FINAL REPORT

ECONOMIC IMPACT ANALYSIS OF THE PROPOSED TRACY GROWTH MANAGEMENT INITIATIVE

Prepared for:

City of Tracy

Prepared by:

Economic & Planning Systems, Inc.

In association with:
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I. INTRODUCTION, INITIATIVE OVERVIEW, & KEY FINDINGS

Over the last 15 years, the City of Tracy has become an established component of the San Francisco Bay Area economy. As the Bay Area has consistently added more jobs than housing units, its labor force has sought less expensive housing in all directions. In the East Bay, the commute-shed initially encompassed the I-580 Corridor cities of Pleasanton and Livermore but has since come “over the hill” to Tracy.

As a result of constant growth pressure, as well as concern over the City’s current role as a bedroom community, a citizen’s alliance has formed in Tracy to evaluate options for slowing growth and evaluating options for directing it in the future. The Tracy Region Alliance for a Quality Community (TRAQC) is expected to place an Initiative on the March 2000 ballot that will cut in half the annual allowable residential growth in the City, reducing it from a maximum annual average of 1,200 dwelling units to 600 units.

Economic & Planning Systems, Inc., (EPS), along with Berryman & Henigar (consulting civil engineers) and the law firm of McDonough, Holland & Allen, have been retained by the City to evaluate the potential economic, fiscal, and capital improvement impacts that may result from the Proposed Initiative.

PURPOSE OF REPORT

California Elections Code Section 9212 provides that the City Council may refer an initiative to staff and request a report on potential impacts if the initiative were to be approved. The City Council has elected to retain a consultant to prepare the report on their behalf. This report has been commissioned to facilitate informed discussions among the City Council, the development community, the project proponents, and the public regarding the probable effects of the Proposed Initiative. In addition, this report provides guidance to City decision makers regarding policy decisions that may be necessary to ensure adequate funding for public services and facilities should the Proposed Initiative pass.

KEY ATTRIBUTES OF PROPOSED INITIATIVE

In order to discuss the potential consequences of the Proposed Initiative, it is necessary to first provide a brief description of City’s mechanism for controlling the amount of residential development occurring in Tracy – the Residential Growth Allotment (RGA) system. The limit on the number of RGAs that can be issued in any given year is set by the City’s Growth Management Ordinance (GMO). The current GMO was initially adopted by the Tracy City Council in 1987 and last updated on July 20, 1999, by Ordinance No. 1000 (superceding an earlier version with similar restrictions). It would be repealed by the Proposed Initiative.

OVERVIEW: RESIDENTIAL GROWTH ALLOTMENT SYSTEM

Both the current GMO and the Initiative require an RGA before a residential building permit can be issued, with the exception of certain permits associated with rehabilitation, remodeling, and other minor exemptions. Prior to issuing an RGA, the City is required to find that there are public facilities and services available for the proposed development. The current GMO limits the number of RGAs to an annual maximum allocation of 1,500, and an average annual allocation of 1,200.[1] The current GMO also exempts 300 affordable housing units per year from the average annual maximum allocation of 1,200. Unused RGAs can be carried forward for a period of two years before they expire. Under no conditions can the total RGAs, including affordable units and unallocated RGAs carried over from previous years, exceed 1,500 per year. The limits described above also apply to the number of annual residential building permits issued.

INITIATIVE-RELATED CHANGES TO THE RGA SYSTEM

The City Attorney has prepared a "Summary of Chief Points and Purpose" of the Proposed Initiative. It includes the following points:

1) The Proposed Initiative would repeal the current version of the Residential Growth Management Plan, Chapter 10.12 of the Tracy Municipal Code, also known as the Growth Management Ordinance (GMO), and replace it with an amended GMO.

2) The Proposed Initiative would limit the number of RGAs to an annual maximum allocation of 750 units and an annual average allocation of 600.

3) The Proposed Initiative would reduce the affordable housing exceptions from 300 to 150 per year.

4) The Proposed Initiative would take effect immediately upon passage (March 2000). However, for purposes of calculating the maximum annual RGAs of 600, the Proposed Initiative utilizes a baseline date of July 1, 1999.

5) The Proposed Initiative requires the City to amend ordinances and other regulations to make them consistent with the proposed measure.

[1] The average is a measure of RGAs secured each year since inception of the GMO.

6) The amendments may include provisions necessary to reflect development proposals with vested rights as of the effective date of the proposed measure.

This summary, as well as the independent legal opinion provided by the attorney on the consultant team (see **Appendix F**), have been applied in determining the primary impacts of the Proposed Initiative, as reflected in this report.

METHODOLOGY

The balance of this report includes specific discussions of the methodologies used to analyze Initiative-related impacts. However, the following section provides a general summary of the methods employed to evaluate the potential economic impacts of the Proposed Initiative:

1) **Analyze baseline market conditions.** Future residential growth has been projected based on Bay Area employment and housing trends, the Market Area's role as an extension of the Bay Area, the likely performance of competing communities (such as the nearby Mountain House project), and Tracy's competitive position within the Market Area over the next 15 years.

2) **Evaluate the number of Tracy dwelling units displaced by the Proposed Initiative.** The difference between the market forecast and the rate specified by the Proposed Initiative is calculated, adjusted for units with vested development rights. This analysis assumes that projects with vested development rights, achieved through either a vesting tentative map or a development agreement, are subject to the provisions of the current GMO, rather than the Proposed Initiative. This analysis also presumes that units projected by the demand forecast, but constrained by the Proposed Initiative, are redirected to other competing communities in the Market Area, based on each community's competitive position. Mountain House is assumed to be phased in over the next three years.

3) **Evaluate related economic impacts of the Initiative.** The relationship between residential development and (1) demand for retail and related space (e.g., restaurant) (2) demand for personal services and professional office space, and (3) employment in Tracy is examined. The analysis is based on research regarding household expenditure patterns and the labor requirements of the retail, office, and construction sectors.

4) **Evaluate fiscal impacts of the Initiative.** The City's adopted FY 1999/00 budget has been evaluated in order to determine how the General Fund, other annual costs and revenues, and staffing levels would be affected by reduced development as a result of the Proposed Initiative. As a part of this analysis, case studies of property and sales tax generation were prepared, as well as an evaluation of cost sensitivity to growth assumptions.

5) **Evaluate capital facility funding impacts.** This component of the study includes a detailed evaluation of key financing districts, as pertaining to the ability of developers to fund existing and proposed capital facilities given the growth limitations of the Proposed Initiative. In addition, impact fee revenue projections have been made to evaluate the impact of the Proposed Initiative on this important capital funding source.

SUMMARY OF KEY FINDINGS

1) ***The demand for residential development in Tracy is largely driven by job growth in Silicon Valley and the Tri-Valley.***

   Silicon Valley added over three times the number of new jobs than it added in housing units over the past decade. In the immediate (nine-county) Bay Area, only about 25 percent of the total households can afford a median priced home. As the influence of the Silicon Valley employment base spreads to the Tri-Valley, the Central Valley can expect increasing growth pressure in coming years. Tracy's strategic location dictates that it will always be among the strongest-performing cities in its Market Area (Manteca, Lathrop, Tracy, and Mountain House), and will be highly sensitive to Tri-Valley housing and employment trends.

2) ***The Initiative will cause a reduction in development otherwise expected to occur in Tracy over the next 15 years.***

   The Proposed Initiative will reduce residential development in the City over the next fifteen years by an estimated 4,100 units. In particular, the timing of growth will be affected sometime in the 2008-2012 period, as "grandfathered" projects[2] are constructed. Assuming that these grandfathered projects are able to provide all necessary public facilities and services required to qualify for an RGA allocation, they would likely build out at a rate exceeding the 600-unit annual average limit contained in the Proposed Initiative. Subsequently, a period of slower growth would be required in order to reduce the annual average to 600 units per year before additional RGAs and associated building permits could be issued.

3) ***The Initiative is expected to increase the cost of housing.***

   The Initiative is projected to slow the rate of residential development in the latter portion of the 2000-2014 forecast period, especially in periods of peak demand. This will increase holding costs, providing incentives to builders to shift to a higher-end product in order to maintain feasibility. Moreover, the City has a locational competitive advantage over other cities in the Market Area, which will likely lead to

[2] That is, those with vested development rights which are assumed for purposes of this analysis to be subject to the provisions of the current GMO. See **Appendix F** for more information.

a specialization toward higher-end product and a shift of the lowest third of the Tracy market to other locations. Over time, this dynamic could increase the average cost of new housing in Tracy by approximately 10 percent over and above baseline market appreciation. In constant dollar terms, this would increase prices from the current average of $250,000 to a higher average price point of $275,000. This product shift will raise the minimum qualifying household income for an average new home in Tracy from $70,000 to $77,000.

4) ***The Proposed Initiative is unlikely to affect the amount of "affordable housing" developed in the City of Tracy.***

The Proposed Initiative reduces the number of low income units that are exempt from the required average annual RGA / permit limitation from 300 under the current GMO to 150 under the proposed GMO. However, fewer than 200 multi-family dwelling units have been built in Tracy over the past 10 years. This indicates that if historical levels of interest in affordable housing continue, the impact of the Proposed Initiative on affordable housing is likely to be minimal.

5) ***The Proposed Initiative would result in less retail growth and a reduction in employment over the next 15 years.***

A reduction in residential growth caused by the Proposed Initiative will reduce household expenditures in Tracy and thus the amount of retail and office space developed in the City over the 2000-2014 period. In addition, the resulting decline in both residential and commercial development over this period will translate into a loss of both construction and commercial-related employment during the next 15 years. Overall, the Proposed Initiative is estimated to defer $49 million in retail spending, $1.1 billion in construction value, and 990 Full Time Equivalent jobs in Tracy through the year 2015.

6) ***In order to avoid a City General Fund impact, close fiscal management will be necessary.***

Property tax and other revenues will be lower under the Proposed Initiative than without it. The City will need to monitor service costs to ensure they do not grow faster than revenues, which will grow at a relatively slower rate under the tenets of the Proposed Initiative. By doing so, the City may be able to avoid Initiative-related impacts on the General Fund. Key challenges to the City's effort in this regard include labor contracts, State mandates, and fixed departmental costs. These factors may limit the ability of the City to temper costs in the face of modest revenue growth prospects. Also, a reduction in the demand for development application processing, and a corresponding reduction in fee revenue, may create the need for layoffs in affected departments.

7) ***The Proposed Initiative would slow development rates and increase competition for scarce RGAs, making it difficult for some developers to compete.***

As discussed above, passage of the Proposed Initiative would have little short term impact on the pace of residential development within the City of Tracy because of the significant number of projects with "vested" development rights. Based upon the projected demand for new residential housing units, development could continue for several years at current rates until this backlog is used up.

Once the City is again able to issue additional building permits, the Proposed Initiative would result in a reduction in the pace of development. This may make some projects financially infeasible since projects could not be developed quickly enough to cover on-site financing costs.

8) ***The Proposed Initiative will not affect the timely provision of key capital facilities being developed or planned in Tracy.***

Because of the vested development rights pertaining to most of the properties within Community Facilities Districts (CFDs) 98-1 and 98-3, there is projected to be little or no impact on the security of the Districts as a result of the Proposed Initiative. Moreover, since there would be no reduction in development in the short-term, there would be no significant impact on the generation of development impact fees, which are needed to fund the City's existing five-year Capital Improvement Program (CIP).

9) ***Reduced residential growth in Tracy will not have a major effect on the health of the regional economy, including its capture of new employment opportunities***.

The effect of the Proposed Initiative on the regional economy will be minimal, as it is expected that other communities in the Tracy Market Area will absorb the displaced development and associated benefits. Specifically, nearby communities such as Mountain House, Manteca, and Lathrop are likely to capture the "spillover" housing demand that would otherwise locate in Tracy. Moreover, major employers are more likely to locate in Tracy on the basis of regional labor force characteristics rather than the specific attributes of Tracy's labor force. Consequently, the region as a whole will still experience the range of economic "multiplier" effects that are generated by residential development.

REPORT ORGANIZATION

Following this introduction and summary of findings, **Chapter II** describes the Proposed Initiative's projected impact on Tracy's residential development over the next 15 years. **Chapter III** discusses potential impacts on retail and service-related development, as well as estimated job impacts. **Chapter IV** provides an analysis of potential impacts on the City's General Fund and other annual costs and revenues, as well as potential impacts on the City's Capital Improvement Program (CIP). This is followed by a discussion of other potential impacts in **Chapter V**, including impacts on the City's urban form, consistency with General Plan Housing Element, and potential impacts on the County of San Joaquin.

II. RESIDENTIAL DEMAND FORECAST & IMPACT ASSESSMENT

EPS has projected residential growth in Tracy based on the City's competitive position in its Market Area (Tracy, Mountain House, Lathrop, and Manteca) and the Market Area's position in the regional economy.

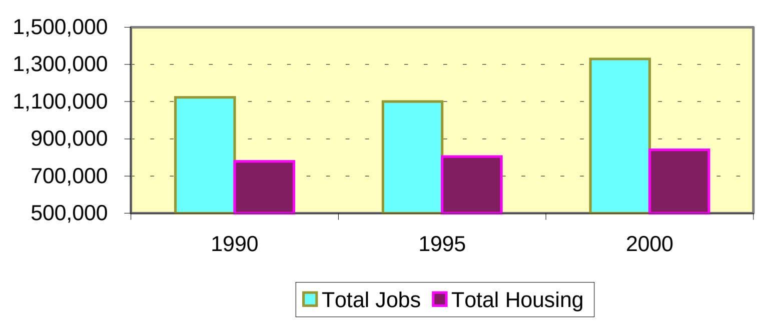
BASELINE MARKET CONDITIONS

REGIONAL OVERVIEW

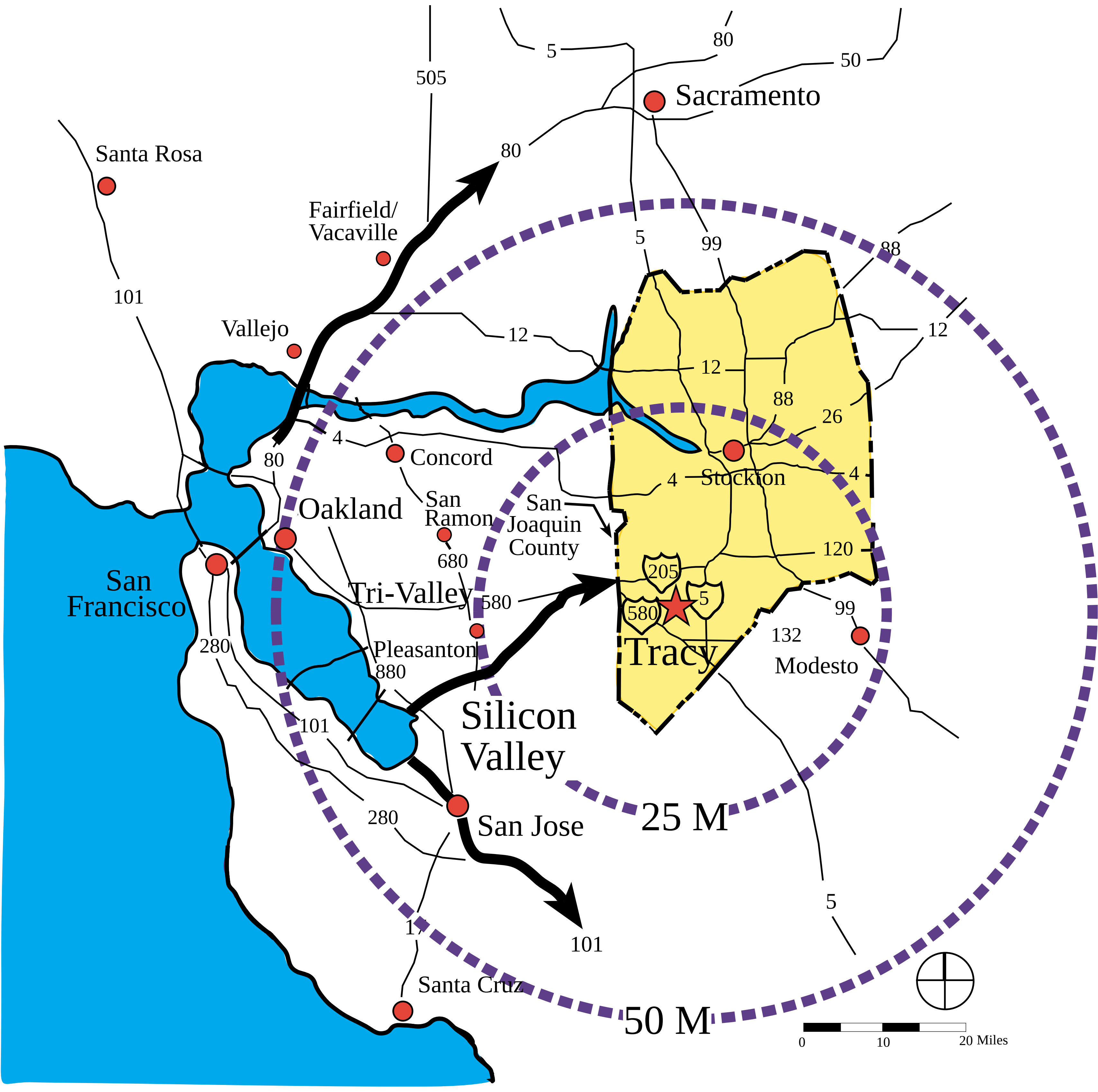
The driver of the regional housing market is and will continue to be the South Bay economy, otherwise known as Silicon Valley. Silicon Valley is strengthening its hold as one of the world's most productive high-technology industrial regions. Over the last ten years, this region has undergone a functional shift by exporting assembly and manufacturing to other states, while retaining local administrative and R&D functions.

The key to sustaining the Silicon Valley's economic health is recruiting and retaining a highly educated and well-paid labor force. However, as shown by **Figure 1**, Association of Bay Area Governments (ABAG) data[3] show that the sheer magnitude of job growth (205,000 jobs over the past 10 years) compared to very modest housing growth (63,000 units over the same period) has resulted in an outflow of commuters via two major corridors leaving the immediate region: Highway 101 to the South, and the east-bound combination of I-680, I-580, and I-205 linking the region to Tracy and other parts of the Central Valley (see **Figure 2**).

Figure 1: Silicon Valley Jobs/Housing Imbalance



[3] Silicon Valley *Projections'99*, Association of Bay Area Governments, pg. 5.



Sacramento
Santa Rosa
Fairfield/
Vacaville
Vallejo
Concord
Oakland
San
Ramon
San
Joaquin
County
Tri-Valley
Pleasanton
San
Francisco
Stockton
Tracy
Modesto
Silicon
Valley
San Jose
Santa Cruz
25 M
50 M
0
10
20 Miles

Compounding this effect, the Tri-Valley[4] is becoming an employment center in its own right, mostly concentrated in software, telecommunications, and business services. Moreover, as shown by **Table 1**, new and existing home prices in the Tri-Valley increased at an average annual growth rate of 15 percent during the 1997-1999 period, causing many new employees of Tri-Valley firms to seek more affordable housing both in the Central Valley as well as the East Contra Costa County area, including the communities of Byron, Brentwood, and Oakley.

The Central Valley has effectively become an extension of the San Francisco Bay Area as a result of these labor force movements. The commute-shed of the Bay Area's employment centers extends out to Stockton and Modesto, with Manteca, Lathrop, and Tracy serving as the primary hub of commuter-based housing demand. As such, these three cities (Tracy, Manteca, and Lathrop), in addition to the planned community of Mountain House, comprise the Market Area for this analysis.

The City of Tracy is ideally situated to capture the upper end of the residential price spectrum within the Market Area. This is a direct result of the City's strategic location on Interstate 205, which serves as a collector for Highway 99 (serving Ripon and Modesto), Highway 120 (serving Manteca), and Interstate 5 (connecting to Stockton and Lathrop). In addition, the City can also be accessed by I-580, which serves as an alternative route among Modesto-based commuters, as well as commuters originating from Patterson to the south. The City therefore is located at a key node in the regional transportation system through which the vast majority of inter-regional commuters must travel. Ultimately, this locational advantage will attract major employers interested in "capturing" the growing technical labor force that is destined for Silicon Valley each morning by way of Tracy.

TRACY SUBMARKET CHARACTERISTICS

Tracy is currently one of the most active residential markets in Northern California. Presently, there are 18 merchant builders active at 24 major subdivisions in the City. These subdivisions are found in four major planning areas of the City, including the Residential Specific Plan (RSP) Area, the I-205 Specific Plan, Plan C—which rings the south and east portions of the City in three major concentrations—and South MacArthur, including the Elissagaray and Lourence Ranch areas. Over the last ten years, the City has experienced residential development averaging about 600 units per year, with spikes occurring in 1990 and again in 1999, and a substantial recession bringing growth down to between 300 and 400 units annually in the mid-1990s.

The price of housing in Tracy is in part a function of its distance from major employment centers in the Tri-Valley and Silicon Valley. Homes in Tracy are priced lower than Livermore to the west, but higher than Manteca to the east. However, the

[4] Defined as the region encompassing the cities of Danville, San Ramon, Dublin, Pleasanton, and Livermore.

Table 1
New and Existing Home Prices in Tri-Valley Area and Tracy (1)
Tracy Initiative Impact Analysis
(in nominal $$)

				1997-1999	
City	**1997**	**1998**	**1999**	**% Increase**	**Avg. Ann. Increase**
Dublin	$220,000	$245,000	$280,000	27%	13%
Livermore	$201,000	$235,000	$280,000	39%	18%
Pleasanton	$315,000	$335,000	$411,700	31%	14%
Average Tri-Valley	**$245,333**	**$271,667**	**$323,900**	**32%**	**15%**
Tracy	$166,500	$182,000	$210,000 (2)	26%	12%

(1) As of June of each year.
(2) As of September, 1999; June 1999 sales price is not available.

Sources: California Association of Realtors; Economic & Planning Systems, Inc.

price disparity between these cities has grown. Based on EPS's experience in the region, Livermore has shifted to a higher price structure reflecting a worsening commute, local growth standards, and a preference among buyers for a closer-in location.

As shown by **Table 2**, as of September 1999 new housing in Tracy averaged about $250,000 per unit, with an average lot size of 5,700 square feet and an average unit size of 2,300 square feet. There has been a discernible shift to larger, more expensive homes in Tracy over the last two years. However, increasing prices have not stifled demand, as over a thousand units are expected to be developed during 1999—the highest total since 1990.

This market performance has spurred developers in Tracy to aggressively pursue new development opportunities including two new Specific Plan projects, including Tracy Hills (annexed and including approximately 5,500 units) and South Schulte (not yet annexed and including approximately 5,700 units). These projects are currently seeking entitlements and must submit infrastructure master plans in order to obtain tentative maps.

PROJECTED RESIDENTIAL GROWTH

MARKET AREA GROWTH PROJECTIONS

Between 1990 and 1999 the Tracy Market Area added new housing units at a rate of 3.0 percent per annum -- an average of 935 new units per year. The City of Tracy grew at a rate of 4.2 percent per annum with an average of about 600 units each year, capturing nearly two-thirds of the Market Area's housing demand (see **Table 3**).

The San Joaquin Council of Governments (SJCOG), the designated Metropolitan Planning Organization for San Joaquin County, recently prepared projections of housing demand for the County and its jurisdictions. These projections imply a growth in Market Area residential demand from 36,171 residential units in January 1999 to over 63,000 units in January 2015. This growth, at a rate of about 3.6 percent per annum, exceeds the growth rate experienced in the 1990s, which was influenced by a substantial recession. As shown by **Table 4**, the Tracy Market Area is therefore projected to incur an average addition of 1,677 units annually over the next 15 years. This projection incorporates a business cycle simulation in an effort to more closely reflect actual market performance.

Table 2
New Residential Sale Prices in Market Area
Tracy Initiative Impact Analysis

City/Project Name	Builder	Planning Area	Total Units	Lot Size	Price		Unit Size (sqft)		Price/Sqft		Avg. Sales/ Week (1)
					Low	High	Low	High	Low	High	
Manteca											
Club Coll. @ Chadwk Sq.	Raymus Development	--	270	6,000	$178,990	$178,990	1,866	1,866	$95.92	$95.92	1.6
Curran Grove	Western Pacific Housing	--	171	5,000	$155,000	$180,000	1,420	1,982	$90.82	$109.15	1.2
Discovery Creek	John N. Meintasis	--	136	6,000	$188,700	$191,900	1,754	1,990	$96.43	$107.58	0.5
Trophy Club @ Chadwick	Raymus	--	140	6,000	$164,990	$208,990	1,530	2,282	$91.58	$107.84	1.8
Villa Ticino @Chadwick	Frontiers	--	100	5,000	$167,990	$232,990	1,605	2,653	$87.82	$104.67	0.0
Walnut Place	Beck Homes	--	131	4,000	$137,990	$160,990	1,288	1,835	$87.73	$107.14	1.3
Westbrook Estates	Anderson Homes	--	228	6,000	$209,900	$259,900	2,060	3,200	$81.22	$101.89	0.5
Wildflower Collection	Atherton-Kirk	--	200	6,200	$179,990	$224,990	1,732	2,454	$91.68	$103.92	1.9
Total/Wtd. Average		--	**1,376**	**5,642**	**$190,928**		**2,000**		**$97.13**		**8.8**
Tracy											
The Shores @ Hidden Lk.	McRoy-Wilbur	Plan C	108	6,000	$294,900	$359,900	2,459	3,301	$109.03	$119.93	0.6
Pheasant Run	Standard Pacific	205	113	6,000	$284,950	$294,950	2,440	2,933	$100.56	$116.78	1.0
Belconte West	Beck Homes	RSP (2)	70	5,000	$269,990	$314,990	2,642	3,891	$80.95	$102.19	2.3
Glenbrook @ Glenbriar	Kaufman & Broad	Plan C	286	7,200	$261,000	$295,000	2,334	2,944	$100.20	$111.83	0.4
Reflections @Hidden Lk.	Bright Development	Plan C	76	5,000	$257,815	$279,990	2,024	2,499	$112.04	$127.38	0.9
Heartland I	Westco	205	123	5,500	$253,500	$289,000	2,397	2,452	$117.86	$105.76	2.8
Cornerstone @ Westgate	Grupe	Plan C	95	5,500	$251,000	$270,000	2,226	2,635	$102.47	$112.76	1.2
Sandpiper Cove/Hidden L	Trend Homes	Plan C	127	7,000	$249,900	$279,900	1,705	2,368	$118.20	$146.57	0.2
The Villas	William Lyon	unknown	140	5,500	$246,990	$269,990	2,129	2,590	$104.24	$116.01	0.8
Summer Lane	William Lyon	Plan C	233	5,800	$240,950	$306,500	2,060	3,063	$100.07	$116.97	1.7
Meadowood	Morrison Homes	205	89	5,600	$239,990	$278,990	1,850	2,487	$112.18	$129.72	1.6
CrownPointe @ Edgewood	Lafferty Homes	Plan C	376	6,200	$237,990	$317,990	2,003	4,051	$78.50	$118.82	2.5
Pebblebrooke	Forecast Homes	Plan C	100	6,999	$234,990	$279,990	2,113	2,860	$97.90	$111.21	1.5
Lyon Estates@Crossroads	Trend Homes	Plan C	120	6,500	$232,990	$271,399	2,040	2,629	$103.23	$114.21	0.8
The Reserve @Woodfield	Tri-Star Homes	other	87	5,000	$232,950	$288,950	1,785	3,159	$91.47	$130.50	0.6
Stoney Glen @ Westgate	Richmond American	Plan C	55	5,000	$227,900	$262,900	1,709	2,215	$118.69	$133.35	3.5
Total/Wtd. Average -- Top 66% of Market		--	**2,198**	**6,071**	**$273,018**		**2,579**		**$109.15**		**22.5**
Meadows at Edgewood	Kaufman & Broad	Plan C	230	5,000	$224,990	$254,990	1,679	2,339	$109.02	$134.00	0.6
Savoy @ Huntington Park	Pulte Homes	Plan C	120	4,000	$223,950	$235,950	1,863	2,130	$110.77	$120.21	0.0
Foothill Vista	Award Homes	RSP	102	5,600	$203,000	$203,000	1,372	1,372	$147.96	$147.96	0.4
Corral Hollow Estates	Standard Pacific	Plan C	97	6,000	$198,900	$248,900	1,600	2,383	$104.45	$124.31	1.1
Ridgeview @ Edgewood	Greystone Homes	Plan C	376	5,200	$197,990	$251,990	1,531	2,530	$99.60	$129.32	2.2
Pacific Pointe	A.D. Seeno	unknown	140	5,500	$196,990	$240,990	1,506	2,220	$108.55	$130.80	1.3
Lyon Villas @Crossroads	Pulte Homes	Plan C	135	5,000	$194,990	$229,990	1,434	1,874	$122.73	$135.98	4.0
Larkspur	Forecast Homes	Plan C	180	5,600	$192,990	$243,990	1,697	2,418	$100.91	$113.72	1.8
Total/Wtd. Average -- Botton 33% of Market		--	**1,380**	**5,211**	**$223,540**		**1,922**		**$119.25**		**11.4**
Total/Wtd. Average -- Total Tracy			**3,578**	**5,739**	**$253,935**		**2,325**		**$113.05**		**33.9**

(1) As of September 30, 1999.
(2) Residential Specific Plan
Source: Survey of New Sales Housing by Anthony Hurt & Associates; Economic & Planning Systems, Inc.

Table 3
Historical Growth in Housing Units in the Tracy Market Area
Tracy Initiative Impact Analysis

Area/ Item	1990	1995	1999	Total Growth 1990-99	Avg Ann. Growth 1990-99	Avg Ann. Growth Rate 1990-99
Tracy						
Single-family	8,856	12,177	14,116	5,260	584	5.3%
Multi-family	2,534	2,566	2,642	108	12	0.5%
Mobile homes	443	445	445	2	0	0.1%
Total	11,833	15,188	17,203	5,370	597	4.2%
% of Market Area	42.6%	46.2%	47.6%	63.8%	63.8%	--
Lathrop						
Single-family	1,614	2,204	2,437	823	91	4.7%
Multi-family	117	121	127	10	1	0.9%
Mobile homes	287	290	290	3	0	0.1%
Total	2,018	2,615	2,854	836	93	3.9%
% of Market Area	7.3%	8.0%	7.9%	9.9%	9.9%	--
Manteca						
Single-family	9,945	10,889	11,908	1,963	218	2.0%
Multi-family	3,314	3,545	3,553	239	27	0.8%
Mobile homes	648	652	653	5	1	0.1%
Total	13,907	15,086	16,114	2,207	245	1.7%
% of Market Area	50.1%	45.9%	44.5%	26.2%	26.2%	--
Total Market Area						
Single-family	20,415	25,270	28,461	8,046	894	3.8%
Multi-family	5,965	6,232	6,322	357	40	0.6%
Mobile homes	1,378	1,387	1,388	10	1	0.1%
Total	27,758	32,889	36,171	8,413	935	3.0%
% of Market Area	100.0%	100.0%	100.0%	100.0%	100.0%	--

* Figures are for 1st January of each year.

Sources: California Department of Finance; Economic & Planning Systems, Inc.

Table 4
Projected Total Housing Units in Tracy Market Area (existing GMO)
Tracy Initiative Impact Analysis

Item	Year-End 2000	2005	2010	2014	Growth Total 1999-2014	Annual
Tracy (1)	19,407	22,892	27,259	31,444	13,109	874
Manteca/ Lathrop (1)	20,217	22,192	24,666	27,038	7,428	495
Mountain House (1)	0	1,271	2,981	4,620	4,620	308
Total (2)	39,624	46,355	54,906	63,101	25,157	1,677

(1) Market capture rates based on an independent study of Mountain House conducted by EPS in 1998 and historical market capture rates of existing cities.
(2) Total market area growth based on SJCOG projections and business cycle expectations.

Sources: San Joaquin Councial of Governments; Economic & Planning Systems, Inc.

TRACY MARKET SHARE

Historically, housing demand in the Market Area has been distributed among the cities of Tracy, Manteca, and Lathrop. However, with the expected addition of the new community of Mountain House, housing buyers will have an additional purchasing option from 2001 onwards. An independent study of the Mountain House community conducted by EPS in 1998 estimated a 20 percent capture rate of Market Area demand by the new community, equivalent to about 300 units each year . This 20 percent capture rate is based on an assessment of location, land availability, and expected product type. The remaining market share is projected to be split between the City of Tracy and the cities of Manteca and Lathrop based on historical levels of performance.

As shown by **Table 4**, the City of Tracy is expected to capture 52 percent of the Market Area's forecasted development over the next 15 years. As such, the City is expected to add about 13,100 new housing units over the period, an average of 870 units per year. This increase over the historical levels of development in Tracy (600 annually over the last 10 years) is based on the expectation that the Bay Area will continue to add jobs at a faster rate than it provides housing, and that increasing housing prices in the Bay Area will continue to push demand for comparatively moderate-priced housing to Tracy.

EFFECT OF PROPOSED INITIATIVE

The Proposed Initiative limits the issuance of RGAs and building permits to an average rate of 600 per year. Depending on such factors as market conditions, the ability of approved development projects to satisfy the prerequisites for obtaining RGA allocations, and the implementing regulations for the Initiative, the Proposed Initiative could require a period of considerably slower growth after the projects with vested development rights are built out, in order to reduce the rolling average to comply with the 600-unit per year limit.

Figure 3 presents the projected housing demand in Tracy, showing the contrast between market demand and allowable development. It should be noted that based on the assumptions underlying this report, the actual rate of development would exceed 600 units per year over most of the next decade regardless of the Proposed Initiative. Projects containing an estimated 7,084 units have vested development rights pursuant to either vesting tentative maps or development agreements and therefore are assumed to be subject to the provisions of the current GMO rather than the Proposed Initiative. For this reason, as shown in **Table 5**, the Initiative will initially constrain residential development sometime during the 2008-2012 period. Overall, the Tracy Initiative is estimated to reduce residential development in the City over the next fifteen years by 4,100 units.

Figure 3
Historical & Projected Tracy Residential Growth (Units)

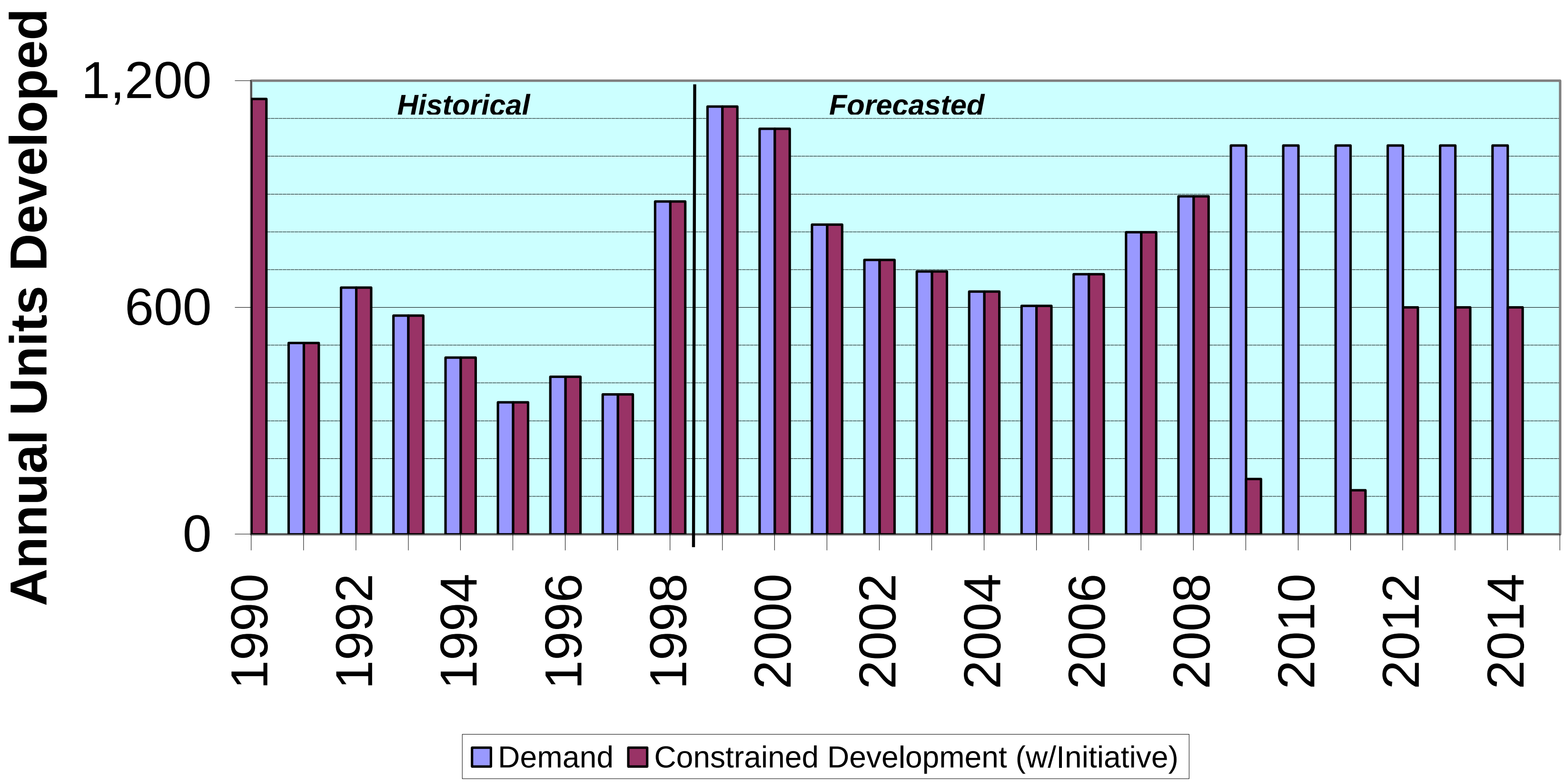


Table 5
Impact of Proposed Initative on City of Tracy
Tracy Initiative Impact Analysis

Area/ Item	Year-End 1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Demand for Housing (Unconstrained)										
Total Housing Unit Demand	18,335	19,407	20,226	20,952	21,647	22,288	22,892	23,580	24,379	25,273
Annual Market Demand	--	1,072	819	726	695	642	604	688	799	894
Expected Development (constrained by Proposed GMO)										
RGAs Available Current Year	--	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Annual Development/ RGAs Used	--	1,072	819	726	695	642	604	688	799	894
RGAs Remaining	--	428	681	774	805	858	896	812	701	606
Cumulative Development	--	1,072	1,891	2,617	3,312	3,954	4,558	5,246	6,044	6,938
Running Average	--	1,072	946	872	828	791	760	749	756	771
Initiative-Imposed Devel. Constraints										
Annual Units	--	0	0	0	0	0	0	0	0	0
Cumulative Units	--	0	0	0	0	0	0	0	0	0

Sources: Berryman & Henigar; Economic & Planning Systems, Inc.

Table 5
Impact of Proposed Initative or
Tracy Initiative Impact Analysis

Area/ Item	Year-End 2009	2010	2011	2012	2013	2014	Growth 1999-2014 Total	Annual
Demand for Housing (Unconstrained)								
Total Housing Unit Demand	26,300	27,259	28,251	29,279	30,342	31,444	--	--
Annual Market Demand	1,027	958	992	1,027	1,064	1,101	13,109	874
Expected Development (constrained by Proposed GMO)								
RGAs Available Current Year	146	0	116	600	600	600	--	--
Annual Development/ RGAs Used	146	0	116	600	600	600	9,000	600
RGAs Remaining	0	0	0	0	0	0	--	
Cumulative Development	7,084	7,084	7,200	7,800	8,400	9,000	--	--
Running Average	708	644	600	600	600	600	--	--
Initiative-Imposed Devel. Constraints								
Annual Units	881	958	876	427	464	501	4,109	274
Cumulative Units	881	1,840	2,716	3,143	3,607	4,109	--	--

Sources: Berryman & Henigar; Econom

III. Economic Impact Analysis

This chapter evaluates the effect of the Initiative on construction activity, retail sales, and employment in Tracy. It first provides a conceptual framework for understanding the economic impact of reduced residential growth. It then sets forth a methodology and a set of assumptions for measuring this impact, and it quantifies the results.

CONCEPTUAL FRAMEWORK

This analysis evaluates the direct and indirect relationships between residential development, the demand for retail and other ancillary commercial development, and employment. A conceptual framework for understanding these relationships is provided in **Figure 4**. As shown, the direct effect of residential development in Tracy includes (1) increased construction jobs, and (2) increased households and thus household expenditures.

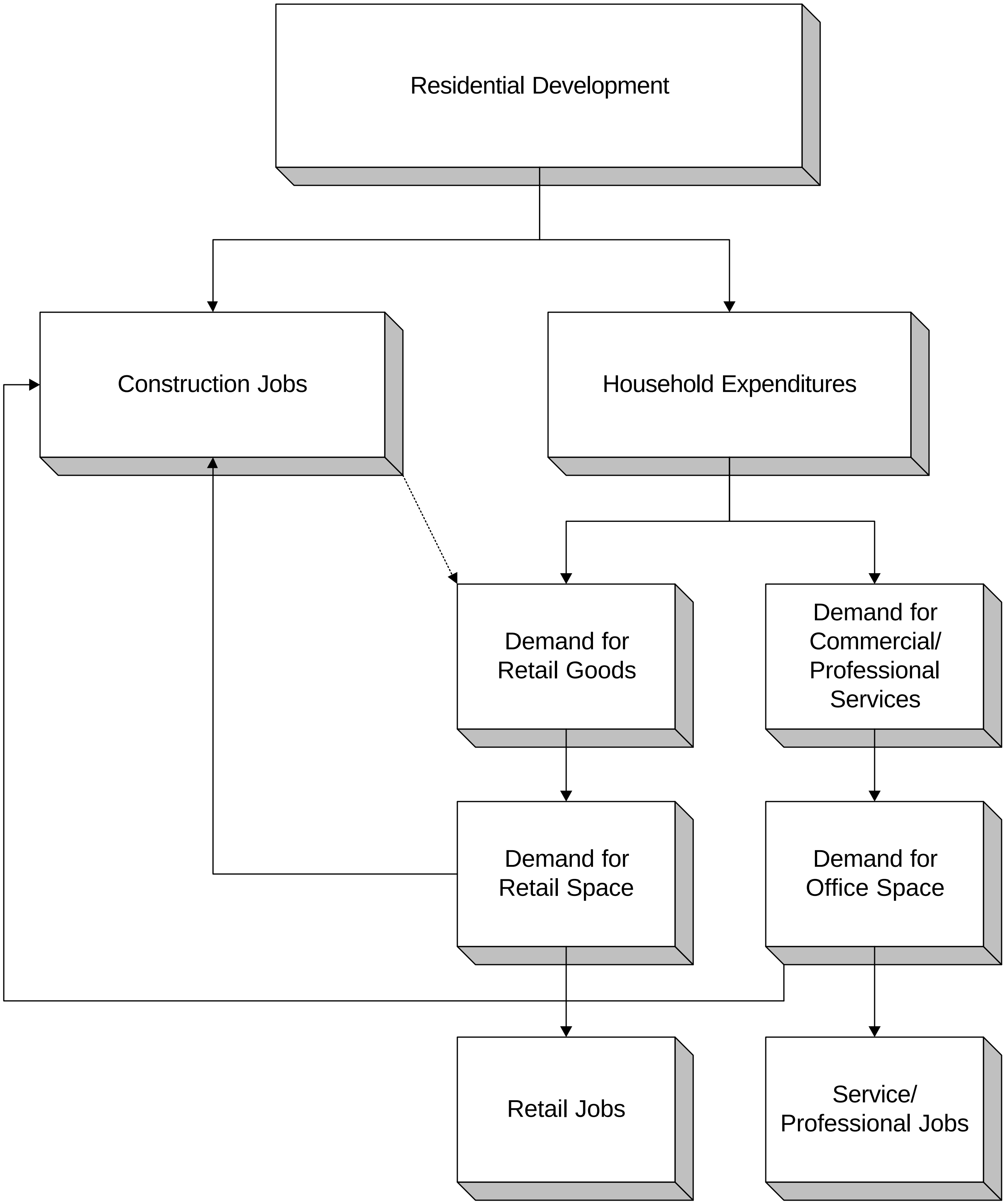
The indirect effect of residential development refers to the economic activity generated by the direct effects. Specifically, additional household expenditures create a demand for retail goods and commercial and professional services in Tracy. The demand for these goods and services, in turn, creates a demand for additional retail and office space in the City. Total employment in the City increases as a result of new retail and commercial jobs as well as additional construction activity. Construction workers also spend money on retail goods, as shown by dotted line in **Figure 4**.

The conceptual framework depicted in **Figure 4** does not account for two additional types of economic impacts often generated by residential development, as described below:

1. **Economic Multiplier Effect.** The new construction, retail, and service jobs described above will create a ripple effect throughout the economy as workers purchase additional goods and services and supplying firms expand production. The resulting wage payments and purchases from other businesses will stimulate successive rounds of spending, creating an economic "multiplier effect" in the regional economy. However, as discussed in the preceding chapter, a reduction in residential development activity in Tracy will simply increase residential development in the other communities in the Market Area . Therefore, there would be no multiplier impact on the regional economy.[5]

[5] As there are insufficient data to analyze multiplier effects at the local or Citywide level, they cannot be quantified in this analysis.

Figure 4
Local Economic Impact of Residential Development: Conceptual Diagram



Source: Economic & Planning Systems,Inc.

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2. **Economic Competitiveness Effect.** New housing growth can sometimes increase the attractiveness of a City to businesses seeking closer proximity to their labor force. Although this relationship does not lend itself to precise quantitative forecasts, it is a very important consideration that is treated in **Chapter V** of this report.

ASSUMPTIONS AND METHODOLOGY

In order to measure the effect of reduced residential growth on commercial development and employment in Tracy, EPS has estimated the magnitude of the relationships shown in **Figure 5**. These estimates are based on EPS research, in-house construction industry data, and conservative assumptions regarding such factors as household expenditure patterns, as well as employment per square foot of commercial space or per million dollars of construction activity. The analytical assumptions and sources are summarized in **Table 6**. The methodology and key assumptions are further described below.

- **Local Retail Expenditures:** The relationship between residential development and local retail expenditures is measured based on assumptions regarding (1) home prices, (2) average household income, (3) total household retail expenditures, and (4) Tracy's retail capture rate. Specifically, average home values are used to calculate average annual household income which in turn leads to an estimate of total retail expenditures based on an the proportion of income typically spend on retail items. The assumption that 60 percent of total household retail expenditures will occur in Tracy is based on the presence of a regional mall and the shortage of alternative shopping opportunities outside the City limits.

- **Ancillary Commercial Demand.** The analysis also assumes that residential growth creates a demand for commercial and professional office space. For example, new households require health care and financial, legal, and insurance related services, which in turn generate a need for office space. The analysis assumes that every 1,000 housing units create a demand for about 1,250 square feet of new office space.[6]

- **Construction Industry Labor Requirement.** The relationship between construction activity and employment is based on the labor requirements of the construction trade. This analysis assumes that approximately 25 percent of finished construction value (e.g., the market values of a finished home or commercial building) comprise wage and salary compensation. This estimate is based on U.S. Bureau of Economic Analysis data on the construction industry production function.

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[6] This is a conservative estimate based on prior research by EPS focusing on the relationship between residential development and professional office space (e.g., UC Merced and Clovis Intersection studies).

Table 6
Key Economic Impact Calculation Assumptions
Tracy Growth Innitiative Analysis

Assumption	Amount
Avg. Home Value (See **Table 2**)	$250,000
Avg. Value per Commercial Square Foot	$130
Avg. Household Income (1)	$70,000
Percent of Income Spent on Retail (2)	35%
Tracy Capture of Local Resident Retail Spending	60%
Tracy Capture of Displaced Resident Retail Spending	15%
Retail Expenditures per Employee per Workday	$7.00
Required Retail Sales Per Square Foot (3)	$300
Supportable Office Square Feet per 1,000 Housing Units (4)	1,250
Square Feet per Employee (4)	
Retail	350
Office	275
Wage/Salary Compensation as a Percent of Building Value (5)	25%
Avg. Annual Compensation per FTE Construction Job (6)	$35,000

(1) Based on minimum income needed to afford a $250,000 home, assuming a 10% down-payment, a 30-year loan term, at 7.8% interest rate with 35% of income spent on housing.
(2) Based on information reported by the Bureau of Labor Statistics.
(3) Based on Dollars & Sense data, adjusted upwards to account for additional sales needed to spur new development.
(4) Based on EPS in-house data and research.
(5) Based on US BEA data on the production function of construction industries.
(6) Based on salary data provided by the State EDD.

Source: BLS, IMPLAN, Economic & Planning Systems, Inc.

QUANTIFICATION OF IMPACTS

A summary of the total economic effect of the Proposed Initiative during the 2000-2014 period, based on the analysis and assumptions described above, is provided by **Table 7** and summarized below. More detailed documentation is provided in **Appendix A**.

RETAIL SPENDING IMPACTS

As shown, the Proposed Initiative is expected to defer $49 million in retail spending in Tracy through the year 2015. The vast majority of this spending is expected to be in community oriented retail categories such as food, clothing, and household items. However, a large portion will also include spending on restaurants and other entertainment-oriented activities.

CONSTRUCTION ACTIVITY IMPACT

The Proposed Initiative is expected to defer the realization of $1.1 billion in construction value in Tracy through the year 2015. The vast majority of this amount, or about 95 percent, is due to reduced housing development. The remainder is due to deferred commercial space, especially retail-related development over the study period. Specifically, the Initiative is estimated to reduce retail development by between 163,000 and 256,000 square feet during the 2000-2014 period, including restaurants and other entertainment related uses.

EMPLOYMENT IMPACT

The Initiative is expected to result in a reduction of 990 Full Time Equivalent (FTE) new jobs in Tracy through the year 2015. Approximately half of this amount is due to reduced construction jobs while the other half represents reduced retail and office related employment.

It is important to note that the employment estimate refers to total jobs in Tracy rather than employed residents of Tracy. This is because a large majority of workers that will be impacted by the Initiative do not or would not live in Tracy. For example, the construction industry has a very mobile workforce with workers living throughout the Bay Area and beyond. It is unlikely that many of these workers would move to Tracy due to a particular residential development project.

Table 7
Employment & Construction Impact In Tracy
Tracy Growth Innitiative Analysis

Item	**15 -Year Total Impact (1)**
Total Housing Units Displaced	4,109
Retail Expenditure Impact (2)	
Reduced Local Retail Spending	$46,177,924
Reduced Commercial Square Feet	153,926
Reduced Retail/Office Jobs	458
Construction Impact (2)	
Reduced Construction Value	$1,047,845,405
Reduced Construction Jobs (3)	502
Total Displaced Jobs -- Place of Work (4)	960

(1) Shows total impact after 15 years.
(2) See Table 2 and Table 3 for detailed assumptions and calculations.
(3) Construction jobs represent an annual average Full Time Equivalent (FTE) for the 15 year forecast period.
(4) Refers to total jobs in Tracy rather than employed residents of Tracy.

IV. FISCAL AND CAPITAL FACILITIES IMPACTS

FISCAL IMPACT ANALYSIS

The discussion below summarizes the methodology and results of the fiscal impact analysis of the Proposed Initiative. Impacts on capital project funds are analyzed in the second major section of this chapter.

OVERVIEW & METHODOLOGY

The fiscal impact analysis measures the impact, by budget unit, of the Proposed Initiative on the revenues and expenditures of the City's General Fund. The analysis focuses on the City's ongoing operating revenues and expenditures. Other funds, such as Special Revenue and Enterprise Funds, are self-sustaining through offsetting fees or earmarked revenues. The analysis focuses on the potential fiscal impact associated with a lower rate of residential and related retail / services development.

The fiscal impact analysis uses the City's Adopted Budget for Fiscal Year 1999-2000 and the City's current mix of residential and other employment as a basis for establishing the relationship between costs, revenues, and their sensitivity to differing growth assumptions. Baseline budget information is summarized in **Table 8**. Detailed projections are provided in **Appendix A**.

Revenues and expenditures are estimated based on "Equivalent Dwelling Unit" (EDU) factors, as shown in **Table 8**. The residential and related retail / services development (including construction jobs) is converted into EDUs, consistent with the City's budget methodology.[7] For most budget items, revenue and expenditure estimates are based on the EDU equivalency factors provided in the City budget.[8] Key budget items were, however, estimated through additional analysis. Property tax revenue was estimated based on the market value of expected new development, as shown in **Appendix Table A-4**, and sales tax revenue was estimated based on expected household and employee expenditures, as shown in **Appendix Table A-5**.

[7] The analysis assumes a residential unit is equal to an EDU and that 2.83 jobs also equals one EDU.
[8] These factors are shown on page C-10, General Fund Summary, of the City's FY99-00 budget.

Table 8
General Fund Budget Summary and Equivalency Factors
Tracy Initiative Impact Analysis

		FY1998-1999	Equivalency Factor (1)	
Item		**Estimated Budget**	**Overall Budget**	**Affected Development (2)**
Revenues				
Property Tax	(2)	$4,398,500	$195	$356
Sales Tax	(2)	5,232,700	232	119
Other Taxes		976,200	43	43
Operating Assessments		181,100	8	8
License & Permit Fees		2,005,800	89	89
Franchise Fees		1,035,400	46	46
State Shared Revenues	(2)	2,505,140	111	137
Other Grants		1,402,360	62	62
Current Charges		5,434,800	241	241
Other Revenue Sources	(3)	705,800	31	31
Subtotal Revenues		$23,877,800	$1,058	$1,131
Expenditures				
Police		$7,808,810	$346	$346
Fire	(4)	3,596,560	159	211
Public Works		2,987,880	132	132
Parks & Community Services		3,267,960	145	145
Development & Engineering		1,530,220	68	68
General Government	(5)	1,722,910	76	38
Other Expenditures	(5,6)	2,600,250	115	110
Subtotal Expenditures		$23,514,590	$1,042	$1,050
BALANCE		$363,210	$16	$81

(1) The equivalency factor is provided in the City's annual budget as an analytical tool to estimate the cost or revenue per Equivalent Dwelling Unit (EDU), i.e., one residential unit or a comparable unit of commercial or industrial uses.

(2) These factors are used to project the impact of the initiative on new development affected by the initiative, i.e., residential and related retail/services. Property tax (Table C-4) and sales tax (Table C-5) were estimated based on case study analysis. State shared revenue factor was modified, based on State data, to reflect that apportionments are based entirely on population, i.e., residential development.

(3) Includes Fines & Forfeitures, Use of Money & Property, Other Revenues & Financing Sources, and IF Transfers-In.

(4) The equivalency factor for Fire was adjusted to account for: 1) high proportion of daily calls for medical emergencies, which are typically made by residences, and 2) hiring of 5 new fire fighters, whose full annual salaries are not reflected in the FY99-00 budgeted expenditures since the positions are added in May.

(5) Expenditures on General Government and Non-Departmental Expenses are assumed to be 50% fixed.

(6) Includes Non-Departmental expenditures, Capital Projects, and Debt Service.

Sources: City of Tracy Adopted Budget FY99-00; Economic and Planning Systems, Inc.

FINDINGS

The results of the analysis are summarized in **Table 9.** Overall, the impact of the Proposed Initiative on the City's net operating balance is projected to be insignificant. The primary effect of the Proposed Initiative would be to reduce residential development. In isolation, this type of development typically has a slight negative impact on a City's operating budget, due primarily to Proposition 13 and other State measures, which have constrained city governments' property tax revenue in California. However, the combination of residential development and affiliated retail and services development in Tracy has consistently produced a balanced General Fund, largely due to the widespread use of Landscape and Lighting Districts and other financing mechanisms, which effectively internalize the costs of servicing new development.

The cumulative fiscal impact of the Proposed Initiative is projected to be a net loss of about $800,000 over the 15-year period analyzed. By Fiscal Year 2014/15, the fiscal impact would be a net loss of approximately $210,000 on an annual basis. In practical terms, this is a very modest amount.

Although revenues will be more modest under the Proposed Initiative than those accruing under the present regulatory environment, service demands will also be lower. Charges for Services, a category largely comprised of revenues from development processing fees, is projected to account for over 20 percent of the City's current fiscal year (1999-2000) revenues. A reduction in development would reduce revenues from Charges for Services, which are set to offset costs, and would likely result in a reduction in City staff associated with development-related services, (e.g., plan check, building inspection, etc.).

CAPITAL FACILITIES FUNDING ANALYSIS

The discussion below evaluates the potential impact that the Proposed Initiative would have on Community Facilities District No's. 98-1 & 98-3, as well as the City's Development Impact Fee and Capital Improvement Programs.

OVERVIEW & METHODOLOGY

In developing this analysis of the capital funding impacts, the following assumptions were made regarding the assignment of RGAs and issuance of building permits:

- RGAs and building permits would be issued to the extent available based upon the City's ability to issue ECU's for water supply and treatment and wastewater conveyance and treatment capacity each year.

Table 9
Fiscal Impact of New Development (through FY14-15)
Tracy Initiative Impact Analysis (2)

Item	Annual Budget at Buildout (1) No Initiative	Annual Budget at Buildout (1) With Initiative	Fiscal Impact at Buildout Annual FY14-15	Fiscal Impact at Buildout Cumulative FY00-01 to FY14-15
Revenues				
Property Tax	$9,439,622	$7,859,613	($1,580,008)	($6,266,977)
Sales Tax	6,913,391	6,386,622	(526,769)	(2,089,386)
Other Taxes	1,589,715	1,397,425	(192,290)	(762,704)
Operating Assessments	294,955	259,270	(35,685)	(141,542)
License & Permit Fees	3,266,434	2,871,321	(395,113)	(1,567,184)
Franchise Fees	1,686,205	1,482,227	(203,978)	(809,062)
State Shared Revenues	4,442,437	3,835,242	(607,195)	(2,408,391)
Other Grants	2,283,712	2,007,475	(276,237)	(1,095,671)
Current Charges	8,850,465	7,779,913	(1,070,551)	(4,246,256)
Other Revenue Sources	1,149,312	1,010,305	(139,007)	(551,361)
Subtotal Revenues	$39,916,248	$34,889,414	(5,026,834)	(19,938,536)
Expenditures				
Police	$12,716,648	$11,178,414	($1,538,234)	($6,101,283)
Fire	6,581,264	5,645,786	(935,478)	(3,710,497)
Public Works	4,865,716	4,277,157	(588,559)	(2,334,471)
Parks & Community Services	5,321,754	4,678,046	(643,708)	(2,553,218)
Development & Engineering	2,491,966	2,190,532	(301,434)	(1,195,614)
General Government	2,264,326	2,094,633	(169,693)	(673,073)
Other Expenditures	4,156,370	3,668,644	(487,725)	(1,934,523)
Subtotal Expenditures	$38,398,043	$33,733,212	($4,664,831)	($18,502,679)
Balance	$1,518,205	$1,156,202	($362,003)	($1,435,856)
Sales TaxAdjustment (3)	$0	$153,258	$153,258	$607,887
Adjusted Balance	$1,518,205	$1,309,460	($208,745)	($827,969)

(1) Amounts shown are in constant 1999 $. Represents estimated fiscal impact ONLY of new units built between FY99-00 and FY09-10 that would be affected by Tracy ballot initiative (see Table C-1). Actual costs and revenues in FY09-10 would also include other new new development not forecasted in this analysis (e.g., industrial/distr., office, etc.).

(2) Refers to provisions of ballot initiatives initiated by Citizens Alliance for Public Planning. Assumes that if CAPP initiatives pass, significant additional housing demand will shift to Tracy.

(3) Sales & property tax adjustment accounts for the fact that although new households may be displaced from Tracy to nearby communities by growth controls, they will continue to make many of their retail purchases in Tracy, which has a regional mall. Assumes displaced households continue to make 15% of their retail purchases in Tracy, and that 95% of these are taxable, since most non-taxable retail (e.g., groceries and pharmaceuticals) will continue to be made locally (i.e., outside Tracy).

Source: City of Tracy Adopted Budget Fiscal Year 1999-2000; Economic and Planning Systems

- Those projects with vested development rights would receive first priority for the assignment of RGAs and would be issued building permits on a first-come, first-served basis (within the limits allowed) if forecasted demand is greater than the number of RGAs and building permits that could be allocated in any year.

- Market demand will be captured by those projects with the ability to develop.

- In the future, proposed RGA allocations will not be requested until just prior to the application for a building permit, particularly if it is anticipated that there will be RGA allocations available for vested projects.[9]

The passage of the Initiative may result in an increase in the development rate for those "vested" projects which have the ability to secure RGAs and building permits over the rate at which they would develop under a pure market-driven development scenario. Moreover, the Proposed Initiative would likely delay development of those projects without vested rights (vesting tentative maps or development agreements) on the date of the Proposed Initiative's passage, if the demand for RGAs and building permits is greater than the limits allowed by the Proposed Initiative.

RGA AND BUILDING PERMIT ALLOCATIONS

It is assumed that properties with vested rights will continue to be governed under the City's existing Growth Management Ordinance, whereby their ability to obtain RGAs and building permits would remain at the current levels.[10] As shown by **Table 10**, there are approximately 7,100 single family parcels within the City of Tracy that have vested rights.

Table 10
City of Tracy Parcels with Vested Rights

Development Name	Residential Parcels
RSP / Infill Properties	375
Presidio / Bank of America Subdivisions	935
I-205 Properties	300
Plan C - CFD 98-1 Residential Subdivisions	4,242
Plan C - Other Residential Subdivisions	632
Other Subdivisions	600
Total	7,084

[9] The assumption is made as a result of the recently adopted requirement that a deposit equal to 30% of the estimated development impact fees that would be collected at the issuance of a building permit be paid at the time the RGA is issued.
[10] The present GMO allows a maximum annual allocation of 1,500 RGAs and building permits and an annual average of 1,200 RGAs and building permits.

Of these 7,084 existing and proposed single family parcels with vested rights, there are 1,940 parcels that have been allocated RGAs that have not applied for building permits. The ability to obtain additional RGAs, in the near term, will be influenced by the ability of property owners to obtain ECUs for water and sewer service. The City estimates, based upon available water and sewer capacity, that there are approximately 1,000 additional ECUs available until the planned expansion upgrades to the City's water (supply and treatment) and wastewater (conveyance and treatment) facilities are completed. Because sufficient ECUs must exist prior to the issuance of building permits, it is assumed that the critical path for developing single family residential parcels will be the ability to obtain building permits.

Table 11 evaluates the impact on the residential building permit allocations under the Proposed Initiative. As discussed earlier in this report, there will be a negative impact on the ability of residential development projects to obtain building permits[11] beginning in 2009. This is the year in which the single family projects with vested rights are projected to have been completely developed, and the requirements of the revised Proposed Initiative would thereafter require a reduction in the issuance of new building permits. Under the Proposed Initiative, the City would not be able to issue additional residential building permits until the annual average drops back below 600. Since the average issuance of building permits is not projected to drop below 600 until 2011, the City would not have the ability to issue any new residential building permits for a period of approximately two years after 2009.

COMMUNITY FACILITIES DISTRICTS NO. 98-1 & 98-3

Table 12 presents the projected impact that the proposed Growth Management Ordinance has on Community Facilities District (CFD) No. 98-1 and CFD No. 98-3. CFD No. 98-1 has authorization to issue up to $63,100,000 in bonds to pay for water storage facilities, water treatment facilities and wastewater treatment facilities to support the approximately 6,000 single family homes planned within CFD 98-1. To date CFD 98-1 has issued $11,895,000 in bonds. Because the properties within CFD 98-1 have vested rights to develop, they will be able to apply for their RGAs and obtain building permits under the existing Growth Management Ordinance rules. Therefore they will not be negatively impacted by the Proposed Initiative.

As shown in **Table 12**, it is anticipated that there will be a seven-year period where undeveloped properties within the District will be required to pay special taxes in order to collect the level of revenue needed for annual debt service payments. The total estimated amount of undeveloped land special tax payments that may need to be made is approximately $6,000,000 over that seven-year period. However, if the City elects to

[11] Assumes that ECUs would be available during the preceding period.

Table 11
Projected Permit Issuance in City of Tracy under Proposed Initiative
Tracy Initiative Impact Analysis

Item	Calendar Year														
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Permit Issuance Citywide															
Market Demand for Permits (1)	1,072	819	726	695	642	604	688	799	894	1,027	958	992	1,027	1,064	1,101
Permits Subject to Current Ordinance (2)															
Maximum No. of Permits Allowable Annually	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,039	145	0	0	0	0	0
Annual No. of Permits Issued	1,072	819	726	695	642	604	688	799	894	145	0	0	0	0	0
Additional Permits Allowed under Proposed Initiative (2)															
Maximum No. of Permits Allowable Annually	0	0	0	0	0	0	0	0	0	0	0	116	600	600	600
Annual No. of Permits Issued	0	0	0	0	0	0	0	0	0	0	0	116	600	600	600
All Permits Issued (2)															
Annual Permits Issued	1,072	819	726	695	642	604	688	799	894	145	0	116	600	600	600
Cumulative Permits Issued	1,072	1,891	2,617	3,312	3,954	4,558	5,246	6,045	6,939	7,084	7,084	7,200	7,800	8,400	9,000
Average No. of Permits Issued per Year	915	876	833	803	773	747	739	746	762	703	0	600	600	600	600
Market Demand Not Met	0	0	0	0	0	0	0	0	0	882	958	876	427	464	501
Permit Issuance by Project															
RSP/Infill Properties	79	62	41	37	34	32	39	49	2	0	0	25	50	50	0
Presidio/Bank of America Subdivisions	196	156	141	123	104	85	91	39	0	0	0	0	0	0	0
I-205 Properties	47	37	34	36	35	29	31	35	16	0	0	0	0	0	0
Plan C - CFD 98-1 Residential Subdivisions	436	364	369	381	367	364	432	513	871	145	0	0	0	0	0
Plan C - Other Residential Subdivisions	264	150	91	68	52	7	0	0	0	0	0	0	0	0	0
Other Subdivisions	50	50	50	50	50	87	95	163	5	0	0	91	550	550	600
Total Permits Issued	1,072	819	726	695	642	604	688	799	894	145	0	116	600	600	600

(1) See Chapter II for a complete discussion of the residential demand projection. It is assumed that, in any one year, permits requested will not exceed market demand.
(2) As shown in Table 10, even under the Proposed Initiative, 7,084 currently vested units would still be covered by the Current Ordinance.
These units would receive de facto priority in the allocation of permits. Additional units would be subject to the new restrictions under the Proposed Intiative
and permits could only be issued once the annual average permit issuance drops to 600 units per year for the period commencing in July 1999. The average annual
issuance of units can subsequently not exceed 600 units, effectively placing a cap of 600 units on new permits issued.

Source: Berryman & Henigar.

Table 12
Analysis of Community Facilities District Nos. 98-1 and 98-3 under Proposed Initiative (constant 1999 dollars)
Tracy Initiative Impact Analysis

	Calendar Year										
Item	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**Total**
Plan C - CFD 98-1 Residential Properties											
Permit Issuance											
Cummulative Permits Issued in Prior Years	328	764	1,128	1,497	1,878	2,245	2,609	3,041	3,554	4,425	--
Permits Issued Current Year	436	364	369	381	367	364	432	513	871	145	--
Total Permits Issued	764	1,128	1,497	1,878	2,245	2,609	3,041	3,554	4,425	4,570	--
Community Facilities District Revenue											
Annual Maximum Revenue from Developed Properties	1,124	1,204	1,192	1,184	1,197	1,204	1,185	1,171	1,093	1,314	--
($1,080/Parcel in 98/99 + 2% inc. per year over inflation)	$858,455	$1,358,156	$1,783,682	$2,223,680	$2,687,074	$3,142,367	$3,602,970	$4,160,552	$4,835,924	$6,005,541	$30,658,401
Annual Revenue Needed:											
1st Bond Issue of $11,895,000	$773,318	$788,068	$801,768	$819,368	$835,580	$850,343	$868,593	$885,078	$904,738	$922,413	$8,449,263
2nd Bond Issue of $16,600,000	$0	$1,099,783	$1,118,902	$1,143,464	$1,166,089	$1,186,691	$1,212,159	$1,235,165	$1,262,601	$1,287,268	$10,712,122
3rd Bond Issue of $17,200,000	$0	$0	$1,159,344	$1,184,794	$1,208,237	$1,229,583	$1,255,972	$1,279,809	$1,308,237	$1,333,795	$9,959,772
4th Bond Issue of $12,400,000	$0	$0	$0	$0	$871,054	$886,444	$905,468	$922,653	$943,148	$961,573	$5,490,341
Total Revenue Needed	$773,318	$1,887,851	$3,080,014	$3,147,625	$4,080,960	$4,153,060	$4,242,193	$4,322,705	$4,418,724	$4,505,049	$34,611,498
CFD Tax Levy from Developed Properties	$773,318	$1,358,156	$1,783,682	$2,223,680	$2,687,074	$3,142,367	$3,602,970	$4,160,552	$4,418,724	$4,505,049	$28,655,572
CFD Tax Levy from Undeveloped Properties	$0	$529,694	$1,296,332	$923,944	$1,393,886	$1,010,693	$639,223	$162,153	$0	$0	$5,955,926
Total CFD Tax Levy	$773,318	$1,887,851	$3,080,014	$3,147,625	$4,080,960	$4,153,060	$4,242,193	$4,322,705	$4,418,724	$4,505,049	$34,611,498
Plan C - CFD 98-3 Residential Properties											
Permit Issuance											
Cummulative Permits Issued in Prior Years	162	262	326	376	388	388	388	388	388	388	--
Permits Issued Current Year	100	64	50	12	0	0	0	0	0	0	--
Total Permits Issued	262	326	376	388	388	388	388	388	388	388	--
Community Facilities District Revenue											
Maximum Revenue from Developed Properties ($900/Parcel)	$235,800	$293,400	$338,400	$349,200	$349,200	$349,200	$349,200	$349,200	$349,200	$349,200	$3,312,000
Annual Revenue Needed:											
1st Bond Issue of $4,025,000	$292,318	$293,268	$288,993	$289,718	$290,218	$290,493	$290,543	$295,253	$294,378	$293,138	$2,918,315
CFD Tax Levy from Developed Properties	$235,800	$293,268	$288,993	$289,718	$290,218	$290,493	$290,543	$295,253	$294,378	$293,138	$2,861,798
CFD Tax Levy from Undeveloped Properties	$56,518	$0	$0	$0	$0	$0	$0	$0	$0	$0	$56,518
Total CFD Tax Levy	$292,318	$293,268	$288,993	$289,718	$290,218	$290,493	$290,543	$295,253	$294,378	$293,138	$2,918,315

Source: Berryman & Henigar.

allow the sale of additional bonds up to the $63,100,000 limit, funding of capitalized interest could reduce the amount of special taxes paid by undeveloped properties to approximately $2,000,000.[12]

One factor that influences this analysis is the timing of water and wastewater projects. If these projects, which are being funded in part by the District, are delayed, development would not occur at the rates projected because of the inability of developers to obtain ECUs. Under this scenario, the burden on the undeveloped properties could be significantly increased.

Since the proposed 388 single family parcels included within CFD 98-3 also have vested development rights, the impact of the Proposed Initiative on those parcels would be similar to the above discussion regarding CFD 98-1, and the Proposed Initiative would have little direct impact. The greatest risk to parcels within CFD 98-3, since they have already funded their share of costs for the water and wastewater capital improvement projects, would be if the future bond sales in CFD 98-1 are delayed for any reason (i.e., of the Initiative changes the perception of the City among homebuilders and/or homebuyers). If the completion of the water and wastewater improvements are delayed, the undeveloped properties in both CFD 98-1 and 98-3 could be required to carry a greater portion of the debt service than originally planned.

DEVELOPMENT IMPACT FEES

Table 13 evaluates the impact that the Proposed Initiative would have on the generation of Development Impact Fee revenue.

Projects which, under the assumptions of this analysis, have vested rights, will be able to proceed with their projects and apply for RGAs and building permits under the development limits of the existing Growth Management Ordinance and, therefore, will not be impacted by the Proposed Initiative. As shown in **Table 13**, a reduction in Development Impact Fee revenue from the Proposed Initiative will not occur until the year 2009. The projected reduction in fees is projected to be approximately $17,900,000 (in 1999 dollars) from 2009 through 2014. Since the City's Capital Improvement Program does not extend out to this period, it is not possible to identify the specific projects that would be impacted. However, there is no question that there will be a delay in the City's ability to fund some projects in the future that are of interest to residents because of this loss of impact fee revenues. Although there would be a reduction in the development impact fees collected and a delay in completing projects funded by those fees, it could be argued that because development impact fees are collected to pay only for facilities needed to accommodate growth, there would be no net impact on the City.

[12] It is important to note that the total amount available to fund capitalized interest could be impacted if construction bids come in above the construction cost estimate. If this were to occur it would require additional bonding to support the increase in construction costs and reduce the amount available for capitalized interest.

Table 13
Projected Development Impact Fee Impacts Under Proposed Initiative (constant 1999 dollars)
Tracy Initiative Impact Analysis

Item	Calendar Year 2009	2010	2011	2012	2013	2014	Total
Roadway Impact Fees							
Total Original Estimated Roadway Impact Fee Revenue	$2,651,714	$2,473,556	$2,561,344	$2,651,714	$2,747,248	$2,842,782	$31,002,074
Total Revised Estimated Roadway Impact Fee Revenue	$374,390	$0	$299,512	$1,549,200	$1,549,200	$1,549,200	$21,688,800
Approximate (Shortfall)/Surplus at $2,582 per RGA	($2,277,324)	($2,473,556)	($2,261,832)	($1,102,514)	($1,198,048)	($1,293,582)	($9,313,274)
Public Building Impact Fees							
Total Original Estimated Public Building Impact Fee Revenue	$1,807,520	$1,686,080	$1,745,920	$1,807,520	$1,872,640	$1,937,760	$21,132,320
Total Revised Estimated Public Building Impact Fee Revenue	$255,200	$0	$204,160	$1,056,000	$1,056,000	$1,056,000	$14,784,000
Approximate (Shortfall)/Surplus at $1,760 per RGA	($1,552,320)	($1,686,080)	($1,541,760)	($751,520)	($816,640)	($881,760)	($6,348,320)
Storm Drain Impact Fees							
Total Original Estimated Storm Drain Impact Fee Revenue	$1,514,825	$1,413,050	$1,463,200	$1,514,825	$1,569,400	$1,623,975	$17,710,325
Total Revised Estimated Storm Drain Impact Fee Revenue	$213,875	$0	$171,100	$885,000	$885,000	$885,000	$12,390,000
Approximate (Shortfall)/Surplus at $1,475 per RGA	($1,300,950)	($1,413,050)	($1,292,100)	($629,825)	($684,400)	($738,975)	($5,320,325)
Park Impact Fees							
Total Original Estimated Park Impact Fee Revenue	$5,091,866	$4,749,764	$4,918,336	$5,091,866	$5,275,312	$5,458,758	$59,530,706
Total Revised Estimated Park Impact Fee Revenue	$718,910	$0	$575,128	$2,974,800	$2,974,800	$2,974,800	$41,647,200
Approximate (Shortfall)/Surplus at $4,958 per RGA	($4,372,956)	($4,749,764)	($4,343,208)	($2,117,066)	($2,300,512)	($2,483,958)	($17,883,506)

Source: Berryman & Henigar.

KEY FINDINGS: IMPACTS ON DEVELOPMENT FEASIBILITY

Passage of the Initiative would have little short term impact on the pace of residential development within the City of Tracy, because of the significant number of projects which would have "vested" development rights. Based upon the projected demand for new residential housing units, development could continue for several years at current rates until this backlog is used up.

Because of the limitations on the average maximum annual number of RGAs or building permits that can be issued under the Proposed Initiative, there would be a short period after the "vested" development rights had been exhausted during which the City would not be able to issue any new residential building permits, in order to bring the average annual number of building permits issued back down below the 600 permit annual average maximum of the Proposed Initiative.

Once the City is again able to begin issuing future building permits, the Proposed Initiative would result in a reduction in the pace of development to a maximum of 600 units per year, which is less than the projected housing demand in the City. This may make some projects financially infeasible since projects could not be developed or built quickly enough to cover the financing costs for the construction of the on-site infrastructure and other improvements over the life of the project. In addition, it would increase competition among developers for limited RGAs and building permits within the City and may eliminate some developers from the City's housing market.

Because of the vested development rights for most of the properties within CFDs 98-1 and 98-3, there is projected to be little or no impact on the security of the Districts as a result of passage of the Initiative.

Since there would be no reduction in development in the short-term, there would be no significant impact on the City's existing five-year CIP program. The forecasted reduction in the collection of development impact fees in the outlying years would delay future projects, but the exact extent of that impact cannot be evaluated other than identifying the funding short-fall in "lost" development impact fees over the 2000-2014 period.

The reduction in development impact fees collected as a result of the Initiative may have a negative impact on the City if the Proposed Initiative displaces development to unincorporated areas immediately adjacent to the City, particularly if such residents make intensive use of City parks, transportation, or other facilities.

V. OTHER IMPACTS OF THE PROPOSED INITIATIVE

This chapter reviews the Proposed Initiative's potential impact on the overall form of the City, the efforts of the City to attract major employers, and effects on the County, among other concerns raised by the City.

GENERAL GROWTH IMPLICATIONS

The Proposed Initiative will reduce the rate of development. It does not include provisions affecting the qualitative nature of development, such as form or location. As a result, the Initiative would not have a direct impact on the urban form of the City of Tracy or on specific projects, beyond indirect impacts associated with the rate and pricing of development.

In regards to pricing, a limitation on the amount of supply permitted by the City would cause price points to rise. In approximate terms, the effect of the Initiative will be to push average development rates about 30 percent lower (at 600 units per year) than the market would otherwise deliver over the next 15 years (about 870 units per year). Based on Tracy's location, it has a greater ability than any other city in its Market Area to target the upper end of the Central Valley market. Based on the industry analysis conducted for this study, including numerous interviews with the building industry, a likely outcome is indeed a gradual upward shift in both product and price points, with a shift of less expensive product to locations such as Manteca and Lathrop.

If the bottom third of the market were displaced to these cities, the average price of new homes would increase, over and above baseline market appreciation, by about 10 percent to approximately $275,000 (in constant 1999 dollars)—the price of active projects now being marketed in the Hidden Lakes area. As a result, Tracy would become a more exclusive residential market for both new and existing homes, requiring an average household income of $77,000 to qualify for the average new home.[13] While rising values may benefit existing home owners, it would have the effect of excluding lower-paid retail and service workers from market entry, forcing them to commute from other points north, east, and south.

Such a price increase would therefore appear to be contradictory to the City's goals expressed in the Housing Element of the General Plan, including:

> HO 1: A diversity of housing opportunities that satisfy the physical, social, and economic needs of Tracy residents.
>
> HO 3: Housing affordable to all economic segments of the community.

[13] Assumes 10 percent down payment, 35 percent of household income dedicated to principal, interest, taxes, and insurance, and 7.75 percent interest per annum on a 30-year fixed rate loan.

However, it should be noted that current trends show that prices will rise with or without the Proposed nitiative, although the Proposed Initiative would likely expedite the rate and magnitude of increase. Moreover, the current development climate has not resulted in construction of substantial numbers of low income housing units in the Tracy area. Therefore, the Proposed Initiative would likely only strengthen the City's trend toward rising prices and rents, which could be countered only by increased resolve by the City to strengthen policies to ameliorate the region's low and moderate income housing shortage.

ANTICIPATED ECONOMIC DEVELOPMENT

The development of employment-generating development in the City of Tracy is partially dependent on residential development occurring in both the City and the region. In particular, retail and professional services are highly dependent on local population growth, as discussed in **Chapter III**.

The regional development of office, R&D, manufacturing, and assembly facilities associated with Silicon Valley's high-tech firms will occur as the supply of high-skill, well-educated employees residing in the region increases. It is very likely that numerous high-value multi-tenant and campus-scale projects will be developed in western San Joaquin County over the next 10 years.

As discussed in **Chapter III** and elsewhere in this report, the Initiative will not change the fundamental structure of the regional economy. To the extent that development is displaced from Tracy, communities such as Mountain House and other cities located in the region will capture this growth. Thus, the size or quality of the regional labor force is unlikely to be adversely impacted by the Initiative.

It is therefore unlikely that the Proposed Initiative would have any discernible effect on the development of regional office and R&D projects in Tracy. Rather, such projects will be developed on the basis of the size and quality of the regional labor force, as well as the quality of specific development opportunities in Tracy and other locations. Ensuring that Tracy offers high quality, master planned office / R&D real estate opportunities is much more important than the reduction in the rate of development that would result from the Proposed Initiative.

SCHOOL IMPACTS

The school districts in Tracy have been invited to submit comments to the City regarding potential impacts from the Initiative. Although this report does not include an independent analysis of such impacts, school responses received have been placed in **Appendix E** of this report.

COUNTY IMPACTS

The County of San Joaquin stands to benefit from the Proposed Initiative in two ways. First, the passage of the Proposed Initiative would directly improve the performance of the unincorporated Mountain House project located approximately five miles northwest of Tracy. Mountain House's absorption could increase by an estimated 1,670 units over the 2002-2014 period, as a result of the Proposed Initiative.

Second, the County's General Fund would likely incur a modest improvement as a result of a shift of development to Mountain House. As a basic tenet of Mountain House's development, the project must be self-sustaining both in terms of annual operations and capital facilities. In contrast, residential development occurring in the County's cities typically results in a net fiscal deficit to the County.