savings should be considered a one-time savings. As the Authority's cost for workers' compensation insurance increases as expected, this savings will be reduced or eliminated.

Although not directly related to future costs, the City and the Authority will need to determine how to handle claims that are received and paid for incidents prior to the transition date.

Summary

The Authority expects to realize substantial cost savings in its insurance program in the first year of operation, saving JPA members $282,000. Savings the City will experience with its own insurance will increase the savings in the first year to more than $700,000 for the City. However, this cost savings is a one-time benefit. As the Authority's cost for workers' compensation insurance increases as expected, this cost savings will be reduced or eliminated.

VIII. STATIONS, APPARATUS AND EQUIPMENT

City and District-Owned Assets

Under the terms of both the former and current joint powers agreements, the District and the City retain ownership of their respective fire stations, buildings and fire apparatus. Each agency has, and will continue to have responsibility for repairs of fire stations and buildings as well as replacement of fire apparatus when needed. In addition to the City and District fire stations and apparatus, the Authority occupies two City-owned properties; one serves as the Authority's administrative offices and the other, a former fire station, is used for equipment and materials storage. Pursuant to the JPA Agreement, the City and the District will lease their fire stations to the Authority, as well as City-owned administrative and storage facilities, to permit continued use by the Authority.

The Authority has prepared two draft leases for review by the City and the District. The City lease includes stations 91, 92, 96 and 97, plus fire the administration building and the storage facility. Similarly, the District will lease its stations 93 and 94 to the Authority. The primary purpose of the leases is to permit

the Authority to use the facilities owned by the City and the District and establish terms and conditions for the performance of the lessor and lessee. The draft leases are currently under review by the City and the District. The Authority proposes the following lease provisions:

- The Authority will have full operational control of the facilities;
- The Authority will continue to pay the City facility maintenance charges (currently $50,000 per year) as rent (presumably for the administration and storage facilities only); the Authority will not pay the District or the City any cash rent for the fire stations;
- For all properties, the Authority will be responsible for routine maintenance and repair in the interior of the buildings, to include plumbing, heating, cooling and electrical systems. The City/District will be responsible for all other maintenance, including capital repairs and maintenance of the building exteriors;
- The City/District are responsible for payment of utilities;
- Both the City/District and the Authority will carry general liability insurance;
- The Authority will provide workers' compensation insurance coverage;
- Fire insurance will be carried by the City/District and the Authority for their own property (i.e., owners cover the buildings, Authority covers contents); and
- The City/District and the Authority mutually indemnify each other and list each other as additional insured on insurance policies.

Some of these lease terms may change after the City and the District complete their reviews. The District and City fire operations have operated as a fully integrated unit for more than 20 years and have an established method of sharing service costs and retained ownership of their stations and apparatus. Leasing the properties to the Authority will not significantly modify longstanding practices nor significantly impact facility maintenance costs.

While the draft leases provide a reasonable framework to articulate responsibilities and document current practices, some of the proposed lease terms could benefit from additional clarity. The leases only directly address the real property; no mention is made of leasing fire apparatus as is required by the JPA Agreement. Clarification regarding City/District and Authority facility maintenance responsibilities could help staff implement the leases. Additionally, there appears to be some inconsistencies in the proposed lease terms in the area of property insurance coverage. Some of these changes should be made directly in the leases; however, a number of related issues could be addressed in memoranda of understanding rather than directly in the lease, as it can be more easily modified as circumstances change.

As noted previously, the act of leasing the properties to the Authority does not change maintenance costs. The City will pay certain maintenance costs directly for its own facilities, and will pay its share of maintenance costs for Authority-performed work. The Authority will pay rent to the City for the administration and storage facilities, which will be shared between the City and the District as a normal operating cost. (It is important that all maintenance costs for the Administration and storage facilities, such as utilities and landscaping, are paid directly by the Authority so they may be split appropriately between the City and District as normal operating expenses.) The Authority currently maintains the apparatus and no change is planned. Insurance costs may increase for the City and the District, as the proposed leases require the City/District and the Authority to provide duplicate liability coverage. This cost could range from $150,000 to $350,000 per year, depending on coverage levels. The potential

impacts on costs for insurance coverage should be investigated as the terms of the proposed leases evolve, and the lease terms could be amended to minimize these duplicate costs.

There are some long-term fiscal planning matters that could benefit from additional discussion and resolution. Fire apparatus purchases represent a significant capital outlay, which occurs on an infrequent basis. Typical engines cost approximately $700,000 each and a ladder truck would cost between $1 and $1.4 million. Apparatus often require a one to two-year lead time for specification development, assembly and delivery. The significant costs associated with this equipment and the projected increase in the number of District stations (and associated apparatus) presents a future liability for the City and the District. The City currently has an equipment replacement reserve to help assure funds are available for timely replacement of these important apparatus, and both the City and the District acquire fire apparatus using a lease-purchase strategy.

Although ultimate responsibility lies with the City and the District for managing their fleet of apparatus, best practice would suggest the Authority could develop a unified master schedule for apparatus replacement and recommend adequate reserves or long-term budget strategies to assure that timely replacements will be provided in the future. In fact, in other joint power fire authorities, ownership of the apparatus is often transferred to the JPA to ensure maintenance and replacements are comprehensively managed. The JPA Agreement requires the Authority to maintain a replacement schedule for all of the leased facilities (both buildings and apparatus). The Authority has prepared an initial equipment replacement schedule for the apparatus only; however, it does not include current fund balances, lease options, or all scheduled replacements. A more comprehensive and integrated approach to planning for apparatus replacement needs is an important element in developing accurate and sustainable long term fiscal stability.

Authority Owned Property

The Authority plans to take ownership of the vehicles and equipment to support fire operations. Equipment such as firefighter pickup trucks, SUVs, turnout gear, defibrillators, breathing apparatus and extraction tools have been purchased over the years, with the cost shared between the City and the District. The City has title to some of these assets, although functionally the Authority controls their usage. The City and the Authority would be best served by developing a schedule of these assets and formally transferring ownership, where appropriate, to avoid any misunderstanding about ownership.

The City maintains a replacement reserve program to depreciate the vehicles used by the Authority staff and provide replacement funding through vehicle use charges. The funding for the replacement reserve is provided by the City and the District in the established formula. As the Authority will take ownership and responsibility for replacing these vehicles, the City should transfer the current reserve funds to the Authority to fund its own replacement reserve.

In addition to vehicles and apparatus, the Authority uses specialized equipment to support fire operations. Most notably these include firefighter turnout gear, defibrillators, breathing apparatus and other expensive items, including extraction (Hurst) tools. The costs for these items are shared between the City and the District, but it is unclear if there are funds set aside for future replacement costs. We recommend the Authority and the City review the City's current capital outlay reserve program to determine whether these items are currently included in the City's capital outlay program and, if so, transfer any funds set aside for replacement to the Authority for its own replacement reserve. Going forward, best practices would suggest the Authority develop a capital replacement plan and set aside funds for replacement of the more expensive items (typically more than $5,000 - $10,000) in the future.

Although the Authority and its members will benefit by a more robust capital replacement plan for equipment, vehicles and apparatus, none of these planning efforts will result in costs that do not currently exist, as the City and the District already have responsibilities to fund replacement of these assets in the future.

Summary

Although the lease terms are not yet resolved, it appears that the City and the District will largely continue with current practices for facility maintenance with no significant change in maintenance costs. The proposed insurance requirements might result in increased costs as a result of duplicate coverage. This cost could range from $150,000 to $350,000 per year, depending on coverage levels. The potential impacts on costs for insurance coverage should be investigated as the terms of the proposed leases evolve, and the lease terms could be amended to minimize these duplicate costs. Additionally, the Authority and its members would benefit by a robust capital improvement plan for long-term replacement of apparatus, vehicles and equipment.

IX. ADMINISTRATIVE AND SUPPORT SERVICES

One of the primary benefits embraced by the City and the District in 1999 when the SCFA was formed was the opportunity to improve efficiency by eliminating redundant administrative and operational services. By combining operations, the City and the District did not need to each hire staff to provide administrative, legal, technical, fiscal and related functions; the City was able to use its existing staff to provide this support to the District. The creation of the new, independent Authority could reverse some of those efficiencies by creating the need for administrative, legal, technical, fiscal and similar services separate from the City. The new JPA model seeks to create a more autonomous government agency, with leadership able to make day-to-day decisions independent of influence from any one Authority member. This would necessitate the creation of separate executive leadership and legal services. However, other joint powers agencies frequently rely on one or more member agencies for professional and technical support services, including human resources, payroll, accounting, information technology, and other support services. From a City perspective, the costs to for the Authority to develop some of its own support services are duplicative with costs to provide service for all City functions; the City will pay 72% of these costs incurred by the Authority, even if City staff could provide the service. As new stations and fire personnel are added outside the City's boundaries, the City's proportionate share of costs will be reduced from 72%, reducing the City's burden for Authority administrative and support costs.

The Authority currently pays the City $175,000 per year for finance, human resources and administrative services support. To the extent the Authority shifts services away from the City, these revenues to the City will be lost and the City may not be able to reduce its staffing costs to offset the reduction in revenues. However, the City may use the newly-available staff capacity to pursue other administrative needs in the City.

At this time, the Authority has pursued a plan to provide these services as follows:

Administrative Function	Currently (or Previously) Performed by…	To Be Performed by After Personnel Transition…
Accounting/Finance	Controller/Treasurer – contract for services with private firm in process (not yet implemented) Payroll – City staff Accounts Payable, Accounts Receivable, Miscellaneous Accounting – Authority staff	Controller/Treasurer – contract for services with private firm Payroll – Authority staff Accounts Payable, Accounts Receivable, Miscellaneous Accounting – Authority staff
Human Resources	Contract with City of Tracy	Contract with City of Tracy
Information Technology Support	City until March 2020, then contract with private firm	Contract with private firm
Legal Counsel	Contract with private firm for both general and special counsel	Contract with private firm for both general and special counsel

Fire agencies, either independent districts or joint powers authorities, can employ different models for providing support services, with varying levels of contracting with cities, contracting with outside firms, and use of agency staff. Joint powers authorities will often rely on member agencies for various support services to avoid duplication of costs. Regardless of how each service is provided, there needs to be sufficient resources committed to be sure the Authority's needs are met. The Authority has indicated it does not anticipate the immediate need for additional support staff after the employee transition. Currently, the Authority has two Division Chiefs and one Executive Assistant assigned to administration. However, one of the Division Chief positions is working only on transition-related projects and the Authority plans to eliminate the position after the transition is complete. This would leave one Division Chief and one Executive Assistant to provide administrative functions. Recognizing this is likely insufficient to provide all needed services, the Authority has indicated an interest in adding a management analyst or similar position in the future, although no plans have been finalized and this position is not reflected in the proposed classification and compensation plan or budget.

Information Technology

Previously, the City's IT Department provided support to the Authority, as it does with all City departments, and the Authority was paying $222,000 annually to the City for these services. As of March 1, 2020, the Authority has contracted with a private firm to provide similar IT support services. The Authority pays $62,400 for these services annually, plus an additional $34,300 for line and network access charges. These costs do not include some equipment replacements that were included in the City's services. The Authority estimates these costs to range from $10,000 to $20,000 per year. The Authority anticipates a total of $107,000 to $117,000 per year in IT-related costs, a savings of $105,000 to $115,000 per year.

Legal Services

Previously, the City Attorney's Office provided general legal support to the Authority, as it does with all City departments. The cost for this service was a component of the City's overhead charge, which included other services, and the specific amount charged for legal services is not available. The Authority has contracted with independent legal counsel on an hourly basis to provide this service and no longer relies on the City Attorney. The Authority's cost for general counsel is approximately $15,000 to $25,000 per

year. In addition, the Authority hires special counsel for labor issues, litigation, and similar needs. The Authority has budgeted $49,500 for legal services in the 2020/21 fiscal year.

Finance and Administration

The City's Finance Department provides payroll services for the Authority, along with administration services, including risk, grant and property management, insurance, audit and general administration. The Authority's need for these services from the City will be reduced over time, but some level of City support for administration is likely to continue for the next year or two.

The Authority has contracted with a private firm to provide financial Controller/Treasurer services at a cost of $36,000 annually. The final scope of work for this contract has not been completed and the Controller/Treasurer's work has not yet begun. For the price contracted, the Authority will receive approximately 120 to 300 hours of support annually, less than 15% of a full-time employee. Additionally, the City's annual audit previously included Authority financial transactions. The Authority has contracted with a CPA firm to complete an annual audit at a cost of $11,500 annually. This low cost reflects the Authority's relatively modest number of financial transactions and could increase after the transition, when the Authority takes on more robust fiscal responsibilities, by an additional $5,000 to $10,000. The Authority has purchased and is installing Cougar Mountain's Denali financial management software, with an ongoing cost of $12,000 per year.

The Authority already uses its own staff (including some sworn staff) to manage banking and cash, revenue and accounts receivable, accounts payable, reporting, and general accounting, and plans to use its own staff to process payroll. Agencies similar in size to the Authority after the transition, including cities and other fire agencies, typically require more staff to provide financial oversight than the Authority currently anticipates. For example, the Novato Fire District has a Finance Director and an Accountant and Purchasing specialist[1], and the Central Fire District (Santa Cruz) has a Finance Director, an Accounting Specialist, and a part-time Administrative Assistant in its Finance Department. The Authority's Controller/Treasurer will provide some of the functions that these two comparable Districts provide in-house; however, these examples are provided to demonstrate that the Authority is likely to need additional staffing for its finance function. While we are not able to make specific staffing recommendations without further study, generally speaking, a full-time accounting assistant or similar position would cost $110,000 including benefits; an analyst or manager-level position would cost approximately $150,000 or more. If the Authority required staffing similar to Novato Fire and Central Fire, it would hire one accounting manager/analyst position and one accounting assistant or specialist, for a total cost of approximately $360,000 annually.

As noted above, the Authority plans to use existing staff to process payroll. Payroll for fire personnel is complex, regulated by numerous state and federal regulations, and, as with all payroll, the consequences of error are severe. Although the use of technology can facilitate the payroll process, it cannot replace the need for human decision making, data entry and processing, and a thorough understanding of applicable laws and regulations. The payroll and human resources functions must be kept distinct, but the two functions must closely and regularly coordinate in order to ensure the accuracy of payroll and compliance with applicable laws. Human resources and payroll staff both need restricted access to the payroll system. The Authority is aware that, in the future, additional staff may be needed for payroll, however, initially no additional resources or expertise are planned.

[1] Note that Novato Fire has several additional finance related employees due to their extensive billing operation. Billing and related staff have been excluded from this analysis, as the Authority does not provide similar services.

The Authority might be best served by reevaluating how it will provide payroll for its employees. For example, it could consider contracting with a payroll service that can provide the necessary expertise. Alternately, it could consider continuing to contract with the City for payroll services. This could be particularly efficient, as the City will also be providing human resources services. Currently, the process of reconciling payroll information each month between the Authority and the City is tedious and time consuming, largely because the City and the Authority have adopted very different charts of accounts and accounting procedures. Because the current process is temporary, staff from the City and the Authority have not actively sought to develop procedures and processes that could streamline the reconciliation process. If the City were to continue processing payroll, the City and the Authority could reevaluate the reconciliation process and develop techniques to improve the process, which may include limited sharing of access to financial information systems. The Authority might consider focusing its attention on other areas of the transition and continue to contract with the City for payroll services until the Authority can better evaluate and implement administrative staffing needs.

Regardless of the option selected, the costs and implementation details need to be addressed thoroughly before the transition. Payroll conversions are complex; require repeated parallel payrolls, adjustments and proofing; and often take many months to complete. If the authority proceeds to accept responsibility for processing payroll in-house, it would be wise to ensure that developing and completing a payroll transition plan is a high priority, and could benefit from the assistance of its new Controller/Treasurer.

Human Resources

The Authority currently contracts with the City for human resources services. The City provides a wide range of general personnel services, including benefits administration; classification and compensation management; disability, leaves, and worker's compensation case management; recruitment and selection; employee relations; discipline; and related services. In addition, the Authority pays separately for investigations, physicals, litigation, recruitment, special counsel, labor negotiators and other services provided by consultants and legal counsel. While it is impossible to predict from year to year, these additional costs could easily reach $75,000 to $100,000 per year. The Authority plans to continue this contract with the City for human resources services.

Similar to finance departments, Agencies comparable in size to the Authority after the transition, including cities and other fire agencies, typically require more staff to provide personnel services than the Authority is currently funding. For example, the Novato Fire District and the Central Fire District (Santa Cruz) each have a full-time Human Resource Manager and administrative support for human resources services. While we are not able to make specific staffing recommendations without further study, generally speaking, a full-time human resources assistant or similar position would cost $110,000 including benefits; an analyst or manager-level position would cost approximately $150,000 or more. If the Authority required staffing similar to Novato Fire and Central Fire, it would hire, at a minimum, one human resource manager/analyst position and one part-time assistant, for a total cost of at least $205,000 annually.

The City is providing services to more than 80 full- and part-time Authority employment positions. In addition to typical personnel services noted earlier, with completion of the employee transition to the Authority, the City may need to provide additional services. For example, human resources staff will fully implement new classification and salary plans, new benefit options, and new employee Memoranda of Understanding. Open enrollment each year will require two different sets of enrollment procedures and forms, payroll may be coordinated with Authority staff rather than City staff, and, if the Authority chooses a worker's compensation plan different than the City's, case management will be through a different plan administrator. As the Authority staff grows, additional employees will increase the need for services. The

City may not be currently recovering its costs to provide human resources services, and, as a result, the Authority's current costs do not realistically reflect actual costs.

The City charge of $175,000 for finance, administration and human resources services was negotiated between the City and the Authority and has not been supported by staffing studies to document actual time spent on Authority services. The City and the Authority will need to better define the services to be provided by the City and renegotiate this agreement, to be documented in a memorandum of understanding, as part of the personnel transition. However, before this effort can proceed, the specific role of the City in the payroll process needs clarification. (Even if the Authority processes payroll, the human resources/payroll integration process will require City staff time). Additionally, the City's role in other administrative tasks may change.

In order to keep costs low for JPA members, the Authority is planning on providing most administrative functions with existing staff. However, after the transition, the need for professional accounting and human resources staff will become apparent and we are concerned that the Authority's plans do not reflect realistic costs for professional administrative support. The following table shows the Authority's currently anticipated cost for administrative services and a more realistic cost, assuming full transition of accounting and human resources functions.

Administrative Function	Authority Anticipated Service Cost	Potential Costs After Transition to Authority
Accounting/Finance Human Resources Administration	• $175,000 paid to City • Additional Human Resources costs of potentially $75,000 to $100,000 per year • Auditor: $11,500 • Controller/Treasurer: $36,000 • Financial Management Software: $12,000 TOTAL: $309,500 to $334,200	• $360,000 Finance Department staffing needs • $205,000 Human Resources Department staffing needs (or continue to contract with City, amount to be negotiated, estimated $75,000 - $100,000) • Additional Human Resources costs of potentially $75,000 to $100,000 per year • Auditor: $16,500 - $21,500 • Financial Management Software: $12,000 • TOTAL: $538,500 to 698,500
Information Technology Support	Pay private firm for support, with total costs of approximately $107,000 to $117,000	Same
Legal Counsel	Contract with legal counsel at a cost of approximately $50,000 per year	Same

For both finance and human resources services, the City and the Authority would be best served by completing a thorough review of the Authority's administrative needs going forward and evaluating options for providing those services. Rather than taking an incremental approach to this analysis, we recommend a more holistic view, including a review of how comparable fire agencies provide these services, their staffing levels and budgets for administrative support. While the Authority might be able to provide services for a short time with its own staff, costs could quickly increase as the need for additional staff becomes apparent. The City and the Authority would be wise to plan for these needs now, rather than wait until the needs become apparent after the transition.

Transition Plans

The Phase 2 Personnel Transition Plan prepared by the Authority takes a broad look at many aspects of the employee transition and includes considerable analysis of the Authority's plans to date. In the area of administrative services, however, there are many details yet to be worked out. The City and the Authority might consider an additional document that includes details of how administrative and finance functions will be implemented and managed after transition. Not only would this set a solid foundation to ensure success after the transition, it would identify any potential costs, and opportunities for reducing costs.

Examples of plans to be addressed might include:

- Details on the billing and reconciliation process between the City and the Authority. When will the JPA members make advances, and how will those advances be reconciled to actual expenses? How can the City and the Authority adjust their accounting procedures to facilitate this process? Can custom programming facilitate reconciliation, reporting and journal entries?
- For payroll processing, who will complete payroll and how will the process integrate with human resources? How will time cards be processed and personnel information entered into the payroll system?
- Who will have access to City and Authority financial management systems, business license software, and development services software? What controls are needed?
- What non-depreciated equipment will be transferred to the Authority (telephones, desk top computers, and so forth)? Will the Authority acquire its own user licenses for software?

Raising these questions, and many others now will help the Authority evaluate options for providing these administrative support services, resolve problems before they occur, and ensure costs are minimized.

Summary

The Authority currently pays approximately $466,500 to $501,500 for identified administrative, legal, IT and related support costs, in addition to the costs of Authority staff. This includes $175,000 paid to the City. Administrative details related to the employee transition need to be worked out, most notably how payroll will be provided and how it will integrate with human resources. The amount the Authority pays to the City could be reevaluated based on proposed services, and documented in a memorandum of understanding. While the amount paid to the City for services will decrease over time, the need for additional administrative support staff could easily exceed this cost savings. If the Authority needs to add staff similar to comparable agencies, costs for finance and human resources services could increase by $229,000 to $364,000 per year.

The Authority and its members would be best served by taking a broader, more comprehensive look at how the Authority will provide administrative services in the future so that members can plan for the costs necessary to provide professional administrative support.

Additionally, the City and the Authority should continue discussions regarding the employee transition, evaluate options for payroll services, and create a detailed transition plan that addresses not only payroll integration, but access to financial and other information systems, the billing and reconciling, and many other details.

X. CLASSIFICATION AND COMPENSATION

As the new employer of record, the Authority will need to adopt compensation and benefit plans and develop a position control roster to track authorized positions. The Authority's proposed classification plan, salary schedule and position control roster are included in the Phase 2 Personnel Transition Plan.

In addition, the Authority will need to work with the Tracy Firefighters Association and the South County Fire Chief Officers Association to develop proposed new memoranda of understanding. The Authority will employ approximately eight employees who are currently members of other bargaining groups and will be unrepresented after the transition. The Authority has created a proposed Unrepresented Compensation and Benefit Plan for these positions.

The Authority's proposed classification plan, salary schedule and position control roster are consistent with the City's current position control roster, with a few exceptions noted below.

Position (excludes part time positions)	**Proposed Authority Number of Positions**	**Current City Number of Positions**	**Proposed Authority CalPERS Safety or Misc.**	**Proposed Authority Bargaining Unit**
Fire Chief	1	1	Safety	Contract
Division Chief	3	3	Safety	Unrepresented
Fire Marshall	1	1	Safety	Unrepresented
Battalion Chief	3	3	Safety	SCFCOA
EMS Manager (Notes 1 and 2)	1	1	Safety	Unrepresented
Fire Captain	22	22	Safety	TFFA
Fire Engineer	21	21	Safety	TFFA
Firefighter	24	24	Safety	TFFA
Executive Assistant	1	1	Miscellaneous	Unrepresented
Administrative Assistant II	2	2	Miscellaneous	Unrepresented
Plans Check Examiner	1	1	Miscellaneous	Unrepresented
Fire Inspector (Note 3)	4	3	Miscellaneous	Unrepresented
Permit Tech (Note 3)	0	1	Miscellaneous	Unrepresented
Project Specialist (Note 4)	1	1	Miscellaneous	Unrepresented
	85	85		

The Authority proposes the following changes or adjustments:

1. The EMS Manager is currently provided a CalPERS Miscellaneous retirement. However, the Authority proposes to move this position to the Safety group. This represents an increase in costs of approximately $13,000 to $17,000 per year.
2. The Unrepresented Compensation and Benefit Plan includes several changes in benefits for the EMS Manager. These include an increase in vacation accrual after 20 years of service, an increase in management leave accrual, and an increase to the maximum leave that may be accrued. At a minimum, this will cost an additional $1,000 to $1,300 per year, or as much as $10,000 to $12,000 per year, depending on leave usage and tenure of the employee.
3. The Authority plans to eliminate the Permit Technician position and add an additional Fire Inspector. This represents approximately $27,000 to $33,000 in additional costs per year.

4. The Project Specialist position has been filled only on a part-time/temporary basis in the past. The Authority plans to continue to fill the position only as needed on a temporary basis.
5. The Authority has included three new positions in its Unrepresented Compensation and Benefits Plan: Management Analyst, Human Resources Analyst, and Accounting Assistant. These positions are not included in the classification plan nor in the salary schedule. The cost for these additional positions could range from $110,000 to $150,000 each, including benefits. (This cost is addressed in more detail earlier in this report).
6. Fire Inspectors will be provided a uniform allowance of $915 per year. Currently, the City provides the Fire Inspectors with shirts and a jacket as needed, but no uniform allowance. The change to an allowance will not likely result in a notable change in overall costs.
7. The Authority plans to offer up to 5% matching funds for employee contributions to a 457 deferred compensation plan for all unrepresented employees. This is consistent with current benefits offered to these employees, except Teamsters who currently receive 2.5%. This will increase costs up to $12,000, depending on the employee pay and amount of voluntary deferral.
8. The Fire Marshall position was omitted from the Unrepresented Compensation and Benefits Plan and the Authority is in the process of adding the position to the Unrepresented – Safety Management group.

The Authority may have implemented some of these changes, and associated costs, regardless of the personnel transition. As noted, there are some inconsistencies between positions and benefits as described in the classification and compensation plans and the Unrepresented Compensation and Benefits Plan. The above list does not represent a comprehensive review of all possible changes. The Authority might consider a more thorough comparison of the current and proposed plans to identify additional differences, if any, and amend the proposed documents as needed to ensure consistency and clarity.

Summary

The Authority is proposing the same number of employees as currently employed by the City. However, certain changes to positions and benefits will result in an increase of $50,000 to $75,000 per year. Changes in classification and compensation, either during the transition process or afterward, will result in additional costs, both in direct salary and benefits, and in long-term liabilities. Some of these costs may have been incurred regardless of the personnel transition.

In order to facilitate additional analysis of the proposed compensation and benefit plans by all stakeholders, the Authority might create worksheets, strikeout versions, or other documents that identify current benefits by group and proposed benefits, as well as proposed changes in compensation and benefits by position, when applicable.

XI. CONCLUSION

The transition, as it is currently envisioned in the transition plan, will initially increase operating costs for the Authority and City over time. The majority of these costs result from the discontinuance of the City's more cost-effective provision of health insurance, administrative services, and similar costs. However, some of the cost increases can be reduced through careful planning and implementation. For example,

the City and the Authority could consider more affordable options for employee health plans and administrative support services.

We are recommending three areas the City may want to prioritize for additional discussion or analysis.

CalPERS Unfunded Liability: The City and the District will need to confer and agree on a methodology for allocating the existing and future CalPERS UAL. This is a substantial liability that will grow over time, and the City and District would be wise to agree on a funding strategy before the transition.

Health Insurance Benefits for Employees: While the proposal to provide CalPERS health insurance benefits provides new options for employees, it also triggers a requirement for contributions to retiree medical insurance. In the long run, this will increase expenses and, most notably, add considerable liability. Higher annual premium costs from non-CalPERS providers might be justified to avoid this long-term liability.

Administrative and Support Services: The creation of the new, independent Authority will create the need for administrative, legal, technical, fiscal and similar services that are, to some extent, duplicative of services provided by the City. In the long run, the Authority will experience costs in excess of those charged by the City for these services. As new stations and fire personnel are added outside the City's boundaries, the City's proportionate share of costs will be reduced from 72%, reducing the City's burden for Authority administrative and support costs.

The 2018 JPA Agreement provides a platform for increased independence of the Authority from the City and a reasonable and well-considered solution to long-term fiscal and operational challenges facing the City and the District. However, the devil is in the details, and many details of the transition remain to be resolved, as outlined in this report. As these transition details are created, additional impacts may be identified, while others will be resolved. Additionally, future costs will be impacted by Authority Board actions that cannot be predicted at this time.

As required by the JPA Agreement, the City and the Authority are meeting to discuss the details of the employee transition. This report might help provide insight into the different impacts facing the City, the District and the Authority to help inform implementation and negotiations. The Authority previously planned to transition to the employer of record on January 1, 2021. However, we recommend that the Authority delay this implementation date until the details of the transition are further developed.

We appreciate the opportunity to work with the City of Tracy and the South San Joaquin County Fire Authority. City and Authority staff were very helpful and insightful, providing considerable information for our review. If we can be of further assistance, please let us know.

ATTACHMENT D

City of Tracy Fiscal Impact Analysis South San Joaquin County Fire Authority

Fiscal Impact Analysis South San Joaquin County Fire Authority

Mike Oliver, MRG Partner
Dana Shigley, MRG Consultant
Brian Kelly, MRG Consultant

PROJECT OBJECTIVE

- ✓ Evaluate the potential fiscal impacts which may affect the City of Tracy resulting from the transition of City Fire employees to the Authority.

PRIMARY FOCUS AREAS

- ✓Operational costs incurred by the Authority and shared between the District and the City
- ✓Operational costs incurred directly by the City
- ✓Long-term liabilities for the City and the District

AREA ONE:
OPERATIONAL COSTS INCURRED BY THE AUTHORITY AND SHARED BETWEEN THE DISTRICT AND THE CITY

✓**Authority Health Insurance Costs**

The Authority plans to offer employee health insurance through CalPERS. This will increase costs for the Authority and the City.

- Cost for health insurance plans will initially be about the same, but could increase by as much as $160,000 per year over time depending on plans selected and number of employees electing to opt out

- Overtime costs from the *Flores* Ruling will increase costs by $29,000 per year with future costs contingent upon the number of employees electing to opt out.

AREA ONE:
OPERATIONAL COSTS INCURRED BY THE AUTHORITY AND SHARED BETWEEN THE DISTRICT AND THE CITY

✓Authority Health Insurance Costs (cont.)

- CalPERS will require the Authority provide health insurance coverage to retirees, a new benefit. This will create a long-term liability requiring contributions of $124,000 per year that will will rise year over year.

- Summary
  - First year cost increases: $153,000
  - Future year cost increases of $153,000 plus up to $160,000 per year over the long term

AREA ONE:
OPERATIONAL COSTS INCURRED BY THE AUTHORITY AND SHARED BETWEEN THE DISTRICT AND THE CITY

✓Authority Health Insurance Costs Possible Options to Consider

- Reconsider insurance plans from other providers or insurance pools. Even if the premiums are a little more than CalPERS plans, they might be a better option to avoid the costly long-term liability from the requirement to provide retiree health insurance benefits.
- Create policies and incentives that encourage employees to select less expensive plans to moderate cost increases over time.
- Continue to partner with the City for Kaiser health insurance plans

AREA ONE:
OPERATIONAL COSTS INCURRED BY THE AUTHORITY AND SHARED BETWEEN THE DISTRICT AND THE CITY

✓Administrative and Support Services

- The Authority currently pays approximately $466,500 to $501,500 for administrative, legal, IT support costs—including $175,000 per year to the City.
- The Authority will require additional financial and administrative support positions to provide essential payroll and fiscal support, increasing the Authority's costs.
- The cost increases are estimated to range between $229,000 and $364,000 per year, for up to 3.5 additional support staff.

AREA ONE:
OPERATIONAL COSTS INCURRED BY THE AUTHORITY AND SHARED BETWEEN THE DISTRICT AND THE CITY

✓Administrative and Support Services Possible Options to Consider

- The Authority and its members would be best served by taking a comprehensive look at how the Authority will provide administrative services in the future so that members can plan for the costs necessary to provide professional administrative support.
- It is possible to continue to contract with the City for some administrative support functions while still maintaining the independence desired by the JPA.

AREA ONE:
OPERATIONAL COSTS INCURRED BY THE AUTHORITY AND SHARED BETWEEN THE DISTRICT AND THE CITY

✓**Classification and Compensation**

The Authority is proposing to modify classification and compensation for certain designated employees.

We estimate the increased costs for these changes will range between $50,000 and $75,000 per year

AREA ONE:
OPERATIONAL COSTS INCURRED BY THE AUTHORITY AND SHARED BETWEEN THE DISTRICT AND THE CITY

✓**Summary for Area One**

We estimate the Authority's increased costs will be approximately:

- First year between $432,000 - $592,000
- Future years between $592,000 - $752,000

The City will pay 72% of these costs increases currently, with their share reducing when the new Tracy Rural station opens.

AREA TWO:
OPERATIONAL COSTS INCURRED DIRECTLY BY THE CITY

✓**CalPERS Contribution Rates**

Withdrawal of the Authority employees from the City's CalPERS blended rate will increase the City's CalPERS contributions. This analysis looks at a single year, future years may be more or less.

- First Year estimated costs: $149,000
- Future Years estimated costs may be more or less

AREA TWO:
OPERATIONAL COSTS INCURRED DIRECTLY BY THE CITY

✓**Future City Health Insurance Costs**

The City will experience an increase in health insurance rates for its remaining employees due to reductions in the size of the employee pool.

- 1st and Future Years: To Be Determined
- Continuing to provide these benefits to Authority employees after the transition would eliminate this concern.

AREA TWO:
OPERATIONAL COSTS INCURRED DIRECTLY BY THE CITY

✓**General Liability & Worker's Compensation Insurance**

The Authority's withdrawal from the City's insurance coverages will initially result in substantial one time cost savings for the City.

- Authority first year savings: $282,000
- City first year total savings $700,000
- In the future, these savings will be significantly reduced or eliminated.

AREA TWO:
OPERATIONAL COSTS INCURRED DIRECTLY BY THE CITY

✓**Stations, Apparatus & Equipment**

The lease terms between the District and City are not complete, but the current draft agreement could result in duplicate insurance coverage.

- First and future years' cost increase: $150,000 to $350,000
- Option to review the leases and reduce the requirement for duplicate coverage.

AREA TWO:
OPERATIONAL COSTS INCURRED DIRECTLY BY THE CITY

✓Summary for Area Two

We estimate the City's costs will be approximately:

- First year *savings* between $201,000 - $401,000 with unknown health insurance impacts
- Future years increased costs up to $499,000 depending on CalPERS rates and TBD health insurance rates

AREA THREE:
LONG-TERM LIABILITIES

✓CalPERS Unfunded Accrued Liabilities

- The City and District are each responsible for their respective shares of the CalPERS unfunded liability. The District and City should agree on the allocation of this liability and develop plans to fund it. However, the transition of the employees to the JPA will not modify these liabilities.
- If the Authority changes retirement benefits to employees formerly employed by the City, the City's UAL will also change, along with their share of the Authority's liability in the future. The District and City, as governing members of the JPA, could develop policies to address changes to benefit levels in the future that would moderate cost increases.

AREA THREE:
LONG-TERM LIABILITIES

✓Retiree Medical Leave Bank

The City and the District jointly fund their share of the retiree medical leave bank.

This is an existing liability not impacted by the transition unless benefits change.

AREA THREE:
LONG-TERM LIABILITIES

✓Authority Health Insurance Costs

- The Authority's plan to provide medical benefits through CalPERS will result in increased liabilities due to the mandatory contributions to retiree health insurance costs.
- The current liability of $4.9m will increase to $10.1m immediately when benefits are contracted, then continue to increase as employees are hired.
- Selecting a non-CalPERS health insurance would eliminate this additional liability.

AREA THREE:
LONG-TERM LIABILITIES

✓Stations, Apparatus & Equipment

The Authority and its members would benefit from a robust capital improvement program to ensure timely replacement of apparatus, vehicles and equipment.

This is an existing liability not impacted by the transition.

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