

AGENDA

CITY OF WATSONVILLE

CITY COUNCIL MEETING

Opportunity Through Diversity; Unity Through Cooperation.



The City of Watsonville is dedicated to improving the economic vitality, safety & living environment for the culturally rich Watsonville community, by providing leadership for the achievement of community goals & high quality, responsive public services.

Francisco Estrada, Mayor, District 4
Rebecca J. Garcia, Mayor Pro Tempore, District 5

Felipe Hernandez, Council Member, District 1
Aurelio Gonzalez, Council Member, District 2
Lowell Hurst, Council Member, District 3
Trina Coffman-Gomez, Council Member, District 6
Ari Parker, Council Member, District 7

Matt Huffaker, City Manager
Alan J. Smith, City Attorney
Beatriz Vázquez Flores, City Clerk

City Council Chambers
275 Main Street, Top Floor
Watsonville, CA 95076

Spanish language interpretation is available

Americans with Disabilities Act



The Council Chambers is an accessible facility. If you wish to attend a meeting and you will require assistance in order to attend and/or participate, please call the City Clerk's Office at least five (5) days in advance of the meeting to make arrangements. The City of Watsonville TDD number is (831) 763-4075.

Meetings are streamed live via the City's website and archived thereafter. Meeting are also televised live on Charter Cable Communications Channel 70 and AT&T Channel 99 and re-broadcast on Thursday at 5:00 p.m. and Saturday at 8:00 a.m. the same week of the meeting.

For information regarding this agenda, please call the City Clerk's Office at (831) 768-3040.

AGENDA PACKET

4:30 p.m.

Anyone Addressing the City Council is asked to fill out a blue card and leave it at the podium for recording purposes

(IF YOU CHALLENGE ANY ACTION APPEARING ON THIS AGENDA IN COURT, YOU MAY BE LIMITED TO RAISING ONLY THOSE ISSUES YOU OR SOMEONE ELSE RAISED AT THE PUBLIC MEETING DESCRIBED ON THIS AGENDA, OR IN WRITTEN CORRESPONDENCE DELIVERED TO THE CITY CLERK PRIOR TO, OR AT, THE PUBLIC MEETING.)

1. ROLL CALL**2. REPORTS TO COUNCIL -- No Action Required****A. [PRESENTATION BY THE WATSONVILLE POLICE DEPARTMENT REGARDING THE PINK PATCH PROJECT RESULTS \(5 MINUTES\)](#)**

Requested by: Police Department

3. CONSENT AGENDA

All items appearing on the Consent Agenda are recommended actions which are considered to be routine and will be acted upon as one consensus motion. Any items removed will be considered immediately after the consensus motion. The Mayor will allow public input prior to the approval of the Consent Agenda.

Public Input on any Consent Agenda Item**A. MOTION APPROVING MINUTES OF FEBRUARY 12, 2019**

Attachments: Minutes

B. [RESOLUTION AWARDING CONTRACT TO MESITI-MILLER ENGINEERING, INC., FOR PRELIMINARY DESIGN OF THE LEE ROAD TRAIL PROJECT NO. CT-19-01, IN AN AMOUNT NOT TO EXCEED \\$156,704](#)

Requested by: Public Works & Utilities Director Palmisano

Attachments: [Contract w MME for Lee Rd Trail Project - Report](#)
[Contract w MME for Lee Rd Trail Project - Resolution](#)

4. ITEMS REMOVED FROM CONSENT AGENDA

5. NEW BUSINESS

A. [CLIMATE ACTION PLAN PROGRESS REPORT](#)

Requested by: Public Works & Utilities Director Palmisano

Attachments: [Climate Action Plan 2018 Progress Report - Report](#)

- 1) Staff Report
- 2) City Council Questions
- 3) Public Input
- 4) City Council Discussion
- 5) Motion Accepting the Climate Action Plan 2018 Progress Report & Directing Staff to Continue Coordinating with Climate Action Partners & Assessing 2030 Climate Action Goals

B. [CONSIDERATION OF ON-BILL FINANCING LOAN DOCUMENTS, CONTRACTOR WORK ORDER AGREEMENTS & AUTHORIZATION OF PARTICIPATION IN THE DIRECT INSTALL PROGRAM THROUGH THE ASSOCIATION OF MONTEREY BAY AREA GOVERNMENTS \(AMBAG\) ENERGY WATCH DIRECT INSTALL PROGRAM TO IMPLEMENT THE CITY-WIDE ENERGY EFFICIENT LED LIGHTING RETROFIT](#)

Requested by: Public Works & Utilities Director Palmisano

Attachments: [AMBAG Energy Watch Program - Report](#)
[AMBAG Energy Watch Program - Resolution](#)

- 1) Staff Report
- 2) City Council Questions
- 3) Public Input
- 4) City Council Discussion

- 5) Resolution Approving the Form of Local Agency & District Customers On-Bill Financing Loan Agreement, Contractor Work Order Agreement; Authorizing Participation in the Direct Install Program Through the Association of Monterey Bay Area Governments (AMBAG) Energy Watch Direct Install Program to Implement the City-Wide Energy Efficient LED Lighting Retrofit at Twenty-Seven City Facilities; & Authorizing & Directing the City Manager to Execute any and all Required Documents

C. CONSIDERATION OF ENDORSEMENT OF CLIMATE COMMITMENT REQUESTING REGIONAL COLLABORATION ON A MOBILIZATION EFFORT TO RESTORE A SAFE CLIMATE

Requested by: Public Works & Utilities Director Palmisano

Attachments: [Climate Commitment - Report](#)
[Climate Commitment - Resolution](#)

- 1) Staff Report
- 2) City Council Questions
- 3) Public Input
- 4) City Council Discussion
- 5) Resolution Endorsing Climate Commitment by the City of Watsonville & Requesting Regional Collaboration on a Mobilization Effort to Restore a Safe Climate

5:30 p.m.

6. CLOSED SESSION

(City Council Conference Room, 275 Main Street, 4th Floor)

A. CLOSED SESSION AGENDA

Attachments: [CLOSED SESSION AGENDA](#)

- (a) Public Comments regarding the Closed Session agenda will only be accepted by the City Council at this time.
- (b) Closed Session Announcement
The City Council will now recess to discuss those items listed on the Closed Session Statement attached to the Agenda.

6:30 p.m.

7. ROLL CALL**8. PLEDGE OF ALLEGIANCE****9. PRESENTATIONS & ORAL COMMUNICATIONS**

(This time is set aside for members of the general public to address the Council on any item not on the Council Agenda, which is within the subject matter jurisdiction of the City Council. No action or discussion shall be taken on any item presented except that any Council Member may respond to statements made or questions asked, or may ask questions for clarification. All matters of an administrative nature will be referred to staff. All matters relating to Council will be noted in the minutes and may be scheduled for discussion at a future meeting or referred to staff for clarification and report. Any Council Member may place matters brought up under Oral Communications on a future agenda. ALL SPEAKERS ARE ASKED TO FILL OUT A BLUE CARD & LEAVE IT AT THE TABLE DESIGNATED NEAR THE PODIUM, GO TO THE PODIUM AND ANNOUNCE THEIR NAME AND ADDRESS IN ORDER TO OBTAIN AN ACCURATE RECORD FOR THE MINUTES.

A. [INTRODUCTION OF GOVERNMENT DIGNITARIES FROM ÇAVTAT, KONAVLE, REPUBLIC OF CROATIA \(WATSONVILLE'S SISTER CITY\) & EXECUTION OF AGREEMENT OF COOPERATION](#)

Attachments: [Konavle Agreement](#)

B. [MAYOR'S PROCLAMATION DECLARING MARCH 2019 AS RED CROSS MONTH & ENCOURAGING ALL AMERICANS TO SUPPORT THIS ORGANIZATION & ITS NOBLE HUMANITARIAN MISSION](#)

C. [PRESENTATION BY AIRPORT DIRECTOR WILLIAMS & CLOWNBANK STUDIOS' PETER BARTCZAK REGARDING AIRPORT HANGAR MURAL \(10 MINUTES\)](#)

Requested by: Airport Director Williams

D. [ORAL COMMUNICATIONS FROM THE PUBLIC & CITY COUNCIL](#)

E. [REPORT OUT OF CLOSED SESSION](#)

10. PUBLIC HEARINGS, ORDINANCES, & APPEALS

A. [CONSIDERATION OF COMPREHENSIVE ANNUAL FINANCIAL REPORT & MEASURE G REPORT FOR THE FISCAL YEAR ENDED 2017/18, IMPACT FEES REPORT FOR THE FISCAL YEAR 2017/18, & 2018-19 MID YEAR FINANCIAL REPORT](#)

Requested by: Administrative Services Director Czerwin

Attachments: [Mid Year Financial Report 2018-19 - Report](#)
[Emergency Reserve - Resolution](#)
[Advance Payables \(Long Term Interfund Loans\) - Resolution](#)
[Budget Appropriations - Resolution](#)

- 1) Staff Report
- 2) City Council Questions
- 3) Public Hearing
- 4) City Council Discussion
- (5) Motion Accepting Comprehensive Financial Report for FY 2017-18
- (6) Motion Accepting Annual Measure G Audit Report for FY 2017-18
- (7) Motion Accepting Impact Fee Report for FY 2017-18
- (8) Motion Accepting Mid-Year Financial Report FY 2018-19:
- (9) Motion Accepting Mid-Year Staffing Changes for FY 2018-19
- (10) Resolution Committing \$1,500,000 of Available Fund Balance to the Emergency Reserve
- (11) Resolution Amending 2018-2019 Budget for Fiscal Year 2018-2019 to Authorize Certain Budget Appropriations
- (12) Resolution Approving Advance Payables (Long Term Interfund Loans) Identified in the Audited Financial Statements in Accordance With City's Interfund Loan & Transfer Policy

B. [INTRODUCTION OF UNCODIFIED ORDINANCE ADDING THE ATKINSON LANE/PIPPIN REORGANIZATION TERRITORY DESCRIBED IN SANTA CRUZ COUNTY LOCAL AGENCY FORMATION COMMISSION CERTIFICATE OF COMPLETION NO. 963 \(LAFCO NO. 963\) TO CITY COUNCIL DISTRICT NO. 6](#)

Requested by: City Attorney Smith

Attachments: [Atkinson LnPippin Reorganization Territory - Report](#)
[Atkinson LnPippin Reorganization Territory - Ordinance](#)

- 1) Staff Report
- 2) City Council Questions
- 3) Public Hearing

- 4) City Council Discussion
- 5) Introduction of Uncodified Ordinance Adding the Atkinson Lane/Pippin Reorganization Territory Described in the Santa Cruz Local Agency Formation Commission Certificate of Completion No. 963 (LAFCO Resolution No. 963) to City Council District No. 6

11. NEW BUSINESS (Continued)

A. CONSIDERATION OF SOCIAL & COMMUNITY SERVICE GRANT PROGRAM APPLICATION PROCESS

Requested by: Deputy City Manager Vides

Attachments: [Social Community Service Grants FY19-20 and 20-21 - Report](#)

- 1) Staff Report
- 2) City Council Questions
- 3) Public Input
- 4) City Council Discussion
- 5) Motion Accepting Proposed Form Application for Consideration of Funding Social Service Programs During the Period of FY 2019/2020 & FY 2020/2021

12. EMERGENCY ITEMS ADDED TO AGENDA

13. REQUESTS & SCHEDULING FUTURE AGENDA ITEMS

14. ADJOURNMENT

Pursuant to Section 54954.2(a)(1) of the Government Code of the State of California, this agenda was posted at least 72 hours in advance of the scheduled meeting at a public place freely accessible to the public 24 hours a day and on the City of Watsonville website at www.cityofwatsonville.org.

Materials related to an item on this Agenda submitted to the Council after distribution of the agenda packet are available for public inspection in the City Clerk's Office (275 Main Street, 4th Floor) during normal business hours. Such documents are also available on the City of Watsonville website at www.cityofwatsonville.org subject to staff's ability to post the document before the meeting.



MINUTES JOINT REGULAR CITY COUNCIL/ PLANNING COMMISSION MEETING

February 12, 2019

**City of Watsonville
Council Chambers
275 Main Street, Top Floor**

4:05 P.M.

1. ROLL CALL

Mayor Estrada, Mayor Pro Tempore Garcia, and Council Members Coffman-Gomez (arrived at 4:11 p.m.), González, Hernandez (arrived at 4:11 p.m.), Hurst, and Parker were present.

Planning Commission Chair Kammer and Planning Commissioners Rodriguez, Sarmiento, Tavarez, and Veitch-Olson were present.

2. REPORTS TO COUNCIL – No Action Required

2.A. ETHICS TRAINING (ASSEMBLY BILL 1234)

CITY COUNCIL

6:01 p.m.

**City Council Chambers
275 Main Street, Top Floor**

3. CLOSED SESSION

(City Council Conference Room, 275 Main Street, 4th Floor)

- (a) Public Comments regarding the Closed Session agenda were accepted by the City Council at that time.
- (b) Closed Session Announcement
The City Council recessed the regular Council Meeting to discuss those items listed on the Closed Session Statement attached to the Agenda.

3.A. CONFERENCE WITH REAL PROPERTY NEGOTIATOR

(Government Code § 54956.8)

- 1. Property: 280 Main Street (APN: 017-182-16)
Negotiating parties: Matt Huffaker (City)
Navigator Schools, a corporation
Under Negotiation: Lease terms and conditions

3.B. PERSONNEL MATTERS

(Government Code Section 54957)

- 1. PUBLIC EMPLOYEE APPOINTMENT

Title: City Attorney

2. PUBLIC EMPLOYEE PERFORMANCE EVALUATION

Title: City Attorney

7:00 p.m.

4. **ROLL CALL**

Mayor Estrada, Mayor Pro Tempore Garcia, and Council Members Coffman-Gomez, González, Hernandez, Hurst, and Parker were present.

Staff members present were City Manager Huffaker, City Attorney Smith, City Clerk Vázquez Flores, Public Works & Utilities Director Palmisano, Police Chief Honda, Fire Chief Barreto, Airport Director Williams, Deputy City Manager Vides, Assistant Police Chief Sims, Fire Division Chief Lopez, Administrative Services Manager Gordo, Fire Captain Vojvoda, Senior Financial Analyst Duran, Assistant City Clerk Ortiz, Assistant Engineer Gregorio, Administrative Analyst Meyer, and Interpreter Vázquez-Quintero.

5. **PLEDGE OF ALLEGIANCE**

6. **INFORMATION ITEMS—Written Report(s) Only**

6.A. **REPORT OF DISBURSEMENTS**

6.B. **MISCELLANEOUS DOCUMENTS REPORT**

7. **PRESENTATIONS & ORAL COMMUNICATIONS (Continued)**

7.A. **ORAL COMMUNICATIONS FROM THE PUBLIC & CITY COUNCIL**

Steve Trujillo, District 7, announced that Joaquin “El Chapo” Guzman had convicted of drug trafficking and would serve life in prison. He spoke about Assembly Bill 11 which would incentivize creation of affordable housing. He invited the public to visit the Watsonville Public Library.

Gary Richard Arnold spoke about the threat of globalization and communism and accused several local public officials of participating in organizations that promote those goals.

Assistant Engineer Gregorio invited Council and public to the 16th Annual Egg Drop Event.

Dr. Nancy Bilicich, Pájaro River Watershed Flood Prevention Authority Member, announced that she had been appointed Vice Chair and gave updates on work being done to reinforce water infrastructure. She thanked the Parks & Community Services Department for replacing the medians on Bridge Street.

Victorius Alexander spoke about the importance of human rights and government transparency.

Member Parker commended the City for the median improvements on Bridge Street and thanked Assistant Public Works & Utilities Director Rodriguez for inspecting traffic safety in District 7.

Member Hurst thanked those who supported him through the passing of his mother.

Member Hernandez spoke about his participation in the Mayor's Bike Ride and in the 25th Annual Peace and Unity March.

Member Gonzalez spoke about his participation in the Santa Cruz Metropolitan Transit District Board of Directors Meeting. He also spoke about his meeting with Jennifer Panetta, Executive Directive at Santa Cruz County Housing Authority, regarding efforts to help landlords participate in the voucher program.

Member Coffman-Gomez invited the public to upcoming community events. She announced that the Fire Department would have sand bags available during heavy rain.

Mayor Pro Tempore Garcia spoke about her participation in Affordable Housing Santa Cruz County and their efforts to collaborate with other agencies to pursue affordable housing. She spoke about her meeting with Mary Cardenas, Executive Director of Santa Cruz Community Ventures, and their pursuit of savings accounts for children. She asked the public to replace their carbon monoxide alarms as they needed to be replaced every seven (7) years.

Mayor Estrada spoke about events he attended over the previous weeks and invited the public to upcoming Parks Master Plan Workshops. He offered to speak with youth at any school.

7.B. MAYOR'S PROCLAMATION COMMENDING PÁJARO VALLEY PREVENTION AND STUDENT ASSISTANCE FOR THEIR VALUABLE SERVICE AND DEVOTED COMMUNITY LEADERSHIP TO THE PÁJARO VALLEY

7.C. REPORT OUT OF CLOSED SESSION

City Attorney Smith reported that Council received reports on all items listed on the Closed Session Agenda, but took no action.

8. REPORTS TO COUNCIL (Continued)—No Action Required

8.A. STATE OF METRO BY SANTA CRUZ METROPOLITAN TRANSIT DISTRICT CHIEF EXECUTIVE OFFICER ALEX CLIFFORD

9. CONSENT AGENDA

Public Input on any Consent Agenda Item

In regards to Item 9.I., Gary Richard Arnold spoke negatively about the League of California Cities and asked Council not to be swayed by their lobbying efforts.

Victorius Alexander spoke favorably about Santa Cruz Metropolitan Transit District but asked that drivers receive classes on how to deal with the mentally ill.

Regarding Item 9.A., Council Member Hurst asked that the spellings of Mr. Sinnott and Janneke Strause's names be corrected.

MOTION: It was moved by Member Coffman-Gomez, seconded by Member Gonzalez and carried by the following vote to approve the Consent Agenda:

AYES: MEMBERS: Coffman-Gomez, García, González, Hernandez, Hurst,
Parker, Estrada
NOES: MEMBERS: None
ABSENT: MEMBERS: None

- 9.A. **MOTION APPROVING MINUTES OF JANUARY 22, 2019, MEETING**
- 9.B. **RESOLUTION NO. 15-19 (CM):
RESOLUTION ACCEPTING \$150,000 GRANT FROM CALIFORNIA GOVERNOR'S
OFFICE OF EMERGENCY SERVICES (OES) FOR THE FY2017 PRE-DISASTER
MITIGATION COMPETITIVE GRANT FOR THE PREPARATION OF A LOCAL
HAZARD MITIGATION PLAN**
- 9.C. **RESOLUTION NO. 16-19 (CM):
RESOLUTION RATIFYING A MEMORANDUM OF UNDERSTANDING WITH
SERVICE EMPLOYEES INTERNATIONAL UNION (SEIU), LOCAL 521, CLERICAL
TECHNICAL UNIT FOR THE TERM BEGINNING JANUARY 1, 2019 AND ENDING
DECEMBER 31, 2020.**
- 9.D. **ORDINANCE NO. 1376-19 (CM):
ORDINANCE AMENDING CERTAIN SECTIONS OF CHAPTER 14-16 (DISTRICT
REGULATIONS) OF TITLE 14 (ZONING) OF WATSONVILLE MUNICIPAL CODE
ESTABLISHING A MOBILE HOME PARK EXCLUSIVE-USE OVERLAY DISTRICT**
- 9.E. **ORDINANCE NO. 1377-19 (CM):
ORDINANCE AMENDING CERTAIN SECTIONS OF CHAPTER 1 (LOCAL
STANDARDS & REGULATIONS FOR MOBILE HOMES & PARKS) OF TITLE 11
(MOBILE HOMES & PARKS) OF WATSONVILLE MUNICIPAL CODE CLARIFYING
REGULATORY CONTROLS OVER MOBILE HOME PARKS**
- 9.F. **ORDINANCE NO. 1378-19 (CM):
ORDINANCE AMENDING SECTION 11-2.03 (ELIGIBILITY) OF CHAPTER 2 (MOBILE
HOMES ON SINGLE-FAMILY RESIDENTIAL LOTS) OF TITLE 11 (MOBILE HOMES
& PARKS) OF WATSONVILLE MUNICIPAL CODE CLARIFYING OBJECTIVE
DESIGN REVIEW STANDARDS FOR A MOBILE HOME LOCATED ON A SINGLE-
FAMILY RESIDENTIAL LOT**
- 9.G. **ORDINANCE NO. 1379-19 (CM):
ORDINANCE APPROVING ESTABLISHMENT OF A R-MH RESIDENTIAL
MANUFACTURED HOME PARK DISTRICT & DIRECTING CHANGES TO BE MADE
ON THE ZONING MAP**
- 9.H. **RESOLUTION NO. 17-19 (CM):
RESOLUTION APPOINTING COUNCIL MEMBERS TO THE CITY/COUNTY/SCHOOL
GOVERNMENTAL RELATIONS COMMITTEE**
- 9.I. **MOTION ACCEPTING WRITTEN REPORTS FROM CITY COUNCIL MEMBERS
REGARDING CONFERENCE ATTENDANCE - AS REQUIRED BY AB 1234 --
LEAGUE OF CALIFORNIA CITIES NEW MAYORS AND COUNCIL MEMBERS**

ACADEMY (JANUARY 16-18, 2019 SACRAMENTO, CA.) (MAYOR ESTRADA AND COUNCIL MEMBER GONZALEZ)

10. ITEMS REMOVED FROM CONSENT AGENDA (None)

11. NEW BUSINESS

11.A. CONSIDERATION OF APPROVAL OF THE WATSONVILLE BRILLANTE ART PROJECT AT THE RODRIGUEZ STREET PARKING GARAGE

1) Staff Report

The report was given by Deputy City Manager Vides and the Artist, Kathleen Crocetti.

2) City Council Questions

Deputy City Manager Vides, Susanne Roberts-Breubeck of Rinaldi Tile, and Ms. Crocetti answered questions from Mayor Pro Tempore Garcia regarding cost of water and electricity associated with the project, in-kind contributions by the City, potential for students who participate in the project to receive school credits, and revisions to the City public arts guidelines.

Deputy City Manager Vides and Assistant Public Works & Utilities Director Rodriguez answered questions from Member Coffman-Gomez regarding permit requirements for the project, required maintenance to prepare the building for the project, and the proposed lease at Muzzio Park Community Center.

City Manager Huffaker stated the City anticipated spending about \$1,000 on electricity and water contributions toward the project.

Deputy City Manager Vides answered questions from Member Gonzalez regarding required maintenance to prepare the building for the project, recommendation for waiving permit fees, and execution of an agreement with the artist that protects the City. Member Gonzalez asked that local artists be used to complete the project.

3) Public Input

The following speakers spoke favorably about Kathleen Crocetti and asked Council to support the project:

Steve Trujillo

Heidi Alonzo, Artist and High School Teacher

Judy Stabile, Pájaro Valley Arts Council

Judy Gittlesohn, Artist

4) City Council Discussion

Member Coffman-Gomez spoke in support of the proposed project.

Member Hurst commended Judy Stabile and Judy Gittlesohn for their art contributions to the City. He spoke in favor of the proposed project.

Member Gonzalez requested that the artist create an apprentice program as part of the project to help students learn a trade.

Member Coffman-Gomez requested a time-lapse video of the project.

- 5) **MOTION DIRECTING STAFF TO PROCEED WITH THE WATSONVILLE BRILLANTE PROJECT AT THE RODRIGUEZ STREET PARKING GARAGE AND PREPARE A LEASE FOR THE MUZZIO PARK COMMUNITY CENTER FOR 5 YEARS AT \$1.00 PER YEAR**
- 6) **RESOLUTION NO. 18-19 (CM):
RESOLUTION APPROVING THE WATSONVILLE BRILLANTE ART PROJECT LOCATED ON CITY PROPERTY; APPROVING IN-KIND CONTRIBUTIONS REQUESTED BY THE ARTIST; WAIVING CITY BUILDING PERMIT FEES ESTIMATED AT \$10,500; AND AUTHORIZING A \$60,000 BUDGET APPROPRIATION FROM THE GENERAL FUND**
- 7) **MOTION AUTHORIZING AND DIRECTING THE CITY MANAGER TO NEGOTIATE AND EXECUTE ALL NECESSARY AGREEMENTS**

MOTION: It was moved by Member Hernandez, seconded by Member Coffman-Gomez and carried by the following vote to direct staff to proceed with the Watsonville Brillante Project at the Rodriguez Street Parking Garage and prepare a lease for the Muzzio Park Community Center for 5 years at \$1.00 per year, approve the above resolution 11.A.6), and authorize and direct the city manager to negotiate and execute all necessary agreements:

| | | |
|---------|----------|--|
| AYES: | MEMBERS: | Coffman-Gomez, Garcia, Gonzalez, Hernandez, Hurst, Parker, Estrada |
| NOES: | MEMBERS: | None |
| ABSENT: | MEMBERS: | None |

11.B. CONSIDERATION OF CONTRACT WITH LDA PARTNERS, INC., A CORPORATION, TO PREPARE A LONG-TERM FACILITIES MASTER PLAN FOR THE CITY'S MUNICIPAL SERVICE CENTER, IN AN AMOUNT NOT TO EXCEED \$150,000

1) Staff Report

The report was given by Administrative Services Manager Gordo.

2) City Council Questions

Administrative Services Manager Gordo answered questions from Member Garcia regarding input from staff and funding sources for the project.

Administrative Services Manager Gordo and Public Works & Utilities Director Palmisano answered questions from Member Coffman-Gomez regarding potential elevation of the Municipal Services Center to mitigate flood threats, timeline for the project, and plan to increase work space for employees.

In answering Member Gonzalez, Administrative Services Manager Gordo stated part of the project would include capturing water runoff and other environmentally sensitive improvements.

- 3) **Public Input (None)**
- 4) **City Council Discussion (None)**
- 5) **RESOLUTION NO. 19-19 (CM):
RESOLUTION AWARDED CONTRACT TO LDA PARTNERS, INC., A CORPORATION, TO PREPARE A LONG-TERM FACILITIES MASTER PLAN FOR THE CITY'S MUNICIPAL SERVICE CENTER, IN AN AMOUNT NOT TO EXCEED \$150,000, AUTHORIZING AND DIRECTING THE CITY MANAGER TO EXECUTE CONTRACT; AND AUTHORIZING A \$150,000 BUDGET APPROPRIATION FROM THE SOLID WASTE FUND**

MOTION: It was moved by Member Hurst, seconded by Member Parker and carried by the following vote to approve the above resolution 11.B.5):

| | | |
|---------|----------|---|
| AYES: | MEMBERS: | Coffman-Gomez, Garcia, Gonzalez, Hurst, Parker, Estrada |
| NOES: | MEMBERS: | None |
| ABSENT: | MEMBERS: | Hernandez |

12. EMERGENCY ITEMS ADDED TO AGENDA

13. REQUESTS & SCHEDULING FUTURE AGENDA ITEMS

Member Gonzalez asked for an item at a future meeting to discuss potential of closing of Lincoln Street during school hours for Watsonville High School.

14. ADJOURNMENT

The meeting adjourned at 9:16 p.m.

Mayor

ATTEST:

City Clerk

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City of Watsonville
Public Works and Utilities Department

M E M O R A N D U M



DATE: February 20, 2019

TO: Matthew D. Huffaker, City Manager

FROM: Steve Palmisano, Director of Public Works and Utilities
Maria Esther Rodriguez, Assistant Director of Public Works and Utilities
Murray A. Fontes, Principal Engineer

SUBJECT: Contract for design services with Mesiti-Miller Engineering, Inc. for the Lee Road Trail project, in an amount not-to-exceed \$156,704.

AGENDA ITEM: February 26, 2019 **City Council**

RECOMMENDATION:

It is recommended that the City Council approve a resolution authorizing the City Manager to execute a contract with Mesiti-Miller Engineering, Inc. for preliminary design of the Lee Road Trail Project, No.CT-19-01, in an amount not-to-exceed \$156,704.

DISCUSSION:

The proposed Lee Road Trail is 1.4 miles long and extends from the Lee Road railroad crossing to Harkins Slough Road and then follows Harkins Slough Road to the driveway to Pajaro Valley High School (PVHS), as indicated in the attached Location Maps. It is eight feet wide and is for pedestrians and bicyclists. It includes a bridge across Struve Slough.

The trail is included in the City's Trails and Bicycle Master Plan and will link the City's Rail Trail Project to PVHS and the proposed Harkins Slough Road Bicycle and Pedestrian Bridge across Highway 1. The latter two projects are currently being designed. The Lee Road Trail will provide secondary access for bicyclists and pedestrians to PVHS.

In 2018, the City was awarded a \$330,000 Coastal Conservancy Grant to design and to prepare environmental documents and permit applications for the Lee Road Trail. The total cost of this work is estimated at \$495,000 and the balance of the costs will be paid by Measure D funds. When this work is completed in two years, the City will be better situated to seek construction funding. Allowing two years to secure funding, construction could begin in 2023.

The firm of Mesiti-Miller Engineering, Inc. of Santa Cruz was invited to provide a proposal to prepare a preliminary design and the cost is \$156,704. MME had previously been selected by the City through a request for qualifications to provide design services.

STRATEGIC PLAN:

This project is consistent with Strategic Plan Goal #3, Infrastructure and Environment, Section E.2. Develop improved multi-modal transportation features for bicycles and pedestrians.

FINANCIAL IMPACT:

The proposed agreement amount of \$156,704 will be funded through Account Number 0312-972-7837-14522. There is adequate funding in the current approved budget to support this contract.

ALTERNATIVES:

None

ATTACHMENTS:

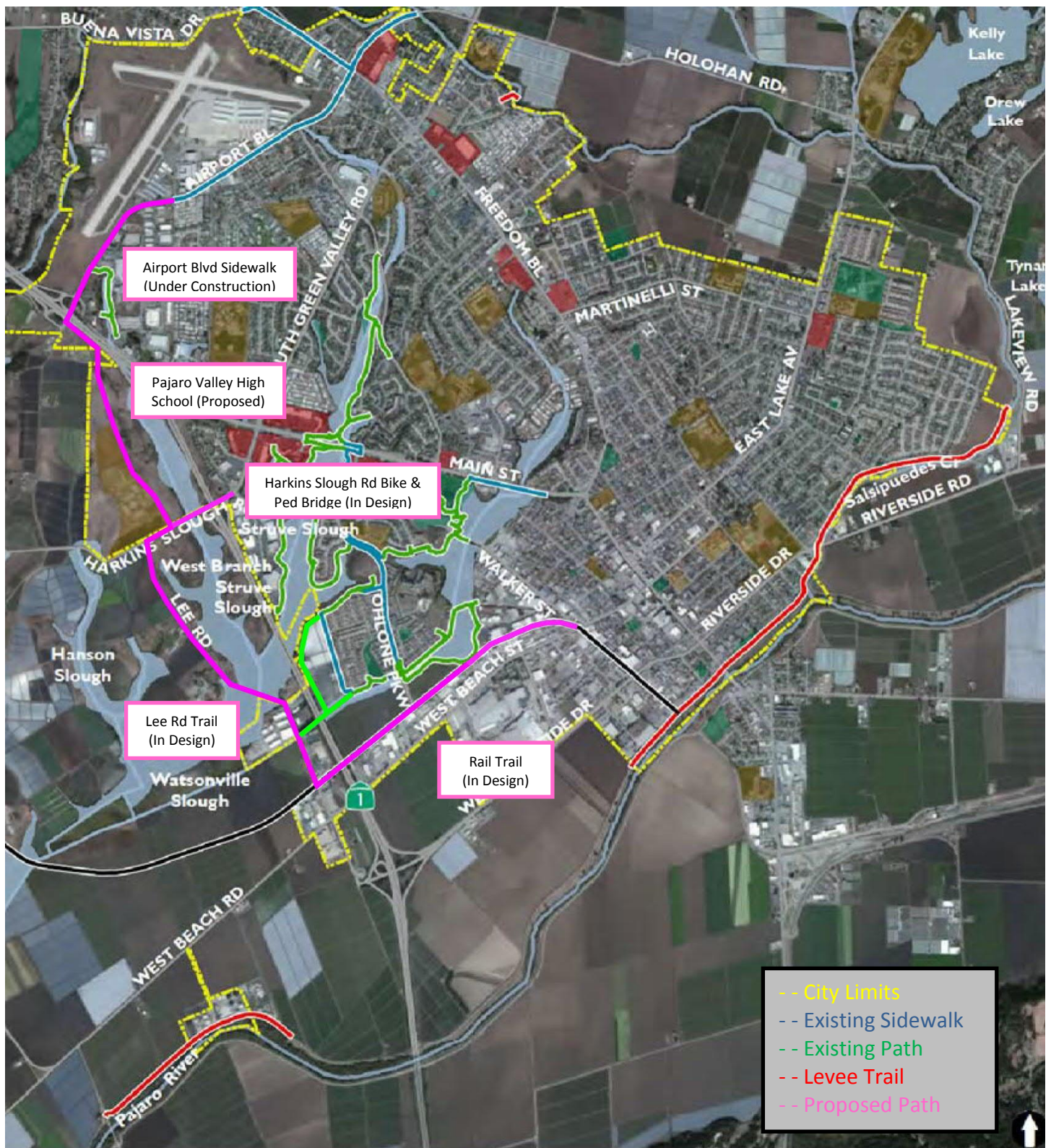
1. Location Map
2. City Trails Map

cc: City Attorney

LEE ROAD TRAIL LOCATION MAP



500 ft



City Trails Map Existing & Proposed

RESOLUTION NO. _____ (CM)

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WATSONVILLE AWARDED CONTRACT TO MESITI-MILLER ENGINEERING, INC., A CORPORATION, FOR PRELIMINARY DESIGN OF THE LEE ROAD TRAIL PROJECT, NO. CT-19-01, IN AN AMOUNT NOT TO EXCEED \$156,704, AND AUTHORIZING AND DIRECTING THE CITY MANAGER TO EXECUTE SAME

WHEREAS, a Request for Qualification Statements (RFQ) was issued on May 4, 2018, asking for qualified consultants to assist the City for periodic and on call professional design, construction management and/or construction inspection services; and

WHEREAS, the deadline for submittal of Request for Qualification Statements was May 31, 2018; and

WHEREAS, a number of firms submitted qualification statements; these statements were reviewed by City staff and a list was developed; and

WHEREAS, it is anticipated that the City will be contracting with a number of consultants on this list to provide engineering services on specific projects; and

WHEREAS, Mesiti-Miller Engineering, Inc., is on this list of eligible consultants for the consideration of the City Manager and submission to the City Council; and

WHEREAS, the City Manager has recommended that the proposal from Mesiti-Miller Engineering, Inc., a corporation, for preliminary design of the Lee Road Trail Project, No. CT-19-01, in an amount not to exceed \$156,704, be accepted as the best response.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF WATSONVILLE, CALIFORNIA, AS FOLLOWS:

1. That the proposal of Mesiti-Miller Engineering, Inc., a corporation, in an amount not to exceed \$156,704, is hereby accepted.

2. That the Contract for Consultant Services between the City of Watsonville and Mesiti-Miller Engineering, Inc., a corporation, for preliminary design of the Lee Road Trail Project, No. CT-19-01, a copy of which Contract is attached hereto and incorporated herein by this reference, is fair and equitable and is hereby ratified and approved.

3. Consultant shall file FPPC form 700s and 805s pursuant to section 19 of the Contract.

4. That the City Manager be and is hereby authorized and directed to execute the Contract for and on behalf of the City.

**CONTRACT FOR CONSULTANT SERVICES BETWEEN
THE CITY OF WATSONVILLE AND MESITI-MILLER ENGINEERING, INC.**

THIS CONTRACT, is made and entered into this _____, by and between the **City of Watsonville**, a municipal corporation, hereinafter called "City," and **Mesiti-Miller Engineering, Inc.**, hereinafter called "Consultant."

WITNESSETH

WHEREAS, the City needs to obtain certain professional, technical and/or specialized services of an independent contractor to assist the City in the most economical manner; and

WHEREAS, Consultant has the requisite skill, training, qualifications, and experience to render such services called for under this Contract to City.

THE PARTIES HEREBY AGREE AS FOLLOWS:

SECTION 1. SCOPE OF SERVICES. Consultant shall perform those services as specified in detail in Exhibit "A," entitled "SCOPE OF SERVICES" which is attached hereto and incorporated herein.

SECTION 2. TERM OF CONTRACT. The term of this Contract shall be from the date of this agreement to December 31, 2020, inclusive.

SECTION 3. SCHEDULE OF PERFORMANCE. The services of Consultant are to be completed according to the schedule set out in Exhibit "B," entitled "SCHEDULE OF PERFORMANCE," which is attached hereto and incorporated herein. Consultant will diligently proceed with the agreed Scope of Services and will provide such services in a timely manner in accordance with the "SCHEDULE OF PERFORMANCE."

SECTION 4. COMPENSATION. The compensation to be paid to Consultant including both payment for professional services and reimbursable expenses as well as the rate and schedule of payment are set out in Exhibit "C" entitled "COMPENSATION," which is attached hereto and incorporated herein.

SECTION 5. METHOD OF PAYMENT. Except as otherwise provided in Exhibit "C," each month, Consultant shall furnish to the City a statement of the work performed for compensation during the preceding month. Such statement shall also include a detailed record of the month's actual reimbursable expenditures.

SECTION 6. INDEPENDENT CONSULTANT. It is understood and agreed that Consultant, in the performance of the work and services agreed to be performed by Consultant, shall act as and be an independent Consultant and not an agent or employee of City, and as an independent Consultant, shall obtain no rights to retirement

benefits or other benefits which accrue to City's employees, and Consultant hereby expressly waives any claim it may have to any such rights.

SECTION 7. ASSIGNABILITY. Consultant shall not assign or transfer any interest in this Contract nor the performance of any of Consultant's obligations hereunder, without the prior written consent of City, and any attempt by Consultant to so assign this Contract or any rights, duties or obligations arising hereunder shall be void and of no effect.

SECTION 8. INDEMNIFICATION. To the full extent permitted by law (subject to the limitations of Civil Code section 2782.8 for any "design professional services" performed under this Contract), Consultant will indemnify, hold harmless, release and defend the City (including its officers, elected or appointed officials, employees, volunteers or agents) from and against any and all liability or claims (including actions, demands, damages, injuries, settlements, losses or costs [including legal costs and attorney's fees])(collectively "Liability") of any nature, to the extent arising out of, pertaining to, or relating to Consultant's negligence, recklessness, or willful misconduct in the performance of this Contract. In no event shall the cost to defend charged to the Consultant exceed the Consultant's proportionate percentage of fault. Consultant's indemnification obligations under this Contract are not limited by any limitations of any insurance held by Consultant, including, but not limited to, workers compensation insurance.

SECTION 9. INSURANCE.

A. Errors and Omissions Insurance. Consultant shall obtain and maintain in full force throughout the term of this Contract a professional liability insurance policy (Errors and Omissions), in a company authorized to issue such insurance in the State of California, with limits of liability of not less than One Million Dollars (\$1,000,000.00) to cover all professional services rendered pursuant to this Contract.

B. Auto and Commercial General Liability Insurance. Consultant shall also maintain in full force and effect for the term of this Contract, automobile insurance and commercial general liability insurance with an insurance carrier satisfactory to City, which insurance shall include protection against claims arising from bodily and personal injury, including death resulting therefrom, and damage to property resulting from any actual occurrence arising out of the performance of this Contract. The amounts of insurance shall not be less than the following:

(1) Commercial general liability insurance, or equivalent form, with a combined single limit of not less than \$500,000.00 per occurrence. If such insurance contains a general aggregate limit, such limit shall apply separately to each project Consultant performs for City. Such insurance shall (a) name City, its appointed and elected officials, and its employees as insureds; and (b) be primary with respect to insurance or self-insurance programs maintained by City and (c) contain standard separation of insured's provisions.

(2) Business automobile liability insurance, or equivalent form, with a combined single limit of not less than \$500,000.00 per occurrence. Such insurance shall include coverage for owned, hired and non-owned automobiles.

C. Workers' Compensation Insurance. In accordance with the provisions of Section 3700 of the Labor Code, Consultant shall be insured against liability for Workers' Compensation or undertake self-insurance. Consultant agrees to comply with such provisions before commencing performance of any work under this Contract.

D. Proof of Insurance to City before Notice to Proceed to Work. Consultant shall satisfactorily provide certificates and endorsements of insurance to the City Clerk before Notice to Proceed to Work of this Contract will be issued. Certificates and policies shall state that the policy shall not be canceled or reduced in coverage without thirty (30) days written notice to City. Approval of insurance by City shall not relieve or decrease the extent to which Consultant may be held responsible for payment of damages resulting from services or operations performed pursuant to this Contract. Consultant shall not perform any work under this Contract until Consultant has obtained the required insurance and until the required certificates have been submitted to the City and approved by the City Attorney. If Consultant fails or refuses to produce or maintain the insurance required by these provisions, or fails or refuses to furnish City required proof that insurance has been procured and is in force and paid for, City shall have the right at City's election to forthwith terminate this Contract immediately without any financial or contractual obligation to the City. As a result of such termination, the City reserves the right to employ another consultant to complete the project.

E. Written notice. Contractor shall provide immediate written notice if (1) any insurance policy required by this Contract is terminated; (2) any policy limit is reduced; (3) or any deductible or self insured retention is increased.

SECTION 10. NON-DISCRIMINATION. Consultant shall not discriminate, in any way, against any person on the basis of age, sex, race, color, creed, national origin or disability in connection with or related to the performance of this Contract.

SECTION 11. TERMINATION.

A. City and Consultant shall have the right to terminate this Contract, without cause, by giving not less than ten (10) days written notice of termination.

B. If Consultant fails to perform any of its material obligations under this Contract, in addition to all other remedies provided by law, City may terminate this Contract immediately upon written notice.

C. The City Manager is empowered to terminate this Contract on behalf of City.

D. In the event of termination, Consultant shall deliver to City copies of all work papers, schedules, reports and other work performed by Consultant and upon receipt thereof, Consultant shall be paid in full for services performed and reimbursable expenses incurred to the date of termination.

SECTION 12. COMPLIANCE WITH LAWS. Consultant shall comply with all applicable laws, ordinances, codes and regulations of the federal, state and local governments. Consultant shall obtain and maintain a City of Watsonville business license during the term of this Contract.

SECTION 13. GOVERNING LAW. City and Consultant agree that the law governing this Contract shall be that of the State of California. Any suit brought by either party against the other arising out of the performance of this Contract shall be filed and maintained in the Municipal or Superior Court of the County of Santa Cruz.

SECTION 14. PRIOR CONTRACTS AND AMENDMENTS. This Contract represents the entire understanding of the parties as to those matters contained herein. No prior oral or written understanding shall be of any force or effect with respect to those matters covered hereunder. This Contract may only be modified by a written amendment.

SECTION 15. CONFIDENTIAL INFORMATION. All data, documents, discussions or other information developed or received by or for Consultant in performance of this Contract are confidential and not to be disclosed to any person except as authorized by the City Manager or his designee, or as required by law.

SECTION 16. OWNERSHIP OF MATERIALS. All reports, documents or other materials developed or received by Consultant or any other person engaged directly by Consultant to perform the services required hereunder shall be and remain the property of City without restriction or limitation upon their use.

SECTION 17. COVENANT AGAINST CONTINGENT FEES. The Consultant covenants that Consultant has not employed or retained any company or person, other than a bona fide employee working solely for Consultant, to solicit or secure the Contract, and that Consultant has not paid or agreed to pay any company or person, other than a bona fide employee working solely for Consultant, any fees, commissions, percentage, brokerage fee, gift, or any other consideration contingent on or resulting from the award or making of this Contract, for breach or violation of this covenant, the City shall have the right to annul this Contract without liability, or in its discretion, to deduct from the Contract price or consideration or otherwise recover, the full amount of such fee, commission, percentage fee, gift, or contingency.

SECTION 18. WAIVER. Consultant agrees that waiver by City or any one or more of the conditions of performance under this Contract shall not be construed as waiver of any other condition of performance under this Contract.

SECTION 19. CONFLICT OF INTEREST.

A. A Consultant shall avoid all conflict of interest or appearance of conflict of interest in performance of this Contract. Consultant shall file a disclosure statement, if required by City Council Resolution, which shall be filed within thirty (30) days from the effective date of this Contract or such Resolution, as applicable.

B. No member, officer, or employee of the City, during their tenure, or for one (1) year thereafter, shall have any interest, direct or indirect, in this Contract or the proceeds thereof and Consultant agrees not to allow, permit, grant, transfer, or otherwise do anything which will result in such member, officer, or employee of the City from having such interest.

SECTION 20. AUDIT BOOKS AND RECORDS. Consultant shall make available to City, its authorized agents, officers and employees, for examination any and all ledgers and books of account, invoices, vouchers, canceled checks and other records or documents evidencing or related to the expenditures and disbursements charged to the City, and shall furnish to City, its authorized agents and employees, such other evidence or information as City may require with respect to any such expense or disbursement charged by Consultant.

SECTION 21. NOTICES. All notices shall be personally served or mailed, postage prepaid, to the following addresses, or to such other address as may be designated by written notice by the parties:

CITY

City Clerk's Office
275 Main Street, Suite 400
Watsonville, CA 95076
(831) 768-3040

CONSULTANT

Mesiti-Miller Engineering, Inc.
224 Walnut Avenue, Suite B
Santa Cruz, CA 95060
(831) 426-3186

SECTION 22. EXHIBITS:

Exhibit A: Scope of Services
Exhibit B: Schedule of Performance
Exhibit C: Compensation

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WITNESS THE EXECUTION HEREOF, on the day and year first hereinabove written.

CITY

CONSULTANT

CITY OF WATSONVILLE

BY _____
Matthew D. Huffaker, City Manager

BY  _____
Rodney Cahill, Principal

ATTEST:

BY _____
Beatriz Vázquez Flores, City Clerk

APPROVED AS TO FORM:

BY _____
Alan J. Smith, City Attorney

EXHIBIT "A"

SCOPE OF SERVICES

The scope of services is as follows:

As described in Scope of Proposed Services for Phase one – Schematic Design (30%) of the attached 01/28/19 letter from Rodney Cahill to Murray Fontes concerning the Lee Road Trail 30% Design Proposal.

EXHIBIT "B"

SCHEDULE OF PERFORMANCE

Services shall commence immediately upon execution of this Contract. All services performed under the provisions of this Contract shall be completed in accordance with the following schedule:

Work shall be completed no later than 12/31/20.

EXHIBIT "C"

COMPENSATION

a. Total Compensation. The total obligation of City under this Contract shall not exceed \$156,704.

b. Basis for Payment. Payment(s) to Consultant for services performed under this Contract shall be made as follows and shall [not] include payment for reimbursable expenses:

As described the Schedule of Standard Billing Rates and the Engineering Fee Estimate of the attached 01/28/19 letter from Rodney Cahill to Murray Fontes concerning the Lee Road Trail 30% Design Proposal.

c. Payment Request. Consultant shall submit a request for payment for services on a monthly basis by letter to Director, or said Director's designated representative. Such request for payment shall cover the preceding monthly period during the term hereof, shall note the City's purchase order number for this Contract, shall contain a detailed listing of the total number of items or tasks or hours for which payment is requested, the individual dates on which such services were rendered, and invoices for reimbursable expenses, if any. Upon receipt in the Office of Director of said payment request, Director shall cause payment to be initiated to Consultant for appropriate compensation.



February 4, 2019

Murray Fontes

Principal Engineer
City of Watsonville Public Works, Engineering Dept
250 Main Street
Watsonville, Ca 95076

Re: Lee Road Trail 30% Design Proposal – Rev 2

MME Project No: 18196

Dear Mr. Fontes,

Thank you for asking MME to provide your engineering services, accordingly we have prepared the following proposal for your review. We have 30 years of civil and structural engineering experience and look forward to working with you on this interesting and valuable trail project.

Project Understanding

This project consists of the pedestrian and bicycle trail within the Lee Road right of way from the railroad crossing to Harkins Slough and along Harkins Slough Road from Lee Road to the entrance to Pajaro Valley High School in Watsonville, California. The path is approximately 5.5 miles long and will be eight to twelve feet wide. The project includes a 700 foot bridge crossing over the west branch of Struve Slough to support bicycles, pedestrians, and small emergency and maintenance vehicles. In addition, there may be another bridge or modified culvert over Watsonville Slough on Lee Road and several retaining walls. For the purposes of this proposal and based on our experience, we have assumed that the most cost effective bridge will be a prefabricated structure. However, we will analyze alternative types to assist the City in the bridge selection.

We anticipate the design phase to be separated into three phases. The first phase will be used to assist the City in choosing the bridge type, the path types and materials, and the route layout. We will also develop preliminary information about the amount of site retaining walls and other site improvements that will affect the construction costs. The decisions by the City and design team during this phase based on function and construction cost, will clarify the scope of the final two design phases.

We understand the total construction cost is not yet known, however the approximate cost of 30% design was earlier estimated to be about \$120,000 and the approximate 30% design schedule is 5 months. The project is scheduled for CEQA permitting by 2020, design permitting by 2024, and construction by 2026. We have prepared a more detailed scope and fee for your review.

Our work will generally include the engineering services to prepare construction documents including plans, specifications and estimates for use in competitive bidding and construction of this project.



Phase One - Schematic Design (30%)

- 224 Walnut Avenue, Suite B • Santa Cruz, CA • 831.426.3186 • www.m-me.com



7. Biological Assessment (Kittleson Environmental Consulting).
8. Draft Design Basis Report discussing hydraulic design recommendations for both bridges, including Hydraulic Recommendations at Lee Road Crossing at Watsonville Slough to determine if upsizing the existing roadway culvert is recommended (Balance Hydrologics). Coordination and evaluation of alternatives from a cost benefit standpoint. If a new bridge or culvert is warranted, we understand it would be designed and constructed under a separate roadway project.
9. Explore and evaluate alternative engineering schemes. Study and advise on selection of basic systems and materials suitable to the contemplated project including:
 - a) Provide analysis of potential bridge types over West Branch Struve Slough to assist the City with selecting the type of bridge.
 - b) Provide an analysis of potential bridge types and consider widening of the existing Watsonville Slough culvert on Lee Road to assist the City with selecting the crossing type.
10. Prepare and deliver one set of draft 30% civil engineering drawings of the proposed project with sufficient detail to fix and describe the character of the systems contemplated for use on this project. SD drawings will be about 30% complete when compared to the final drawings. Drawings will include:
 - i) Trail layout plan and profiles showing relationship of major elements, to scale
 - ii) Typical trail cross section(s)
 - iii) Topographic Survey (MCE)
11. Prepare and deliver one set of draft 30% structural engineering drawings of the proposed project with sufficient detail to fix and describe the character of the systems contemplated for use on this project. Drawings will include:
 - i) Bridge plan
 - ii) Bridge elevations of the different potential bridge types
 - iii) Retaining wall plan
12. Prepare a preliminary opinion of estimated construction costs for the project represented by our 30% drawings.
13. Following the City of Watsonville comments we will prepare a final 30% submittal.
14. Provide the administrative support necessary for us to perform these services.

Due to the large number of unknowns it is difficult to accurately estimate the scope and fee for 90% and 100% design. The following scope is provided for planning purposes and can be revised following the 30% draft design submittal.



Phase Two - Construction Documents (90%)

1. Participate in correspondence with you and members of the design team as may be required to accomplish the tasks identified during this phase.
2. Attend a meeting with you and other members of the design team to review and discuss the previously submitted schematic drawings and to resolve any identified conflicts between the various disciplines.
3. Final Geotechnical Investigation (Pacific Crest Engineering).
4. Prepare preliminary civil engineering calculations for earthwork volumes, storm systems, and other portions of the civil site improvements.
5. Prepare preliminary structural engineering calculations for major components and elements of the primary structural systems.
6. Prepare a Preliminary Drainage Report.
7. Quality Control Review of geometric design criteria including bike and traffic lane types and widths, shoulders, pavements and alignments.
8. Prepare and deliver one set of 90% Construction Documents (CD) civil engineering drawings defining the civil site improvements. CD drawings will be about 90% complete when compared to the final drawings. Additional drawings to be furnished will include:
 - i) Site plan horizontal and vertical control information
 - ii) Trail center line profiles
 - iii) Water, storm drain and sewer line profiles
 - iv) Storm drain outfall details
 - v) Erosion control plan
9. Prepare and deliver one set of 90% Construction Documents (CD) structural engineering drawings defining the bridge foundations and retaining walls. CD drawings will be about 90% complete when compared to the final drawings.
10. Prepare and deliver outline technical specifications in City of Watsonville Standard format.
11. Final Design Basis Report discussing hydraulic design recommendations (Balance Hydrologics).
12. Prepare an opinion of estimated construction costs for the project.
13. Provide a quality assurance and quality control review of the design development documents by a senior engineer.
14. Provide the administrative support necessary for us to perform these services.



Phase Three - Construction Documents (100%)

1. Participate in correspondence with you and members of the design team as may be required to accomplish the tasks identified during this phase.
2. Attend a meeting with you and other members of the design team to review and discuss the previously submitted 90% CD drawings and to resolve any identified conflicts between the various disciplines.
3. Prepare and deliver final civil engineering calculations for earthwork volumes, storm systems, and other portions of the civil site improvements.
4. Prepare and deliver final structural engineering calculations for major components and elements of the primary structural systems.
5. Prepare a Final Drainage Report. Prepare and deliver final civil engineering drawings sufficiently detailed for competitive bidding and for guidance of a qualified, experienced contractor during construction of the proposed improvements. Drawings will be submitted at a 100% level suitable for the City of Watsonville Public Works.
6. Prepare and deliver final structural engineering drawings sufficiently detailed for competitive bidding and for guidance of a qualified, experienced contractor during construction of the proposed improvements. Drawings will be submitted at 100% level suitable for City Permit submittal.
7. Prepare and deliver technical specifications. Specifications will be submitted at a 100% level.
8. Prepare and deliver front end specifications in the City of Watsonville's format based on the sample provided by the City.
9. Update the final opinion of estimated construction costs for the project.
10. Prepare traffic control plans showing staged construction, temporary closures and detours.
11. Prepare and deliver the Statement of Special Inspections for the structural items included in our scope of work.
12. Provide technical criteria, written descriptions, and design data for City's use in filing application for permit from the Building Official.
13. Make an appointment with the Building Officials and submit the construction documents, related reports, etc. and intake permit fee to be paid by Client.
14. Assist in obtaining approval of our parts of the project by the Building Official by responding to one set of plan check comments.
15. Provide a quality assurance and quality control review of the final construction documents by a senior engineer.
16. Provide the administrative support necessary for us to perform these services.



Post Design Phase Services

As the project progresses from the design phases into the construction phases, we are often retained for further services in support of the project. As the Engineer of Record we are intimately familiar with the technical design aspects and are the most qualified to observe and review the work of construction for general conformance with our drawings and specifications, the engineering calculations and our design intent. As each project is unique we are available to provide the level of service the owner determines is adequate for their needs. These services are therefore anticipated to be provided under a separate contract.

Additional Services

Additional Services are those items which are not specifically mentioned under the scope of proposed Design Phase services outlined above and/or those items which arise as a result of unforeseen circumstances during the design or construction phases of the project. Any Additional Services and compensation shall be authorized by the Client in advance and in writing or acknowledged and confirmed by email.

The following is a partial list of work excluded from this scope of services:
Environmental Permits, Hazardous Materials Services, Architecture or Waterproofing, Mechanical, Electrical or Traffic Engineering, Pumps and Hydromodification Analysis, FEMA studies, Signalized Intersections and Crosswalks, City and County Permits, Roadway Bridge Design, Bid Alternates, Value Engineering, Construction Inspection, Expedited Schedule and Construction Contracts.

Time Schedule

Based on our present workload, we could begin work on this project within two weeks of receiving a signed copy of this proposal. The work will be completed pursuant to a mutually agreed upon schedule.

Compensation for Services

Compensation for providing the scope of proposed services outlined above will be a lump sum fee as shown in the attached detailed breakdown of:

Phase One – Schematic Design 30% **\$156,704**

Thank you for the opportunity to prepare this proposal. Should you have any questions please call me. We look forward to working together with you to build this bridge and trail.

Respectfully yours,

Rodney Cahill, P.E.
Principal



Schedule of Standard Billing Rates

Effective through December, 2019

Office Personnel

| | |
|--|---------------|
| Engineer I | \$ 113 / hour |
| Engineer II | \$ 130 / hour |
| Engineer III (<i>licensed P.E.</i>) | \$ 150 / hour |
| Engineer IV (<i>licensed P.E.</i>) | \$ 175 / hour |
| Engineer V (<i>licensed P.E.</i>) | \$ 195 / hour |
| Principal Engineer | \$ 205 / hour |
| Expert Witness Services | \$ 340 / hour |
| Deposition, court appearance and preparation | |
| Administrative Assistant | \$ 84 / hour |
| CAD Technician I | \$ 83 / hour |
| CAD Technician II | \$ 105 / hour |
| Field Technician I | \$ 100 / hour |
| Field Technician II | \$ 125 / hour |
| Minimum Consultation Fee | \$ 750 |

Reimbursable Expenses

| | |
|--|-----------------------|
| Sub-Consultants | Direct Billing x 1.10 |
| Outside Services | Direct Cost x 1.15 |
| Printing, delivery, equipment rental and other direct project expenses | |
| In-House Services | |
| Photocopies | \$ 0.10 sheet |
| Plotting -internal check plots on bond | \$ 2.00 sheet |
| -final plots on bond | \$ 10.00 sheet |
| Travel | |
| Automobile mileage | \$ 0.54 mile |
| Airfare, Car Rental, etc. | Direct Cost x 1.15 |
| Per Diem Allowance (varies by location) | \$ 150/day |



MME

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| Engineering Fee Estimate | | | | | | | | | |
|--|------------------------------------|------------------------------------|------------|-------------|--------------|-------------|------------|--------------|-----------|
| prepared for City of Watsonville, Public Works | | | | | | | | | |
| CE and SE Services for Lee Road Trail | | | | | | | | | |
| MME Project Number: 18196 | | | | | | | | | |
| 2/4/2019 | | | | | | | | | |
| Item | Task Description | Personnel and Hourly Billing Rates | | | | | | | Total |
| | | Principal Engineer | Engineer V | Engineer IV | Engineer III | Engineer II | Engineer I | Admin Assist | Fee |
| | | \$205 | \$195 | \$175 | \$150 | \$130 | \$113 | \$84 | |
| Phase One - Schematic Design (30%) | | | | | | | | | |
| 1 | Correspondence | 8 | 8 | | | | | | \$3,200 |
| 2 | Kick-off meeting | 4 | 4 | 4 | | | | | \$2,300 |
| 3 | Site Visit | | | | | | | | |
| i. | Structural | 4 | | 8 | | | | | \$2,220 |
| ii. | Civil | 4 | | | 8 | | | | \$2,020 |
| 4 | Research and Review | 4 | 8 | | 16 | | | | \$4,780 |
| 5 | Contact utilities | 2 | | | 16 | | | | \$2,810 |
| 6 | PM - Pacific Crest | | | 2 | 2 | | | | \$650 |
| 7 | PM - Kittleson Envir. Cons. | 2 | | | 2 | | | | \$710 |
| 8 | PM - Balance Hydrologics | 8 | 16 | | 16 | | | | \$7,160 |
| 9 | Evaluate Alternatives | 12 | 12 | 24 | 24 | | | | \$12,600 |
| 10 | Civil Drawings | | | | | | | | |
| i. | Trail Plans | 32 | | | 72 | 16 | | | \$19,440 |
| ii. | Sections | 8 | | | 16 | 8 | | | \$5,080 |
| iii. | PM - Survey (MCE) | 2 | | | 4 | | | | \$1,010 |
| 11 | Structural Plans | | | | | | | | |
| i. | Bridge Plan | 3 | 6 | | 12 | 12 | | | \$5,145 |
| ii. | Bridge elevations | 3 | 6 | | 12 | 12 | | | \$5,145 |
| iii. | Retaining walls | 2 | 6 | | 8 | 8 | | | \$3,820 |
| 12 | Cost Estimate | 4 | 4 | | 12 | 6 | | | \$4,180 |
| 13 | Final 30% Submittal | 6 | 12 | 24 | 24 | 16 | | | \$13,450 |
| 14 | Administration | 4 | | | | | | 8 | \$1,492 |
| In-house Services: | | 112 | 82 | 62 | 244 | 78 | 0 | 8 | \$97,212 |
| Reimbursable Expenses | | | | | | | | | |
| 1 | Plotting and Delivery | | | | | | | | \$100 |
| 2 | Mileage | | | | | | | | \$121 |
| 3 | Subconsultants (x 1.10) | | | | | | | | |
| i. | Pacific Crest | | | | | \$ 19,391 | 1.1 | | \$21,330 |
| ii. | Balance Hydrologics (Phase 1) | | | | | \$ 14,270 | 1.1 | | \$15,697 |
| iii. | Mid Coast Engineers | | | | | \$ 17,200 | 1.1 | | \$18,920 |
| iv. | Kittleson Environmental Consulting | | | | | \$ 3,022 | 1.1 | | \$3,324 |
| Subtotals: | | | | | | | | | \$59,492 |
| Services and Expenses Subtotal: | | | | | | | | | \$156,704 |



GEOTECHNICAL | ENVIRONMENTAL | CHEMICAL | MATERIAL TESTING | SPECIAL INSPECTIONS

December 4, 2018

Proposal No. PR18-142

Mr. Dale Hendsbee, Principal
MME
224 Walnut Avenue, Suite B
Santa Cruz, CA 95060

Subject: **Proposal for a Geotechnical Investigation - Design Phase**
Lee Road Trail
City of Watsonville, California

Dear Mr. Hendsbee,

Pacific Crest Engineering Inc. (PCE) is pleased to present this proposed scope of work and fee to provide geotechnical engineering services for the proposed Lee Road Trail in Watsonville, California.

The proposed trail segment will connect to the proposed Lee Road Rail Trail at the south end, extending north along Lee Road to Harkins Slough Road. This trail includes approximately 1.2 miles of a multi-use asphalt and/or decomposed granite pathway and will include a pedestrian bridge spanning Struve Slough.

Along the northern segment, the proposed trail is bounded by farms to the west and an ecological preserve to the east. Industrial sites border the southern portion of the segment. It is our understanding that the trail section will be eight to twelve feet in width and flanked on both sides with 2-foot wide gravel shoulders.

The project site is mapped on the USGS Geologic Map of Santa Cruz County (Brabb 1997) as Terrace Deposits and Basin Deposits (Brabb, 1997). The Terrace Deposits are described weakly consolidated to semi consolidated heterogeneous deposits of moderately to poorly-sorted silt, silty clay, sand and gravel. The Basin Deposits are described as unconsolidated, plastic, silty clay and clay rich in organic material. Locally contain interbedded thin layers of silt and silty sand. Based upon our review of the regional liquefaction maps (Dupre', 1975; Dupre' and Tinsley, 1980) the Struve Slough bridge crossing is located in an area classified as having a very high potential for liquefaction.

SCOPE OF WORK - DESIGN PHASE GEOTECHNICAL INVESTIGATION

The purpose of the geotechnical investigation will be to investigate the surface and subsurface soil conditions along the proposed trail alignment and provide geotechnical design recommendations for the proposed trail system improvements and pedestrian bridge.

We are proposing a design-phase work scope comprised of literature review, site reconnaissance, subsurface exploration, and laboratory testing to develop geotechnical recommendations to support preparation of final project plans and specifications. Our work will culminate in a Design-Level Geotechnical Investigation Report which will summarize our findings and present our conclusions and recommendations.

As part of this approach, we propose the following scope of work:

1. Project coordination, contract administration, site reconnaissance and review of available maps, geologic and geotechnical information pertaining to the study area, as well as compile and analyze available subsurface data.
2. Notify subscribing utility companies via Underground Service Alert (USA) a minimum of 72-hours (as required by law) prior to performing exploratory excavations at the site. We will also retain the services of a private utility locator service to clear utilities at the planned boring locations.
3. We will prepare and submit an application for an encroachment permit for drilling within the City limits. We assume any fees for these documents will be waived by the City of Watsonville.
4. Explore, sample and classify surface and subsurface soils by drilling 6-8 exploratory borings in select, accessible areas across the site. We are proposing to use Cone Penetrometer Test (CPT) soundings and in conjunction with subsurface borings to evaluate the density and strength characteristics of the soil profile to the depths explored and obtain samples at selected depths within planned bridge foundation areas. The actual number of borings and boring depths may vary and will depend on the soil and geologic conditions encountered during the subsurface investigation. We anticipate that the test borings will range in depth between 15 and 25 feet, however at least one CPT sounding will be advanced to a depth of 50 feet in order to characterize the liquefaction potential at the slough/bridge site. Test borings will be backfilled by placing the drill spoils back in the hole and tamping the spoils with the drill auger. The spoils will be placed to within 2 feet of the surface and then dry cement will be placed over the spoils. The drill holes will be capped with cold patch asphalt where drilled in City streets and soil elsewhere.
5. Laboratory testing of selected soil samples to determine their relevant engineering properties.
6. Engineering analysis and evaluation of the resulting data. Based on our findings we will develop geotechnical design criteria for general site grading, structural foundations and allowable bearing capacities, retaining walls, pavement design and general site drainage.
7. We will prepare a written report which documents our field and laboratory investigation. Included in this report will be an analysis of our findings and recommendations for the design and construction of the project. Topics covered in our report will include:
 - a. A discussion of the geotechnical hazards associated with the site, including a discussion of liquefaction potential, soil shrink-swell potential, seismic shaking, CBC Site Factors, and the proximity to mapped active and potentially active faults.
 - b. Site and subgrade preparation recommendations, including compaction recommendations, recommendations as to the suitability of the on-site earth materials for use as engineered fill and recommendations for imported fill material.
 - c. Foundation design and construction recommendations, including recommended foundation type(s), foundation embedment depths, and the allowable pressures to use in foundation design.
 - d. Retaining wall recommendations, including the active, at-rest and passive lateral earth pressures to use in retaining wall design, and anticipated lateral seismic forces.
 - e. Recommendations for site drainage, including provisions to control both surface and subsurface drainage, as needed.



SCOPING ASSUMPTIONS

Our Phase I scope of work and fee assumes the Client understands the following issues:

- a. The City and/or property owner will provide access to the boring locations for our drill rig and other equipment.
- b. We also assume we will be provided with updated site plans showing proposed structure locations.
- c. Our services will be provided on a "time and expense" basis, in accordance with our 2019 Schedule of Fees. Our fee estimate is based on the available information provided to develop this proposal. Those services not listed, emerging project requirements, preparation for and participation in meetings and presentations (over the four man-hours budgeted in this proposal), and/or the designers request for additional information beyond this scope of services will be considered extra services and will be billed in accordance with our standard rates.
- d. Our scope of work and fee assumes the Client will provide a base topographic map and site plan, with a scale of 1-inch equals 20 feet or larger, prior to initiation of our work.
- e. We will contact USA and a private utility locator and notify both you and them of our proposed drilling locations, however Pacific Crest Engineering Inc. will not assume responsibility for any damage to underground utilities that are not properly located by the property owner, Client or the Client's representative prior to drilling.

EXCLUDED SERVICES

Our scope of work and fee does not include the following:

- i. Payment of encroachment permit fees, to any public agency or utility company having jurisdiction over the work area.
- ii. It is possible that the initial findings of our investigation will identify potential hazards that can only be evaluated through additional subsurface exploration. We have developed a scope of work that we anticipate will be adequate, but unexpected conditions could be encountered. If additional subsurface exploration is required based on preliminary findings, we will meet with you to obtain authorization prior to continuing. We will prepare a separate proposal and cost estimate at the time any additional work is planned.
- iii. Topographic survey. We require that the Client provide us with suitable topographic base map prior to initiation of our work.
- iv. An environmental assessment or investigation for the presence of hazardous or toxic materials in the soil, groundwater or air; on, below or proximal to the site. This scope of work and budget also assumes that contaminated soil and/or groundwater will not be encountered. If any unusual vapors, odors or visual contamination are noticed during drilling of any test boring, the boring will be stopped, backfilled with grout and the suspected drill cuttings will be bagged, labeled for future source reference and provided to the Client for their disposal.



- v. Flooding, hydrologic or quantitative storm water runoff analyses.
- vi. Infiltration testing for storm water facilities. We can provide this service for an additional fee.
- vii. Our scope of work and fee does not include time spent on follow-up project meetings, review of contract plans and specifications, phone conferences, construction observation and testing services, etc., after the report is complete. We are available to provide those services of course, however the fees for these services cannot be realistically estimated this early in the project and are therefore typically billed on a "time and materials" fee basis in accordance with our fee schedule in effect at the time services are rendered. We can provide a cost proposal for these post-report services once project design and construction plans are underway.

SCHEDULE

We estimate the work proposed herein can be completed within 6 to 7 weeks from your authorization to proceed, site access, scheduling of exploration equipment, weather and laboratory analysis permitting. Preliminary geotechnical design criteria can be provided to the design team during the course of our investigation.

FEE FOR SERVICES

We have assumed the work is to be performed as part of a public works project. This requires compliance with public works laws requiring payment of prevailing wages and maintenance of certified payrolls, among others.

We propose to perform the design level geotechnical investigation on time and materials basis in accordance with our 2019 fee schedule. Based on our current understanding of the project concept and subject to variation among items, the table below presents a summary of anticipated tasks and their associated fees for completing the geotechnical investigation:

| Task | Description | Personnel/Item | Hours | S/Hour | Cost/ Item |
|-------------------------------------|---|---|-------|--------|-------------|
| 1 | Project Coordination & Opening & Literature Review | Principal Engineer | 4 | 175 | 700 |
| | | Associate Engineer | 4 | 170 | 680 |
| | | Staff Engineer | 4 | 145 | 580 |
| | | Admin | 0 | 85 | 0 |
| 2-3 | Site Marking & Utility Locating & Encroachment Permit | Private Utility Locator | 6 | 170 | 1020 |
| | | Associate Engineer | 0 | 170 | 0 |
| | | Staff Engineer | 6 | 145 | 870 |
| 4 | Drilling & Sampling Prevailing Wage | Drill Rig Mob. & Drilling (CPT/Hollow Stem) | 18 | LS | 6601 |
| | | Associate Engineer | 8 | 170 | 1360 |
| | | Staff Engineer | 8 | 145 | 1160 |
| 5 | Laboratory Analysis & Field Services | Laboratory Testing | 1100 | LS | 1100 |
| | | Field Services | 0 | LS | 0 |
| 6 | Engineering Analysis | Principal Engineer | 4 | 175 | 700 |
| | | Associate Engineer | 8 | 170 | 1360 |
| 7 | Report Preparation | Principal Engineer | 2 | 175 | 350 |
| | | Associate Engineer | 10 | 170 | 1700 |
| | | Staff Engineer | 6 | 145 | 870 |
| | | Admin | 4 | 85 | 340 |
| Total Cost of Professional Services | | | | | \$19,391.00 |



We therefore estimate our fees to complete a geotechnical investigation study as described in Tasks 1 through 7 above to be Nineteen Thousand, Three Hundred and Ninety Dollars (\$19,390.00). We will not exceed this amount without written authorization from the Client.

This offer is valid for a period of sixty (60) days.

AUTHORIZATION

To authorize our firm to provide these services, please send an agreement for professional services and authorization to proceed to our office as soon as possible.

Pacific Crest Engineering Inc. appreciates the opportunity to provide our services, and would be pleased to answer any questions you may have about our proposed scope of work and fee. We can be reached at (831) 722-9446.

Sincerely,

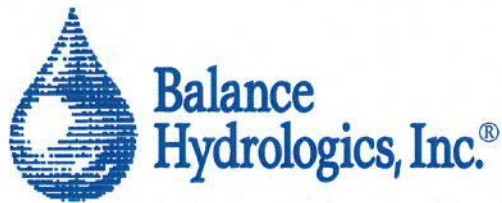
PACIFIC CREST ENGINEERING INC.



Elizabeth M. Mitchell, GE
President\Principal Geotechnical Engineer

Copies: 1 to Client (e-copy)





800 Bancroft Way • Suite 101 • Berkeley, CA 94710 • (510) 704-1000
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www.balancehydro.com • email: office@balancehydro.com

January 2, 2019

Rodney Cahill, P.E.
MME
224 Walnut Avenue, Suite B
Santa Cruz, California 95060
Sent via email: Rodney@m-me.com

**RE: Scope of Work for Hydrologic and Hydraulic Design and Permitting Assistance
for the Lee Road Trail, City of Watsonville, California**

Dear Mr. Cahill,

I'd like to begin by thanking you for providing Balance Hydrologics ("Balance") the opportunity to submit a proposal to assist MME with the design and permitting of the proposed Lee Road Trail Project ("Project") in the City of Watsonville. You have asked us to perform a hydrology and hydraulics ("H&H") analysis that will be the basis for guiding bridge design parameters, as well as providing information on water surface elevations and velocities in the pertinent slough channels (Watsonville Slough and Struve Slough).

In 2014, Balance completed work on the Watsonville Sloughs Hydrology Study, which was a combined hydrologic monitoring and modeling project designed to better understand the hydrology and hydraulics of the overall Watsonville Sloughs watershed. We welcome the opportunity to utilize the experience and familiarity that we gained from this work in order to effectively and efficiently accomplish the goals of the Lee Road Trail Project and pursue a focused work plan developed to provide you pertinent design guidance in an efficient manner.

Work Plan

Task 1: Data Collection and Backgrounding

Time in this task is allotted for compilation of base mapping files in coordination with your team and for requesting the currently-effective hydraulic modeling files from the FEMA Engineering Library (with associated fees paid to FEMA). This task assumes that the currently-effective FEMA model will be available through the request to the FEMA Library, and that the slough discharge values in the effective Flood Insurance Study are still valid.

Task 2: Hydraulic Modeling

Work in this task will include updating the currently-effective Federal Emergency Management Agency (FEMA) one-dimensional hydraulic models for both sloughs where they may be impacted due to the trail alignment to appropriately represent currently existing conditions and proposed conditions. Hydraulic modeling will be carried out using the U.S. Army Corps of Engineers' HEC-RAS software platform. The hydraulic models will be parameterized (e.g. hydraulic roughness, grade breaks, etc.) and updated using information from our site visit and photographs, bridge design information from the project team, and any pertinent survey data collected as part of the project.

Model builds will include up to two distinct potential geometries representing alternatives for the new bridge design over Struve Slough, with model runs completed to aid in the selection of the preferred structure type and dimensions. Balance staff will reserve some time to coordinate both with the project team and with regulatory agency staff (for example, U.S. Army Corps of Engineers, California Department of Fish and Wildlife, etc.) to vet performance and design criteria.

The modeling will be used to characterize key hydraulic parameters that will be explicitly considered in the selection of the preferred bridge crossing geometries and configurations (i.e. during the 30% design plans phase). These parameters include predicted water surface elevations for design flow values and historical water surface elevations, potential bridge debris loading, and the desired bridge design life. These parameters will inform our bridge design recommendations. Additionally, performing the modeling using the HEC-RAS platform will assure that analyses are completed in a format that can be used for coordination with FEMA with respect to floodplain mapping requirements and criteria, should that prove necessary.¹ This task assumes that a Location Hydraulic Study is not needed for the project permitting progress, but if state or federal agency involvement requires one, this work could be completed under a separate authorization.

Task 3: Draft and Final Design Basis Report

We will prepare a design basis report (DBR) that summarizes our findings and design recommendations. This DBR will discuss basis for hydraulic design recommendations, as well as the outcomes of the design alternatives assessment. The report will include relevant descriptions, graphs, figures, photos, and calculations that support our findings, but will not include a project workmap. Time is allotted in this task for one set of comments and revisions to the report to go from a draft to a final version.

¹ This scope of work anticipates that the project team will work toward a trail and channel crossing configuration that can avoid the need for processing a Conditional and then Final Letter of Map Revision (LOMR) with FEMA due to adverse impacts related to flood hazards. Both Watsonville Slough and Struve Slough have defined jurisdictional floodways, and any encroachments therein would trigger a LOMR process unless it can be demonstrated that there is "no rise" in base flood elevations. At this point, an avoidance or "no rise" configuration for the crossings appears possible and would avoid the cost and timeline implications of a CLOMR and Final LOMR process. The proposed Design Basis Report would provide documentation of the "no rise" determination, and as a result, would not include a project workmap.

Rodney Cahill, P.E.
January 2, 2019
Page 3

Task 4: Permitting Assistance

In this task, Balance will provide potentially required data, results, or language for the purposes of permit application and review, including technical information to support completion of Project review under CEQA. This task does not currently include an in-person visit for permit review and discussion, but time can be added to facilitate the permit process, if needed.

Task 5: Project Management and Team Communication

A modest budget has been included to account for time spent communicating with you and within the project team regarding this scope of work, contracting requirements, and reporting on project progress.

Estimated Budget and Timeline

The anticipated cost for completing Tasks 1 through 5 of the work plan is summarized in the attached Tables 1 and 2. We suggest billing on a time and materials basis not to exceed this value without your prior authorization. We have reviewed the task list and timeline that you provided to us, and we will make every effort to meet the schedule that you have outlined.

Closing

Thank you again for requesting this scope of services. The work would be very much in line with our expertise, and we truly appreciate the opportunity to contribute to the design of this trail and bridge in a prompt and efficient manner.

Please do not hesitate to contact Balance if you have any questions or comments related to this scope or the work approach suggested.

Sincerely,

BALANCE HYDROLOGICS, Inc.



Montana Marshall
Engineer/Hydrologist



Edward Ballman, P.E.
Principal Engineer

Enclosures: Table 1. Anticipated Staff Hours by Task
Table 2. Estimated Costs

Table 1. Anticipated Staff Hours by Task
218223 Lee Road Trail Bridge - Hydrologic and Hydraulic Design and Permitting Assistance

| Task Number and Description | Principal | Sr. Staff Professional | Assistant Professional | GIS/CADD Senior Analyst | Sr. Proj Admin | Sr. Report Specialist | Labor Costs For Task |
|---|-----------|------------------------|------------------------|-------------------------|----------------|-----------------------|------------------------------------|
| Hourly Rate | \$210 | \$160 | \$125 | \$125 | \$105 | \$90 | |
| Phase 1 | | | | | | | |
| Task 1.1. Data Collection and Backgrounding | | 2 | 4 | | 1 | 1 | \$1,015 |
| Task 1.2. Hydraulic Modeling | | | | | | | |
| 2.1 Compile updated existing HEC-RAS model build | | 2 | 10 | 2 | | | \$1,820 |
| 2.2 Compile preliminary proposed HEC-RAS model build | 1 | 2 | 8 | 2 | | | \$1,780 |
| 2.3 Coordination with project team and regulatory agencies on preliminary results | | 2 | 2 | | | | \$570 |
| 2.4 Model runs of two alternatives | | 4 | 8 | | | | \$1,640 |
| 2.5 Coordination with team on selection of preferred alternative | | 2 | 2 | | | | \$570 |
| 2.6 Final model runs | 1 | 2 | 6 | | | | \$1,280 |
| Task 1.3 Lee Road Crossing at Watsonville Slough - Hydraulic Recommendations | 1 | 6 | 8 | 2 | | | \$2,420 |
| Task 1.4 Draft Design Basis Report | 1 | 4 | 8 | 2 | 1 | 1 | \$2,465 |
| Task 1.5 Project Management and Team Communications | | 3 | 1 | | 1 | | \$710 |
| Phase 2 | | | | | | | |
| Task 2.1 Final Design Basis Report | | 2 | 6 | | | 1 | \$1,330 |
| Task 2.2 Permitting Assistance | 1 | 6 | 2 | | | | \$1,420 |
| Task 2.3 Project Management and Team Communications | | 1 | 1 | | 1 | | \$390 |
| Subtotal Hours | 5 | 38 | 66 | 8 | 4 | 3 | |
| Total Hours | 128 | | | | | | |
| | | | | | | | TOTAL LABOR \$17,410 |
| | | | | | | | Expenses from Table 2 \$432 |
| | | | | | | | GRAND TOTAL \$17,842 |

Notes:



Mid Coast Engineers
Civil Engineers and Land Surveyors

70 Penny Lane, Suite A - Watsonville, CA 95076

Phone: (831) 724-2580

Email: jsn@midcoastengineers.com

Jeff S. Nielsen
Land Surveyor

November 30, 2018

Rodney Cahill, P.E., LEED AP

Principal

MME

Civil + Structural Engineering

224 Walnut Avenue, Suite B

Santa Cruz, CA 95060 T:831.426.3186 x101

rodney@m-me.com, www.m-me.com

Re: RFP | Surveying Services | Lee Road Trail, Watsonville

Mr. Cahill,

Fee proposal (\$ 17,200) is to provide land surveying and mapping services within the subject right of way strip of approximately 6,700 feet in length as follows:

1. Field Survey (\$ 10, 800)

Topo & ROW survey, 50 ' stations, improvements, utilities, spot elevations, 1' contours, geo-referenced high-res imagery

2. CAD Mapping (\$ 6,400)

See attached image regarding subject strip location.

Regards,

Jeff S. Nielsen, P.L.S.



Kittleson Environmental Consulting

3284 Malibu Drive, Santa Cruz, CA 95062
Mobile & Voicemail: 831-251-0215 Fax: 831-479-0138
e-mail: garykit@pacbell.net

11/28/2018

ATTENTION:

Rodney Cahill
MME Civil + Structural Engineering
224 Walnut Avenue, Suite B
Santa Cruz, CA 95060

Proposal:

Lee Road Trail Project Biological Assessment

Kittleson Environmental Consulting (KEC) is pleased to submit this proposal to conduct a Biological Assessment for the Lee Road Trail Project in south Santa Cruz County, California.

KEC will conduct a site visit to review proposed trail alignment and engineering designs and assess habitat conditions in and around the proposed trail alignment. The deliverable product will be a Biological Assessment that (1) characterizes and maps project area habitats, (2) provides a list of potentially impacted sensitive and protected plant and animal species, and (3) assesses potential project impacts.

The Biological Assessment will provide avoidance, minimization and mitigation measures for impacts to biological resources. Based on our discussions, CEQA documents and related land use planning tasks will be done by others. A few hours are included for coordination with City staff and whoever is responsible for CEQA.

The estimated proposal cost is \$3,022.00. A task by task budget is included below.

| Task | Hours | Rate | Total Cost |
|-----------------------------------|-------|----------|-------------------|
| Project Management/Coordination | 4.0 | \$125.00 | \$500.00 |
| Field Survey | 8.0 | | \$1,000.00 |
| Biological Assessment Deliverable | 12.0 | | \$1,500.00 |
| Sub-total = | 24.0 | | \$3,000.00 |
| Expenses | | | |
| Mileage (40 mi.@ \$0.55) | | | \$22.00 |
| INVOICE TOTAL | | | \$3,022.00 |

Gary Kittleson

City of Watsonville
Public Works Department



M E M O R A N D U M

DATE: February 12, 2019

TO: Matthew D. Huffaker, City Manager

FROM: Steve Palmisano, Director of Public Works & Utilities
Michelle Templeton, Public Works & Utilities Assistant Director

SUBJECT: Climate Action Plan Progress Report

AGENDA ITEM: February 26, 2019 City Council

RECOMMENDATION:

It is recommended that City Council, by motion, accept the Climate Action Plan 2018 Progress Report and that staff continue to coordinate with climate action partners and assess 2030 Climate Action goals.

PROGRAM BACKGROUND:

On February 24, 2015, the Watsonville City Council adopted the City of Watsonville Climate Action Plan. This plan called for a progress report prior to the development of a comprehensive update to the document in 2020 (assessment and revision of most effective measures and goals). This 2018 Progress Report summarizes progress made towards implementing the CAP measures, including estimates of the greenhouse gas (GHG) reductions and identification of any additional goals or indicators associated with each action.

DISCUSSION:

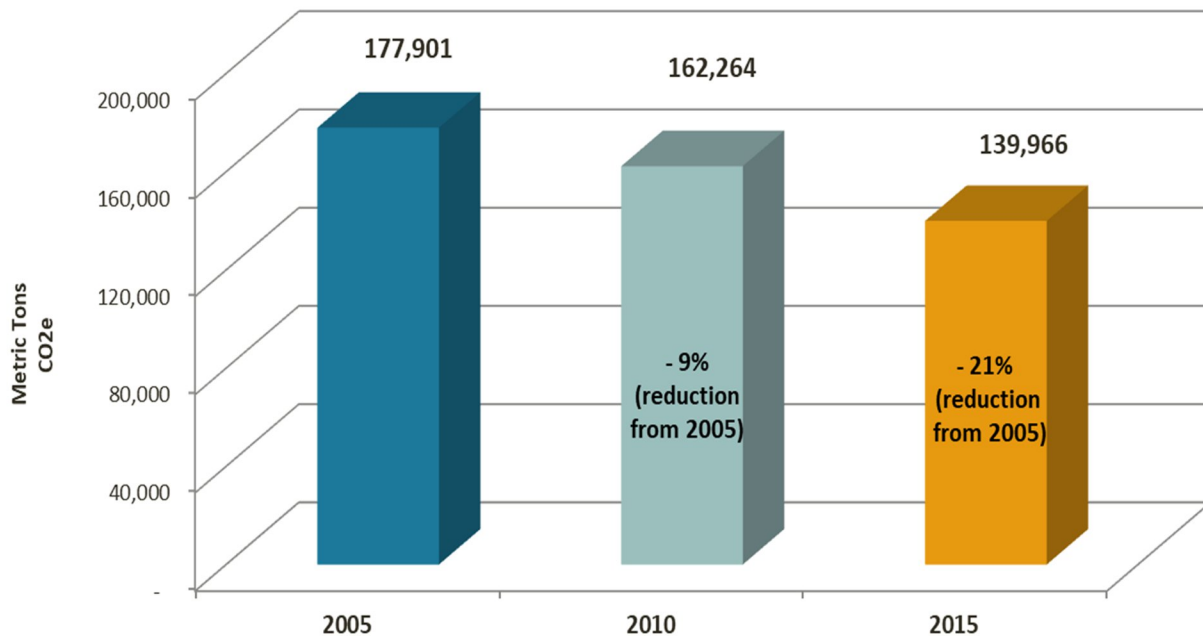
The City of Watsonville is proud to announce that it has exceeded its 2020 goals for GHG emission reductions. Since that time, the most significant reduction in GHG emissions in Watsonville is a result of the formation of, and membership in, the new three-county community choice aggregation agency: Monterey Bay Community Power (MBCP). By participating in MBCP, the City is saving roughly 35,700 metric tons of carbon dioxide equivalent (MT CO₂e) annually resulting in exceeding 2020 GHG reductions goal by about 72 percent.

The 2018 reductions have put Watsonville on track to meet 2030 GHG reduction goals. Staff recommends that the City continue to coordinate with climate action partners through 2019 to prepare for the 2020 update to the Watsonville Climate Action Plan. This would include looking at new GHG emission reduction opportunities and programs available while re-prioritizing existing measures to achieve the most cost effective and highest impact reductions.

The City of Watsonville met the 2020 target in 2015!

Emissions were reduced by more than 20%, the equivalent of reducing emissions back to 1990 levels.

City of Watsonville 2005 to 2015 GHG Emissions



STRATEGIC PLAN:

The Watsonville Climate Action Plan 2018 Progress Report is consistent with the City Council's strategic plan in Focus Area 3 – Infrastructure and Environment.

Additionally, the plan helps promote a sustainable community and align with goals outlined in the Urban Greening Plan, promotes economic development through the use of green technology, decreases reliance on the reserve fund through increased grant funding and energy efficiency savings, and improves the short and long term health and safety of Watsonville residents as it pertains to climate impacts such as heat effects on sensitive community members, increased severity impact of flood/drought fluctuations, and the impacts on specific job sectors.

FINANCIAL IMPACT:

Receiving this Watsonville Climate Action Plan 2018 Progress Report will not have a financial impact on the City.

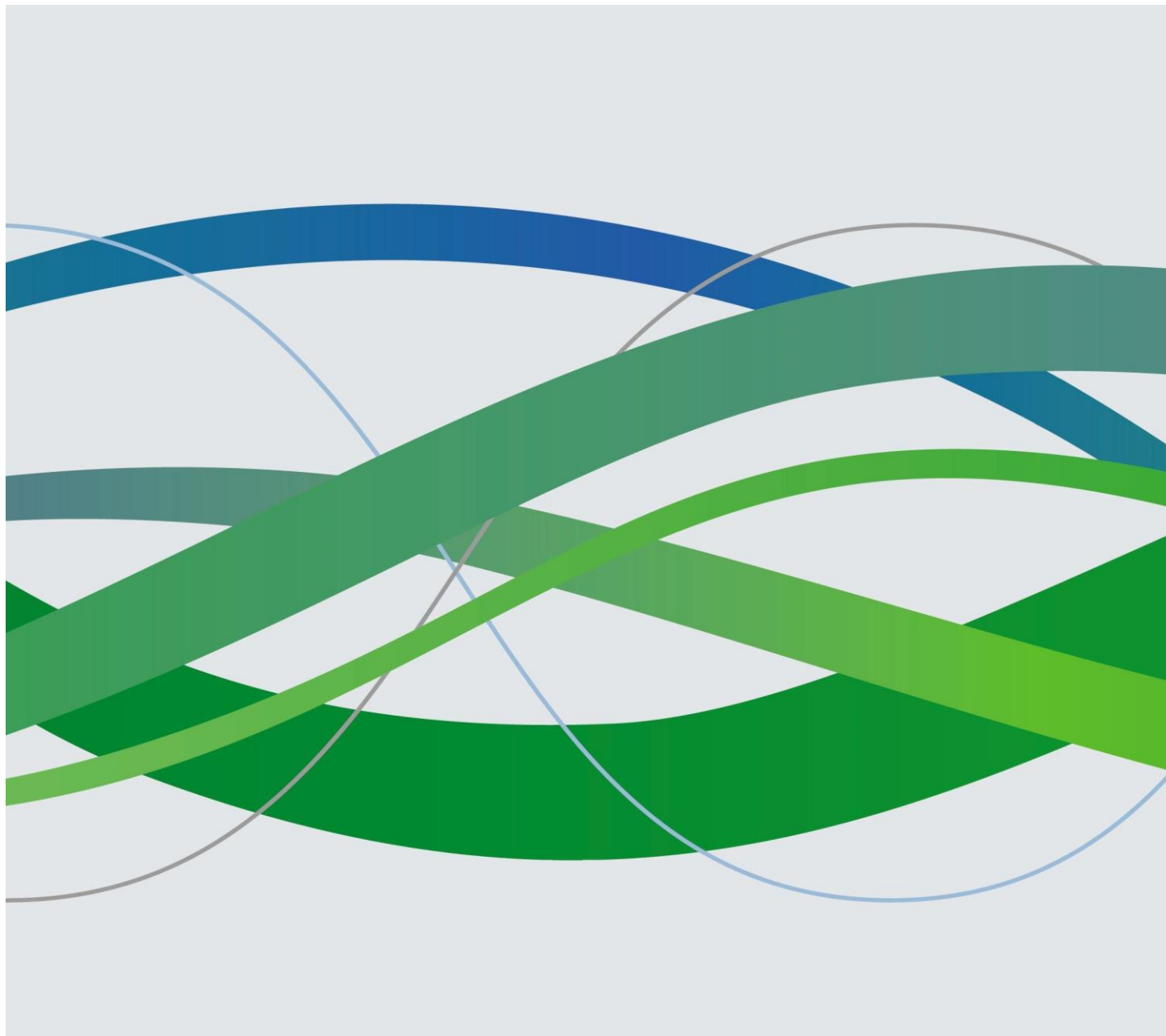
ATTACHMENTS:

1. Watsonville Climate Action Plan 2018 Progress Report

cc: City Attorney

City of Watsonville Climate Action Plan 2018 Progress Report

Public Review Draft: February, 2019



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Table of Contents

| | |
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| Table of Contents | i |
| Introduction | 1 |
| Progress on GHG Reduction Goals | 1 |
| Sector-by-Sector Analysis | 3 |
| Energy Sector | 3 |
| Transportation Sector | 10 |
| Water and Wastewater Sector | 13 |
| Solid Waste Sector | 15 |
| Green Buildings, Green Businesses, and Local Food Sector | 16 |
| Climate Adaptation | 19 |
| Conclusions and Recommendations | 21 |
| Exhibit A: GHG Emission Reduction Calculations – Solid Waste | 23 |

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City of Watsonville Climate Action Plan

2018 Progress Report

Introduction

On February 24, 2015, the Watsonville City Council adopted the *City of Watsonville Climate Action Plan* (2015 CAP). This Progress Report summarizes progress made towards implementing the CAP measures, including estimates of the greenhouse gas (GHG) reductions associated with each implementation measure, where possible, and identification of any additional goals or indicators associated with each action.

The information contained in this progress report has been compiled through personal interviews, email correspondence, and phone calls with City staff, the Association of Monterey Bay Area Government (AMBAG), Central Coast Energy Services, Ecology Action, and several others. Much of the information is based on data collected from projects and programs. However, some general trends do not have direct correlations to all of the efforts described in this plan. This progress report was prepared by ZeroCity LLC, which along with OurEnergy, has teamed with Sage Renewable Energy Consulting, Inc. to provide energy consulting services to the City of Watsonville.

Progress on GHG Reduction Goals

The 2015 CAP set GHG reduction goals as follows:

- Year 2020 = 15% below 2005 Levels
- Year 2030 = 25% below 2005 Levels
- Year 2050 = 80% below 2005 Levels

According to the 2015 CAP, Watsonville was in a good position to achieve its 2020 GHG reduction goal of 15% at the time that the 2015 CAP was adopted. The plan reported that Watsonville had reduced its GHG emissions by 14% between 2005 and 2010. Since that time, the City has made even more progress. In AMBAG's recently published report: "2015 Community-Wide Greenhouse Gas Inventory,"¹ reported that by the end of 2015, Watsonville had not only met its 2020 goals but had surpassed them to achieve a 21.7% GHG reduction. A breakdown of savings by sector is presented in Figure 1.

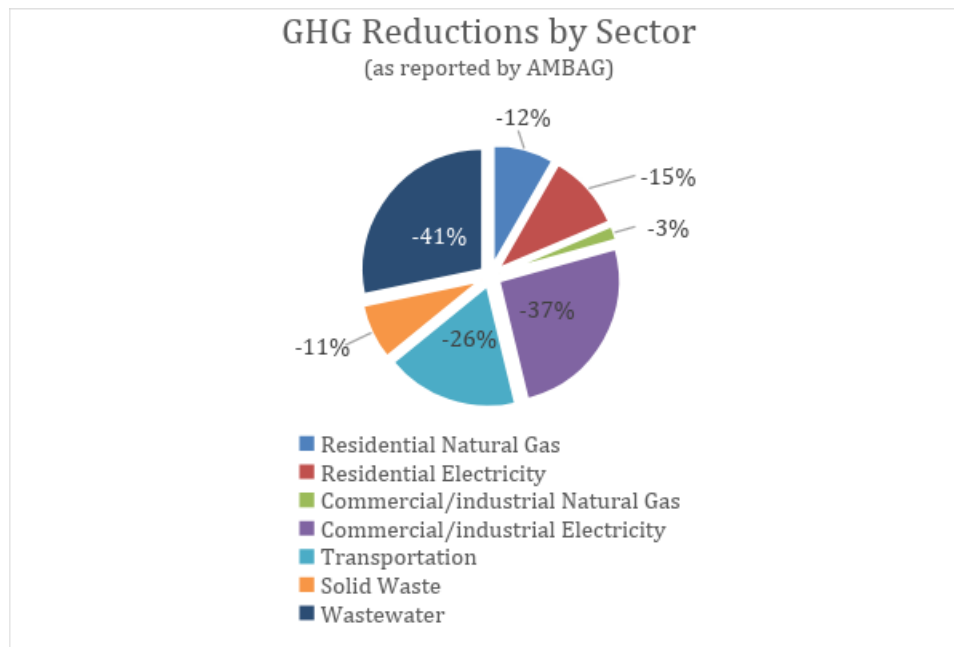
Achieving 2030 goals will be challenging. First, it should be noted that in 2016, the year after the CAP was finalized, the State of California set a GHG emission reduction goal for 2030 of 40% below 1990 levels. This exceeds Watsonville's own 2030 GHG reduction goal of 25%, and adjusting Watsonville's goal upward to reflect this State goal would be one of the first orders of business when Watsonville undertakes the 2020 update to its Climate Action Plan. Second, the actions needed to achieve 2030 goals may be more difficult than those taken since 2005.

However, many steps have been taken to try to keep Watsonville moving towards that goal. Since 2015, the City of Watsonville has undertaken many energy upgrades that have reduced GHG emission well beyond the 21.7% reported in AMBAG's 2015 report. One of the most significant reductions in GHG emission in Watsonville since 2015 was due to the formation of, and membership in, the new three-county community choice aggregation agency: Monterey Bay Community Power (MBCP). By participating in MBCP, the City of Watsonville is saving roughly 35,700 metric tons of carbon dioxide equivalent (MT CO₂e) annually.² The GHG reductions achieved by membership in MBCP have put Watsonville further on track to meet its 2030 goal.

¹ AMBAG Energy Watch, June 2018

² Savings produced by MBCP membership were not captured in AMBAG's 2015 Report but will be captured when AMBAG produces its next GHG inventory update, expected in 2022 or 2023.

Figure 1. GHG Reductions by Sector (2005 to 2015)*



Source: AMBAG, 2019

Note: *Does not include savings attributable to MBCP membership

The reductions shown in Figure 1 were attributable to the following factors:

- The emissions reduction in the residential sector is due to changes in the usage patterns of electricity and natural gas. These changes are probably due to increased energy efficiency, increased renewable energy production, and a lowered need for heating. For electricity, changes in the production mix from 2005 to 2015 (to include more renewables and large hydro) also probably contributed to the reduction.
- The emissions reduction in the commercial sector can be explained by the same factors as for the residential sector. It is also likely true that some industrial cooling facilities had stopped operating, which could explain the higher decrease in electricity emissions.
- In the transportation sector, the emission reductions are likely attributed to two major factors. First, the overall fuel efficiency of vehicles improved from 2005 to 2015, helping lower emissions. Second, less travel occurred on Watsonville's local roads in 2015 as compared to 2005.
- In the Solid Waste sector, a decrease in the amount of waste sent to landfill is the most likely source of the emissions reduction. This may be due to an increase in the diversion rate from 2005 to 2015, as recycling education and outreach by staff increased and recycling became more accepted. However, new challenges with the recycling market in China may have an impact on this sector and will force new solutions to be explored.
- In the Wastewater sector, the emissions reduction is explained by the implementation of several energy efficiency projects that reduced energy usage at the facility. Watsonville recognizes clear efforts to reduce GHG emissions since 2015. It should also be noted that achieving the 2020 reduction goals required a lot of hard work by a City with limited resources. Achieving the new 40% GHG reduction goal by 2030 will be harder. This work is supported by membership in MBCP, but meeting the 2030 and 2050 goals will require commitment bold choices, and brave leadership.

Sector-by-Sector Analysis

The GHG reduction policies and programs contained in the 2015 CAP are organized into five sectors: energy; transportation; water and wastewater; solid waste; and green buildings, green businesses, and local food.

ENERGY SECTOR

This section of the Progress Report addresses the energy sector. According to the 2015 CAP, the consumption of electricity and natural gas account for approximately half (49%) of all GHG emissions in Watsonville. The 2015 CAP sets a goal of reducing GHG emissions in the Energy Sector by 5,925 MT CO₂e for 2020 and by 15,535 MT CO₂e for 2030.

Watsonville has made significant progress in reducing GHG emissions in its energy sector. Highlights of this progress include: membership in MBCP, the installation of solar panels on municipal rooftops, and collaboration with AMBAG to undertake additional energy efficiency retrofits. A detailed summary of energy sector activities is presented below.

Energy - Citywide Street Tree Plan

The City of Watsonville has taken a number of steps to improve the urban forest, recognizing that trees sequester carbon from the atmosphere and provide environmental and energy-saving benefits that result from shading, which reduces the need for energy use such as heating and air conditioning. Trees also offer other benefits that enhance quality of life and economic vitality in the community such as reduced traffic speeds, improved pedestrian safety, reduced property related crimes, increase in business, and increased property values to name a few. As identified in a 2012 Urban Greening Plan, Watsonville has a dearth of street trees and canopy coverage of only 7.8%. The goal is of a 40% canopy coverage, or an additional 46,600 trees, is needed to maximize the benefits of our Urban Forest.

By working with Watsonville Wetlands Watch and other community partners, efforts are underway to add trees and enhance green space around the city including the following:

- Develop tree planting and replacement plan and urban Forestry Management Plan
- Planting trees along arterial corridors and renovating street medians
- Expand and restore urban forests by planting trees in City Parks
- Planted a total of 193 trees since 2016
- Securing \$340,182 Urban Forestry Grant through CAL-Fire (that would include an additional 150 trees planted and community education/outreach)
- Securing \$1.35 million-dollar Urban Greening Grant through the California Natural Resources Agency (includes funds for bicycle facilities, tree plantings, and other park improvements)

The Citywide Street Tree Plan provides a large opportunity for growth as the City continues to work to increase the tree canopy coverage from 8% to 40%.

Energy - Energy Watch Programs and Other Utility Energy Efficiency Programs

Since 2015, the City of Watsonville has focused on energy efficiency in street and traffic lights. The Public Works Department has replaced all high-pressure sodium street lights with new LED fixtures, which reduced energy consumption by 50% and 175 MT CO₂e per year. It also converted traffic signal lights to energy-saving LED's.

With regard to building energy efficiency, the City of Watsonville has:

- Retrofitted the lights in all City buildings from T-10 to more efficient T-8 fixtures.
- Benchmarked all City facilities using Portfolio Manager Tool, which allows City staff to track energy usage and the impacts of energy efficiency retrofits and behavioral change campaigns.
- Converted waste from restaurant grease traps to energy at the Wastewater Treatment Plant,
- Added new facilities to increase the amount of landfill gas that is captured and used to generate electricity.

In 2018, the AMBAG Energy Watch program completed an energy audit of the City of Watsonville facilities and identified energy efficiency opportunities at 27 locations. When installed, this energy efficiency retrofit is projected to save 854,000 kWh annually and will save the city \$146,000 in annual in energy bills.

Table 1 presents the detailed costs, annual savings and rebates for each site. The total cost for this project is projected to be \$762,346. The AMBAG Energy Watch rebate will provide \$182,877 toward these costs. This rebate will fund 24% of the City of Watsonville's energy efficiency project. PG&E zero-percent on-bill financing will fund the remaining \$579,470 of project costs. This project is a significant step in implementing the City of Watsonville's Climate Action Plan as internal efficiency reduces the City's footprint and reduces greenhouse gas emissions.

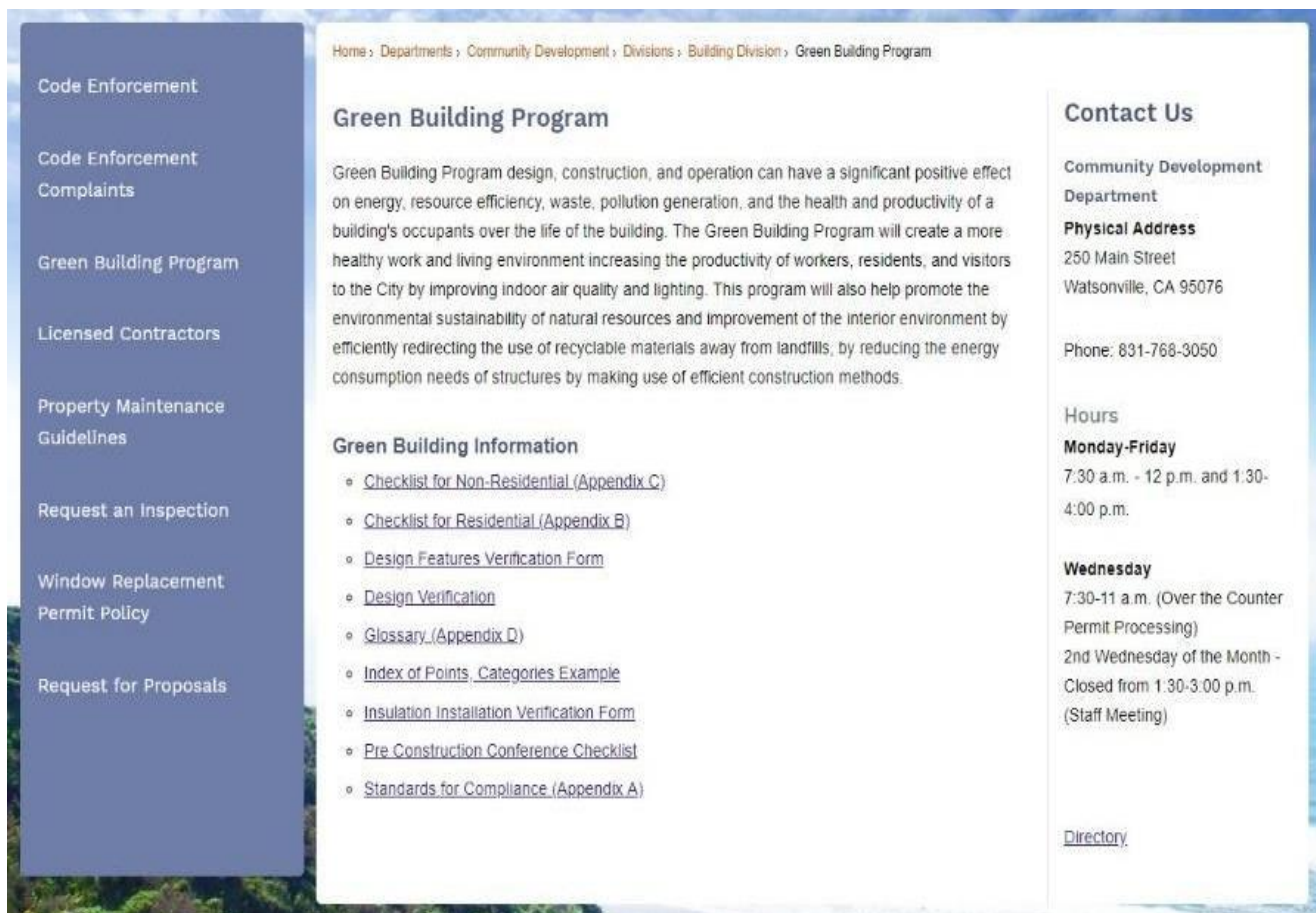
Table 1: Energy Watch 2019 City-Wide LED Lighting Project

| Site # | Site | Install Cost (\$) | Rebate (\$) | Loan Amount (\$) | Estimated Utility Savings (\$) | kWh Savings | ROI (Years) |
|--------|--------------------------------|-------------------|------------------|------------------|--------------------------------|----------------|-------------|
| 1 | City Hall | \$67,073 | \$12,671 | \$54,401 | \$11,808 | 53,673 | 4.61 |
| 2 | Watsonville Civic Plaza | \$ 17,756 | \$3,766 | \$13,990 | \$4,882 | 24,002 | 2.87 |
| 3 | City Plaza | \$3,208 | \$1,397 | \$1,810 | \$1,573 | 11,856 | 1.15 |
| 4 | Watsonville Airport Center | \$ 23,394 | \$11,770 | \$11,624 | \$10,657 | 47,088 | 1.09 |
| 5 | Airport Office | \$168,698 | \$20,000 | \$148,698 | \$12,457 | 81,321 | 11.94 |
| 6 | City Landfill | \$7,911 | \$2,093 | \$5,818 | \$1,578 | 8,769 | 3.69 |
| 7 | FOWLE Reservoir | \$ 10,987 | \$3,842 | \$7,146 | \$2,244 | 11,191 | 3.18 |
| 8 | Corralitos Filtration Plant | \$ 14,024 | \$3,925 | \$10,099 | \$1,301 | 11,964 | 7.76 |
| 9 | Vista Well Site | \$2,816 | \$1,049 | \$1,767 | \$1,021 | 3,699 | 1.73 |
| 10 | PAL | \$2,389 | \$329 | \$2,059 | \$344 | 859 | 5.99 |
| 11 | PAL Caminos | \$3,657 | \$992 | \$2,665 | \$1,038 | 1,887 | 2.57 |
| 12 | Franich Park | \$6,853 | \$1,856 | \$4,997 | \$3,746 | 12,794 | 1.33 |
| 13 | Municipal Service Center | \$ 40,407 | \$10,327 | \$30,080 | \$8,464 | 47,022 | 3.55 |
| 14 | Callaghan Park Cultural Center | \$4,333 | \$712 | \$3,621 | \$912 | 3,877 | 3.97 |
| 15 | Nature Center | \$1,861 | \$128 | \$1,733 | \$81 | 534 | 21.36 |
| 16 | Pinto Lake Park | \$7,640 | \$3,205 | \$4,436 | \$2,795 | 19,518 | 1.59 |
| 17 | Marinovich Comm Center | \$ 12,589 | \$1,430 | \$11,159 | \$1,857 | 8,754 | 6.01 |
| 18 | Muzzio Comm Center | \$ 10,619 | \$1,155 | \$9,465 | \$887 | 5,460 | 10.67 |
| 19 | River Park | \$1,416 | \$508 | \$908 | \$456 | 2,957 | 1.99 |
| 20 | Veterans Memorial Bldg | \$ 19,805 | \$5,503 | \$14,302 | \$2,511 | 13,214 | 5.70 |
| 21 | G.H.W.R. Youth Center | \$ 26,907 | \$4,865 | \$22,042 | \$3,090 | 17,164 | 7.13 |
| 22 | Ramsay Park | \$ 50,898 | \$20,967 | \$29,931 | \$9,045 | 47,607 | 3.31 |
| 23 | Watsonville Fire Station I | \$ 24,164 | \$10,765 | \$13,398 | \$5,469 | 37,807 | 2.45 |
| 24 | Watsonville Fire Station II | \$ 15,856 | \$7,994 | \$7,863 | \$5,213 | 28,955 | 1.51 |
| 25 | Beach Street Parking Garage | \$ 18,069 | \$4,790 | \$13,278 | \$4,286 | 29,938 | 3.10 |
| 26 | Wastewater Treatment Plant | \$120,584 | \$32,657 | \$87,928 | \$33,558 | 197,403 | 2.62 |
| 27 | Watsonville Police Station | \$ 78,434 | \$14,198 | \$64,236 | \$14,964 | 124,697 | 4.29 |
| | | \$762,346 | \$182,893 | \$579,453 | \$ 146,235 | 854,010 | 3.96 |

Source: AMBAG Energy Watch, 2019

The City of Watsonville has implemented a Green Building Program and has dedicated a page on its website to information about green buildings. Figure 2 below shows a screenshot of the City’s Green Building webpage.

Figure 2. Green Building Webpage



Source: <https://www.cityofwatsonville.org/152/Green-Building-Program>

Additionally, on August 23, 2016, the Watsonville City Council adopted Resolution No. 152-16 to join the California HERO Program, a property assessed Clean Energy (PACE) Program that allows community members to access loan funding to implement green building retrofits.

Energy - Solar PV Installed to Date

The City of Watsonville has installed solar panels at three City facilities since 2010. These facilities include: City Hall, MSC, and the Watsonville Water Resources Center. Together, these solar panels generate over 850,000 kWh per year and save money on the City’s utility bill. These solar panels reduce CO₂ emissions by an estimated 586 tons per year.³

³ MBCP’s carbon-free electricity essentially eliminates the GHG emission reduction benefit of installing solar panels, because replacing MBCP’s carbon-free power with solar power results in no net decrease in GHG emissions. Nonetheless, power generated from solar panels is considered “renewable” (as opposed to just carbon free) and remains an important tool in meeting the Renewable Portfolio Standard set by the state of California. Roof-top solar also reduces energy bills, which is a critical component in the effort to electrify homes and businesses.

Energy - New Renewable Energy Installation Through Incentives and Outreach

On August 25, 2015, the City of Watsonville adopted Ordinance No. 1322-15, which brought the City into compliance with Government Code §65850.5, which requires local government to create an expedited, streamlined permitting process for small residential rooftop solar energy systems.

In addition, in late 2017, the City of Watsonville hired a team headed by Sage Renewable Energy Consulting, Inc. and including OurEnergy and ZeroCity LLC, to undertake a feasibility study to identify opportunities to further develop renewable energy resources. This feasibility report, which is still under development, may identify additional solar power capacity and/or energy efficiency upgrades.

Energy - Outreach to Businesses to Increase Participation in Energy Watch / PG&E Programs

This activity has been undertaken as part of the City's effort to enroll businesses in the Green Business Program, which is reported in a subsequent section.

Energy - Partner with School Districts to Encourage Solar on Schools

The City of Watsonville is a member of AMBAG's Regional Energy Advisory Committee, and through this committee partners with the Pajaro Valley Unified School District to address energy issues. Elisabeth Bertrand, Special Projects Director at AMBAG's Energy Watch, reported that the Pajaro Valley Unified School District has undertaken various energy reduction measures, including:

- 100% exterior lighting upgraded to LED (28 sites);
- Interior lighting at all high schools and three middle schools upgraded to LED;
- Installation of six solar photovoltaic systems;
- Installation of lighting controls in classrooms;
- Replacement of 15 furnaces at Cesar Chavez Middle School with high-efficiency units;
- Replacement of 43 furnaces at Watsonville High School with high-efficiency units; and
- Support for Proposition 39-funded energy projects at four charter schools.

Together, these projects have reduced GHG emissions by 1,395 MT CO₂e annually. This includes 1,584,127 kWh from energy efficiency, 7,532 therms through HVAC improvements, and 1,200 kW of solar energy generation capacity.

Energy - Monterey Bay Community Power

In 2017, the City of Watsonville joined with 18 other jurisdictions in the three-county Monterey Bay Region (Monterey, Santa Cruz, and San Benito Counties) to form Monterey Bay Community Power (MBCP), a community choice aggregation agency. MBCP began commercial service in March 2018 and residential service in July 2018, providing 100% carbon-free and renewable energy to its customers.

As a result of its participation in MBCP, Watsonville expects to significantly reduce GHG emissions from existing and new development, as well as government operations. According to the AMBAG "2015 Community-wide Greenhouse Gas Inventory" (June, 2018), 31% of residential GHG emissions are from the use of electricity (69% from natural gas). For commercial and industrial customers, 55% of emissions are from the use of electricity. Together these two sources—residential and commercial/industrial—make up 57% of all community GHG emissions (transportation makes up 34%, and solid waste/wastewater makes up the remaining 9%).

By participating in Monterey Bay Community Power (MBCP), the City of Watsonville is saving roughly 35,700 MT CO₂e annually.⁴ This one action means that in 2018, the City of Watsonville exceeded its local 2020 GHG reduction goal by approximately 72%. These 2018 reductions have also put Watsonville on track to achieve its 2030 GHG reduction goal.

⁴ MBCP is able to achieve these GHG reductions because 100% of the energy it procures for its portfolio is generated by carbon-free sources, such as hydropower, wind power, and solar power. In essence, all electricity consumed in Watsonville is now generated without GHG emissions.

Currently, 68% of this local goal has been achieved solely through membership in MBCP. Table 2 shows GHG reductions associated with participating in Monterey Bay Community Power.

Table 2: GHG Emission Reductions Attributable to MBCP

| Energy Sector | Total GHG Emissions (MT CO2e) | % Electricity | Electricity-Generated GHG Emissions (MT CO2e) |
|--|-------------------------------|---------------|---|
| Residential | 34,119 | 31% | 10,577 |
| Commercial/Industrial | 45,671 | 55% | 25,119 |
| Total GHG Reduction⁵ | 79,790 | | 35,696 |
| | | | |
| Reduction Measures⁶ | 2020 | 2030 | |
| Local Measures | 9,935 | 30,207 | |
| RPS adjustment | 10,812 | 12,376 | |
| Title 24 adjustment | -- | 10,164 | |
| Adjusted Local Target | 20,747 | 52,747 | |
| MBCP Reductions | 35,696 | 35,696 | |
| Balance | 14,949 | -17,051 | |
| Percent of Goal | 172% | 68% | |

Source: ZeroCity LLC, 2018

In 2018, MBCP delivered \$4.4 million in rebates throughout the three-county region. In Watsonville alone, MBCP delivered \$282,526 in cost savings. In 2019, MBCP's 3% rebate will slightly increase to 3.3% savings over what customers would have paid PG&E for electricity generation. Figure 3 shows a graphic produced by MBCP advertising the costs savings produced in 2018.

Figure 3. MBCP Cost Savings for Watsonville



Source: MBCP, 2019

⁵ This assumes 100% participation in MBCP; In fact, participation is slightly less than 100%, but for the purposes of the 2018 Progress Report, this approximation is appropriate.

⁶ Savings attributed to Regional Portfolio Standard (RPS) are redundant with savings achieved through MBCP, so need to be subtracted from expected savings from State-level policies. Title 24 savings are more complicated. Title 24 savings related to electricity savings are also redundant with savings achieved through MBCP, but savings that affect the amount of natural gas used in residences is not. For the purpose of this analysis, we assume that 31% of Title 24 savings are redundant and the remaining 69% still apply. This mirrors the proportion of residential energy use as it is divided between electricity and natural gas usage. This is a very rough approximation but one that adequately serves the purpose of this 2018 Progress Report.

Energy - Promote Advanced Meter Infrastructure

Energy management systems (EMS) are computer-aided tools used by building managers to monitor, measure, and optimize the performance of a facility's energy endpoints, from heating, ventilation, and air conditioning (HVAC) and lighting, to refrigerators and more.

Energy - Home Energy Assistance Program (Supporting Program)

The City of Watsonville has partnered with Central Coast Energy Services (CCES) to implement a number of successful energy and water conservation programs, including HEAP, which provides payment assistance with home energy bills, weatherization services for eligible applicants, and a water demand reduction program for homes and businesses. The City Council also passed a resolution in support of Low-Income Home Energy Assistance Program (LIHEAP) when the funding was threatened under the new federal administration.

Table 3 below shows the number of projects undertaken by CCES since 2009 and the estimated amount of GHG reduction associated with the projects.

Table 3. CCES Energy and Water Conservation Projects

| Year | Job Count | Carbon Savings (MT CO ₂ e) |
|--------------|--------------|---------------------------------------|
| 2009 | 233 | 44.45 |
| 2010 | 372 | 60.85 |
| 2011 | 317 | 104.57 |
| 2012 | 183 | 53.76 |
| 2013 | 120 | 36.49 |
| 2014 | 105 | 38.52 |
| 2015 | 198 | 47.91 |
| 2016 | 123 | 41.00 |
| 2017 | 102 | 32.79 |
| 2018 | 67 | 23.80 |
| Total | 1,820 | 484.14 |

Source: Osmer/CCES, 2018

TRANSPORTATION SECTOR

This section of the Progress Report addresses the transportation sector. According to the 2015 CAP, transportation and mobile sources account for approximately 45% of all expected GHG emissions in Watsonville in 2020 and 2030. The 2015 CAP sets a goal of reducing GHG emissions in the Transportation Sector by 2,575 MT CO₂e for 2020 and 10,035 MT CO₂e for 2030.

Watsonville has made modest progress in reducing GHG emissions in its transportation sector. These are the most difficult of all reduction measures to achieve because they depend on changing human behavior and/or are heavily reliant on local program funding. Nonetheless, significant progress has been made in the Transportation Sector. The City has:

- Implemented a new vehicle selection policy which requires purchase of the most fuel-efficient vehicle that meets designated needs

- Implemented bicycle and pedestrian trails and routes throughout the City
- Included hybrids and all-electric vehicles in the City fleet
- Developed highly-efficient routes for garbage and recycling vehicles to reduce the number of vehicles and the amount fuel needed to provide service
- Hosted Santa Cruz Metro's first electric bus as highlighted in the following article:
<https://www.santacruzsentinel.com/2016/06/06/santa-cruz-metro-receives-grant-to-purchase-new-electric-bus/>

Transportation - Provide Bicycle and Pedestrian Amenities

The City of Watsonville has undertaken various bicycle and pedestrian improvements since 2015. These include:

- Pedestrian and bicycle perimeter trail at the new FedEx Watsonville facility, plus a connecting segment to link this trail to other parts of the Watsonville Slough Trail network;
- 150 feet of sidewalk (4-5 feet wide) at Harkins Slough Road and Ohlone Parkway (gap closure project);
- 250 feet of sidewalk (4-5 feet wide) at Main Street and Pennsylvania Drive (gap closure project);
- Curb ramp replacements/upgrades and correction of non-compliant driveways at 15 locations to comply with Americans with Disabilities Act
- Main Street improvements, including bulb-outs, crosswalks with flashing beacons, and pedestrian islands with trees
- Flashing beacons on crosswalk at Highway 129 and Watsonville High School
- Freedom Boulevard improvements (Freedom Boulevard to city limits), including upgraded bus stops; new bus shelter; curb, gutter, and sidewalks; pedestrian islands and flashing beacons at crosswalks; new sidewalk ramps; and 300 feet of new sidewalk
- Active Transportation Program, which includes:
 - Watsonville segment of Santa Cruz County Rail Trail
 - Funds for non-infrastructure bike and pedestrian safety
 - Business Bike Program
 - Pedestrian and bicycle counts
- Bike-to-Work days twice annually

Transportation - Implement "Safe Routes to Schools" Program

The City of Watsonville has undertaken safe-routes-to-school improvements since 2015. These include:

- Safe-Routes-to-School Plan, involving 15 schools in Watsonville (in collaboration with Ecology Action)
- "Walk Smart" and "Bike Smart" teaching programs in local schools by Ecology Action and Santa Cruz County Health Services Agency
- Earn-a-Bike Program, to train high school students to mentor junior high school students in areas of health, nutrition, and bike safety (students earn new bikes and helmets)
- Open Streets events to highlight bicycle and pedestrian safety activity
- Bike Tech Program
- Bulb-outs and sidewalks at various locations
- Police Department funding for Office of Traffic Safety
 - Bike helmet enforcement
 - Distracted driving enforcement (cell phone, texting, etc.)

Transportation -Support Car-Sharing and Regional Ridesharing

The Santa Cruz County Regional Transportation Commission continues to fund its Rideshare Program, which benefits Watsonville residents.

Transportation -Implement Neighborhood Traffic Calming Projects

The City of Watsonville has undertaken various traffic calming improvements since 2015. These include:

- Traffic roundabout at Pennsylvania Drive and Clifford Avenue
- Traffic roundabout at Ohlone Parkway and Manabe Ow Road (FedEx Facility)
- Installation of flashing signal at Airport Boulevard and Holm Road

Transportation -Promote Traffic Signal Synchronization and Other Intelligent Transportation System (ITS) Technologies

The City of Watsonville has undertaken traffic signal synchronization on Freedom Boulevard, involving adaptive controls at seven (7) traffic signals.

Transportation -Implement Formal Bike Lane and Bike Infrastructure Program

In 2017, the City of Watsonville approved an expenditure plan for transportation projects that include the construction of new bicycle lanes and safety improvements for existing bike lanes. These projects include:

- Reconstruction of Freedom Boulevard with bike share signage and pavement paint
- “Complete Street” Plan for Downtown Watsonville, including improvements on Rodriguez Street, Main Street, Union Street, and Brennan Street

In addition, on October 30, 2018, the City was awarded a \$1.35 million-dollar Urban Greening Grant through the California Natural Resources Agency that will fund pedestrian and bicycling facilities throughout Ramsay Park that connect to the existing slough trail network and major commuting corridors. This is part of a larger collaborative vision between various City departments and local non-profits to create more connectivity, through alternative transportation options, to school, work, shopping, and recreation for the residents of Watsonville.

Transportation -Work with METRO and Other Transportation Agencies in Conjunction with Local Land Use and Parking Policies to Increase Local Public Transit Ridership By 5% By 2020 and 20% By 2030.

The City of Watsonville has partnered with the Association of Monterey Bay Area Government (AMBAG) to develop a Sustainable Communities Strategy as part of California’s SB 375 mandates. The City of Watsonville also continues to work with Santa Cruz METRO and the Santa Cruz County Regional Transportation Commission on land use and parking policies to implement projects designed to decrease traffic and promote transit ridership.

Transportation -Promote Electric Vehicle Infrastructure (Supporting Program)

On August 23, 2016, the Watsonville City Council adopted Resolution No. 152-16 to join the California HERO Program, a property assessed Clean Energy (PACE) Program that, among other things, provides financing for electric vehicle charging infrastructure.

Transportation -Establish Distribution Points for Alternative Fuels Within Watsonville for General Use by the Public (Supporting Program)

In early 2018, a biofuel manufacturing plant that closed its doors two years ago has reopened under new ownership. Agron Bioenergy will produce biodiesel, a fuel made from animal and farm waste products. The reopened plant will produce 15 million gallons annually and employ 18 persons.

Transportation -Promote Infill Development Along Transit Corridors and in the Downtown (Supporting Program)

In 2016, the Community Development Department worked closely with AMBAG in preparing the Sustainable Communities Strategy (SCS) for the Monterey Bay region. As required by Senate Bill 375 (Steinberg 2008), the SCS

involves identifying the land use patterns and transportation projects which reduce per capita vehicle miles traveled and related GHG emissions.

In 2018, the Community Development Department prepared a request for proposals from urban design and planning consulting firms for the preparation of a Downtown Specific Plan. The Specific Plan will require an amendment of the Watsonville 2005 General Plan to allow the envisioned intensification of Downtown Watsonville toward a dense, multi-use, transit-oriented hub with a variety of housing and sustainable transportation options. This planning effort also includes the preparation of an Environmental Impact Report (EIR) for both the Specific Plan and General Plan Amendment. A qualified firm has been selected; however work has not begun pending funding.

On October 23, 2018, the City Council adopted Resolution No. 169-18 (CM), authorizing and directing the City Manager to submit an application to Caltrans for the Sustainable Communities Grant Program and enter into an agreement with the selected firm, if a grant is awarded.

On November 30, 2018, the Community Development Department submitted a grant request to Caltrans Sustainable Communities Grant Program to fund the preparation of the Specific Plan. A separate funding source will be needed for preparing the EIR as part of this effort.

WATER AND WASTEWATER SECTOR

This section of the 2018 Progress Report addresses the water and wastewater sector. According to the 2015 CAP, water and wastewater sources account for approximately 2.1% of all expected GHG emissions in Watsonville in 2020 and 2030. The 2015 CAP sets a goal of reducing GHG emissions for the Water and Wastewater Sector by 246 MT CO₂e for 2020 and 955 MT CO₂e for 2030.

Water - Utility Water Conservation Programs

The cornerstone of Watsonville's efforts to conserve water resources is its water recycling program. The Watsonville Wastewater Treatment Plant produces over 1 billion gallons per year of recycled water, which in cooperation with the Pajaro Valley Water Management Agency, irrigates approximately 2,000 acres of row crops in the area.

Water -Outdoor Water Landscaping Ordinance

On November 17, 2015, the Watsonville City Council approved Ordinance No. 1325-15, the Water Efficient Landscape Ordinance, to regulate landscaping and landscape irrigation design, construction, maintenance, and auditing. The City has been reporting out to the state every year as it became a state mandate. City staff created a tracking tool and process to meet these guidelines

Water -Voluntary Native Plant Landscaping & Lawn Removal Rebate Programs

On May 26, 2015, the Watsonville City Council adopted Resolution No. 87-15 (CM), which established a permanent Turf Replacement Rebate Program for City water service customers for the removal of lawn areas. The resolution also established a rebate amount of \$.75 per square foot of lawn removed (limited to \$500 per residential customer and \$1,000 per commercial customer) and directed City staff to make site visits for approval prior to the lawn removal and afterward to assure the rebate funds are used in a most beneficial manner. The City of Watsonville provides an on-line brochure for its Landscape Water Conservation Rebate Program at

<https://www.cityofwatsonville.org/DocumentCenter/View/2005/Lawn-Replacement-Rebate-Program-English-and-Spanish-PDF?bidId=>. The program application form can be found at <https://www.cityofwatsonville.org/DocumentCenter/View/2008/Lawn-Replacement-Rebate-Application-PDF?bidId=>.

The City of Watsonville also promotes Monterey-Bay-Friendly Landscapes through its membership in the Santa Cruz County Water Conservation Coalition.

Water -Wastewater Treatment Plant - Recycled Water Storage (Supporting Program)

On September 8, 2015, the Watsonville City Council approved Resolution No. 138-15, which approved an agreement with the Pajaro Valley Water Management Agency to undertake water storage improvements for the Watsonville Area Recycled Water Project. In May 2018, a 1.5-million-gallon water storage tank was added to the Watsonville Area Water Recycling Facility on Clearwater Lane's existing 1-million-gallon storage capacity, in addition to installation of two new distribution pumps and other energy efficiency improvements.

Water -City Water Conservation and Outreach Programs, Including Free Water Audits (Supporting Program)

The City of Watsonville is collaborating with Ecology Action to conserve water in commercial and residential facilities throughout the city. The WaterLink Commercial Direct Installation Program has offered services to 124 food service facilities and installed 1.07 gallons per minute (gpm) pre-rinse spray valves and 0.5 gpm lavatory faucet aerators at 57 commercial kitchen facilities in Watsonville. The WaterLink Residential Direct Installation Program has installed 1.5 gpm showerheads and kitchen aerators and one (1) gpm faucet aerators at a total of 478 single family homes and 490 multi-family homes in Watsonville. Ecology Action canvassed (outreached) 2,478 homes and 73 multi-family apartment complexes with four (4) units or more. A visual representation of Ecology Action's residential installation work is shown in Figure 4.

Figure 4. Ecology Action's WaterLink Program



Source: Ecology Action, 2018

In addition to WaterLink, the City of Watsonville began organizing student tours to the City's water recycling facility. Under the auspices of the Conservation Academy, City Staff organizes field trips for Sixth Grade and High School Students to reveal how the City conserves valuable groundwater by recycling used water. Students have an opportunity to tour the City's facility and interview employees who are involved in utility careers.

Water -Recommended Guidelines for Improving Stormwater Runoff Provided in a Voluntary Program (Supporting Program)

The City has helped provide community education about stormwater through education endeavors with the Santa Cruz County Water Conservation Coalition.

SOLID WASTE SECTOR

This section of the 2018 Progress Report addresses the solid waste sector. According to the 2015 CAP, solid waste sources account for approximately 4.5% of all expected GHG emissions in Watsonville in 2020 and 2030. The 2015 CAP sets a goal of reducing GHG emissions in the Solid Waste Sector by 369 MT CO₂e for 2020 and 1,241 MT CO₂e for 2030.

In 2017, the City of Watsonville diverted of a total of 12,713 tons of solid waste through recycling, compost, and re-use programs. This reduced GHG emissions by approximately 68 MT CO₂e annually. The calculations for this are shown in Exhibit A at the end of this document.

Solid Waste - City-Wide Curbside Recycling Program for Residential and Non-Residential Community Members

The City of Watsonville collected 4,012 tons of residential recycling and 2,832 tons of commercial recycling in 2017. In 2016, 4,806 tons of residential and 2,817 tons of commercial recycling were collected.

Solid Waste - City-Wide Residential Curbside Yard Waste Pickup

Green waste/yard waste is collected by the city team and deposited at the yard waste stock pile area of the City landfill. The material is ground up/mulched by a third party vendor for use as fuel for creating electricity. Wood Waste is chipped and can be used as mulch or fuel for electricity. In 2017, the City of Watsonville collected 1,527 tons of curbside residential yard waste, and an additional 1,252 tons of residential yard waste recycled through the self-haul program. In 2016, 1,350 tons were collected curbside and 1,366 tons were collected through self-haul.

Solid Waste - Green Waste Pickup for Non-Residential Community Members

The non-residential sector is not a big producer of green waste. However, any non-residential customers that do produce wood waste are included in the overall green waste service. The City collects this material and manages it in the same way residential green waste/yard waste is processed.

Solid Waste - Curbside Food Waste Pickup for Residential and Non-Residential Community Members

Starting in late 2016, the City of Watsonville began the curbside collection of commercial food waste. In 2017, a total of 30 businesses participated in the program resulting in the collection of 683 tons of commercial food waste. In 2018, another 10 accounts were added, and the City of Watsonville is targeting another seven (7) businesses for 2019.

Solid Waste - Free Compost Bins and Training to Residents (Supporting Program)

The City now offers residential compost bins to qualifying residents. This service includes a compost bin delivered to the resident and a "Compost 101 Training" at the City Nature Center. The bins and individualized training are available for a fee of \$10. In addition to trainings, composting guidelines are available online at

<https://www.cityofwatsonville.org/1713/Composting-at-Home>

Solid Waste - Plastic and Single-Use Carryout Bag Restrictions (Supporting Program)

On April 24, 2012 the City Council passed an environmentally friendly packaging ordinance restricting the use of plastic bags and paper bags in the city. Under this ordinance businesses and events can no longer provide plastic carryout bags and must charge the customer for each bag provided. Expanded polystyrene ("Styrofoam") was also included as a banned item in this ordinance.

GREEN BUILDINGS, GREEN BUSINESSES, AND LOCAL FOOD SECTOR

This section of the 2018 Progress Report addresses the green buildings, green businesses, and local food sector. The 2015 CAP sets a goal of reducing GHG emissions in the Green Building Sector by 821 MT CO₂e for 2020 and by 2,441 MT CO₂e for 2030.

Green Buildings, Business, and Local Food - Existing Green Building Ordinance and Compliance with New State Requirements

The construction of new buildings and facilities provides a key opportunity to increase the sustainability of the building stock by taking advantage of energy and water-efficient design techniques and building technologies. The city's mandatory Green Building Ordinance was adopted on January 1, 2008, and was one of the earlier Green Building Ordinances in California. The City of Watsonville continues to maintain compliance with all California building codes. The latest code update was in 2016 and included the 2016 version of the California Green Building Standards Code.

Green Buildings, Business, and Local Food -Establish Community Gardens

Watsonville created and published a Community Garden Program Guide, which is one element of the city's Urban Greening Plan. The goal of the Community Garden Program Guide is to provide a framework for creating and managing community gardens on City-owned property. This action assumes that 11 new community gardens will be established by 2020, 21 new gardens will be established by 2030, and 10 households will have a plot at each new garden to grow local foods. Emission reductions from the gardens are assumed to come from reduced travel to local supermarkets. The City's Parks and Public Works and Utilities Departments have partnered with local non-profit organizations to include community gardens into the strategic planning dialog and work together towards grant for further collaboration opportunities.

Green Buildings, Business, and Local Food -Net Zero Fee for New Construction

On February 24, 2015, the Watsonville City Council adopted Ordinance No. 1314-15 establishing a carbon fund fee for new development. The Carbon fund fee is based on a percentage of the total building permit fees paid including engineering plan check and review fees. Building permit fees do not include planning permit fees, inspection fees, utility fees or impact fees. Fees are as follows:

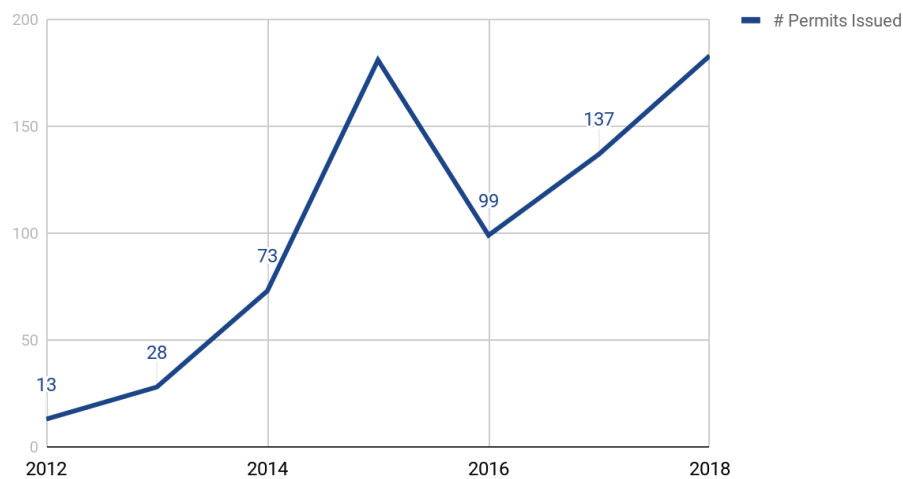
- New residential and nonresidential construction: 50% of total building permit fee
- Multifamily residential and nonresidential additions and alterations: 30% of total building permit fee
- Single family residential additions of 500 SF or greater: 30% of total building permit fee

Since implementation of the Carbon Fund fee in 2015, the City has raised over \$180,000 in revenues which will be used to fund citywide carbon fund reduction projects. Projects funded through this may be provided as match for grants that help develop initiatives directly impact GHG reductions.

Since 2012, coupled with state and federal tax incentives for installing solar panels, the number of solar permits issued in the City has increased significantly, with a total of 714 permits issued from 2012-2018. Solar panels have been installed on single and multi-family homes, apartments, commercial and industrial buildings in the past 6 years. Figure 5 below graphically represents the upward trend in the adoption of renewable energy improvements in the City.

Figure 5. Renewable Energy Improvements

Solar Permits Issued 2012-2018



Source: City of Watsonville, Community Development Department, 2019

Green Buildings, Business, and Local Food -Monthly Food Swap

The Second Harvest Food Bank sources over 8 million pounds of food each year from farms, grocery stores, food manufacturers, distributors, and individuals, and distribute it to 100 food pantries, schools, soup kitchens, group homes, youth centers, and more, plus another 100 Second Harvest program sites. The City supported a grant that the Second Harvest Food Bank is going after to connect the community with food that would otherwise be thrown out as waste.

Green Buildings, Business, and Local Food - Participation in the Green Business Program

In 2014, there were 33 businesses certified as “green businesses” through the Monterey Bay Green Business Program. The city continues to be an active partner with the Green Business Program, providing funding to the program and publicity for the certified businesses on the Watsonville website. The City also supports local businesses in connecting to the Green Business Certification through during regular business outreach efforts. The City is launching a business newsletter to keep businesses informed on environmental mandates that affect them, such as food scraps recycling, and offers support on various areas.

The City of Watsonville certified or re-certified 39 businesses during the time period January 1, 2015 and August 22, 2018. An additional 11 businesses were contacted through the program but did not complete certification. Metrics on the reductions from certified businesses are presented below in Table 4:

Table 4. Green Business Program (2015 thru 2018)

| Item | Amount |
|----------------------------|----------------------------|
| Greenhouse gas reduction: | 1,284 MT CO ₂ e |
| Reduced power consumption: | 3,720,452 kWh |
| Solid waste reduction: | 1,409,499 lbs. |
| Water reduction: | 2,052,910 gallons |
| Hazardous waste reduction: | 9,344 gallons |
| Mercury reduction: | 5,546 gallons |

Source: City of Watsonville

Climate Adaptation

In addition to setting forth programs to reduce GHG emissions, the 2015 Climate Action Plan also recognized the importance of implementing strategies to mitigate the effects of climate change that are already being experienced in California. Chapter 5 of the 2015 Climate Action Plan, entitled: Climate Adaptation, identified a number of existing strategies to address these secondary climate change impacts.

Secondary climate change impacts identified in the 2015 Climate Action Plan included:

- Flooding / Extreme High Tide
- Heat Wave
- Salt Water Intrusion
- Loss of Habitat / Ecosystems
- Power Outage
- Drought
- Severe Storms
- Change in Seasonal Patterns

Table 5 summarizes existing strategies that address climate change impacts and the progress made on these items since 2015.

Table 5. Existing Strategies that Address Climate Change Impacts

| Existing Strategy | Progress Summary |
|---|--|
| Coastal land use plan - limits development or annexation of land in the coastal zone | Good progress – no major development planned for Coastal Zone |
| Ongoing projects with other agencies to reduce flooding from the Pajaro River and increase flood protection of levees | In process – City working to fund levee improvements for the Pajaro River; significant levee repairs were completed in summer 2018. |
| Flood early warning system in coordination with other agencies | Good progress – warning system in place |
| Erosion control standards to reduce erosion during flooding | Good progress – stormwater mitigation plans required for new development |
| Storm Drain Development Standards and ongoing management of the storm drain system | Good progress – ongoing |
| Numerous water conservation strategies to reduce demand for groundwater including landscaping guidelines, utility rebates, water audits, etc. | Good progress – Outdoor Water Landscaping Ordinance; Greywater Systems - "Laundry to Landscape;" Voluntary Native Plant Landscaping & Voluntary Lawn Removal Programs; Water Conservation and Outreach Programs, Including Free Water Audits |
| City Council's intention to not increase groundwater pumping | Good progress -- ongoing |

| | |
|---|--|
| Saltwater intrusion strategies in coordination with the Pajaro Valley Water Management Agency | Good progress – water recycling program |
| Ongoing conservation and protection efforts for the sloughs and lower Pajaro River in coordination with other agencies | In process – coordination with Santa Cruz County to produce Local Hazard Mitigation Plan |
| Voluntary green roof design criteria to encourage green roofs | No progress |
| Increased shade through the Citywide Street Tree Plan | In process -- Citywide Street Tree Plan |
| Green Building Ordinance to encourage more efficient buildings (past ordinance) | Good progress – Green Building Codes in place |
| Carbon Fund Program to encourage more efficient buildings | Good progress – Carbon Fund Program used to identify energy efficiency opportunities |
| Emergency Response Plan and Team that regularly considers emergency response and does drills to prepare for potential disasters | Good progress – ongoing |
| Increase and improve trails and bicycle routes | Good progress – new trail development; safe routes to school; new sidewalks and bike lanes |
| Continue to preserve and protect wetlands and open space | Good progress -- ongoing |
| Compact development strategies and preservation of surrounding agricultural land | In process – coordination with AMBAG on SB 375 planning ongoing |
| Ongoing environmental education programs | Good progress – collaboration with PVUSD ongoing |

Source: 2015 Climate Action Plan; ZeroCity LLC, 2019

The City of Watsonville is exploring the possibility of working with Santa Cruz County on the development of a combined Local Hazard Mitigation Plan that serves both Santa Cruz County and the City of Watsonville. Santa Cruz County is preparing to update its existing Local Hazard Mitigation Plan in 2020.

Conclusions and Recommendations

The actions taken by the City of Watsonville before and since adoption of the 2015 Climate Action Plan have allowed the City of Watsonville to meet its 2020 15% GHG reduction goals. Of the reductions reported above, action to join MBCP had the most impact on reducing GHG emissions, accounting for a reduction of approximately 35,700 MT CO₂e. This surpasses the 2020 GHG reduction goal by 72% and represents 68% of Watsonville's 2030 emission reduction target. Beyond MBCP, significant progress has also been made in each of the sectors reported above.

The City recognizes the hard work that lies ahead and that the effort will require a holistic approach that includes all sectors of the community working in collaboration. Getting to 2030 goals (which by California law will increase to 40% -- up from 25% -- when the Climate Action Plan is updated in 2020) will be more challenging. Beyond that, achieving the 80% reduction required for 2050 will require fundamental changes in the overall energy economy. This means looking at efforts that produce large scale results in creative ways.

One path to meeting 2030 GHG reduction goals is to target activities that address transportation-related GHG emissions. MBCP has expressed interest in developing an electric vehicle program that would reduce the number of gasoline/diesel-power vehicles on the road. AMBAG has expressed interest in promoting a regional effort such as a “No Commute Friday” program, where commuting workers would work at home one day a week.

Another path to meeting 2030 goals is to reduce the need for natural gas in residential and commercial uses. This can be accomplished through more intensive energy efficiency efforts but will probably also involve electrification of home heating and industrial electrification. The added cost of heating with electricity, instead of natural gas, however, will be a significant hurdle. One way to reduce such costs would be to promote additional roof-top solar.

In 2020, the City of Watsonville will update its 2015 Climate Action Plan. We recommend that between now and then, that City staff work with its climate action partners in the region to identify the next steps. Some of these next steps could include:

1. Electrification of transportation (electric vehicles and charging stations)
2. Electrification of residential home space and water heating. Sixty-nine percent of home heating in Watsonville’s existing housing stock is derived from the use of natural gas. This represents 23,500 MT of CO₂e annually.
3. Consider participating in regional “telecommute” pilot programs to get drivers off the road and reduce vehicle miles traveled.
4. Use of cogeneration in commercial/industrial uses for climate control to reduce the need for natural gas.
5. Exploring actions that help reverse climate change (remediation/sequestration)
6. Participating at regional, State, and National level regarding climate change policies
7. Anticipating and preparing for the less obvious challenges of climate change such a shift in where people choose to live, a shift in employment options, and shifts in culture.

There are, no doubt, other ideas worthy of consideration, and working with climate action partners to identify new programs in preparation for the 2020 Climate Action Plan update is an important step to take now.

Exhibit A: GHG Emission Reduction Calculations – Solid Waste

| | |
|--|--|
| Do you currently have landfill gas collection? <input checked="" type="checkbox"/> Yes | Do you utilize the gas for energy? <input checked="" type="checkbox"/> Yes |
|--|--|

Community

| | | |
|-----|--|--------------|
| 471 | Waste Diverted from Landfill (lbs/person/yr) | Save Changes |
|-----|--|--------------|

Cost Impacts

The default values below are based on the reported collective experience of US local governments throughout the ICLEI network. CAPPA will assist you in estimating emissions and cost impacts and developing a local climate action plan based on these values. Adjust as appropriate to your local circumstance by editing the blue cells below. Changes made to blue cells here need to be saved using the Save function from the Excel File Menu.

Community

| | | |
|----------|--|--|
| 54,000 | City Population | |
| 1 | Percent of Recycled Material Aluminum | |
| 3 | Percent of Recycled Material Plastic | |
| 8 | Percent of Recycled Material Steel | |
| 5 | Percent of Recycled Material Glass | |
| 36 | Percent of Recycled Material Paper | |
| 36 | Percent of Recycled Material Cardboard | |
| 1,918 | Life Cycle Emissions Avoided for Aluminum (metric tons CO2e) | |
| 655 | Life Cycle Emissions Avoided for Plastic (metric tons CO2e) | |
| 1,936 | Life Cycle Emissions Avoided for Steel (metric tons CO2e) | |
| 190 | Life Cycle Emissions Avoided for Glass (metric tons CO2e) | |
| 12,499 | Life Cycle Emissions Avoided for Paper (metric tons CO2e) | |
| 10,657 | Life Cycle Emissions Avoided for Cardboard (metric tons CO2e) | |
| 38 | Annual Landfill Methane Emissions Avoided - Paper (metric tons CO2e) | |
| 43 | Annual Landfill Methane Emissions Avoided - Cardboard (metric tons CO2e) | |
| (40,300) | Change in kWh Generated from Energy Recovery | |

Restore Defaults

Associated Annual Greenhouse Gas and Criteria Air Pollutant Emissions Reductions

Community

| CO2e (metric tons) | NOx (lbs) | SOx (lbs) | CO (lbs) | VOCs (lbs) | PM10 (lbs) |
|-----------------------|--------------|--------------|-------------|---------------|---------------|
| 68 | (25) | (21) | (23) | (3) | (20) |

View Complete Emission Coefficients Set

Per Unit Reductions

| CO2e (metric tons) per lb waste | NOx (lbs) per lb waste | SOx (lbs) per lb waste | CO (lbs) per lb waste | VOCx (lbs) per lb waste | PM10 (lbs) per lb waste |
|---------------------------------------|------------------------------|------------------------------|-----------------------------|-------------------------------|-------------------------------|
| 0.00000 | (0.00000) | (0.00000) | (0.00000) | (0.00000) | (0.00000) |

| | | | | | | |
|-------|--------------|------------|----------------------|------|-------|--------------------|
| ▶ ... | Truck Idling | Bus Idling | Light Vehicle Idling | LT-W | LT-W1 | Kitchen Composting |
|-------|--------------|------------|----------------------|------|-------|--------------------|

Source: CAPPA Ver 1.5; ZeroCity LLC

Tons of waste diverted annually (2017) = 12,713 tons/year

12,713 tons = 25,426,000 lbs./year

Watsonville Population = 54,000 persons

25,426,000 pounds ÷ 54,000 = 471 lbs./person/year

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City of Watsonville
Public Works and Utilities



M E M O R A N D U M

DATE: February 21, 2019

TO: Matthew D. Huffaker, City Manager

FROM: Steve Palmisano, Director Public Works & Utilities
Gabe Gordo, Public Works Administrative Services Manager

SUBJECT: Resolution authorizing and directing the City Manager to Execute the form of On-Bill Financing Loan Agreement, Contractor Work Order Agreement and authorize participation in the Direct Install Program through the Association of Monterey Bay Area Governments (AMBAG) Energy Watch Direct Install Program to implement the City-wide energy efficient LED lighting retrofit

AGENDA ITEM: February 26, 2019

City Council

RECOMMENDATION:

Staff recommends that the City Council adopt a resolution authorizing the City Manager to execute the form of On-Bill financing loan document for 0% interest; Contractor Work Order Agreement and authorize participation in the Direct Install Program through the Association of Monterey Bay Area Government's (AMBAG) Energy Watch Direct Install Program for the Facilities Lighting Upgrade Project. This form of contract will be used for each segment of the project, and so this resolution authorizes the City Manager to sign multiple contracts in substantially the same form as attached to the Resolution for each segment of the project.

DISCUSSION:

The AMBAG Energy Watch Program was created in March of 2006 under the leadership of AMBAG Board President and Watsonville City Council Member Ramon Gomez. One of the major goals of the program's creation was to provide a deeply discounted program for all of the 21 AMBAG member jurisdictions to achieve energy efficiency in their facilities, and thus the program was created with a direct install implementation benefit that could be used by all AMBAG member jurisdictions. The City of Watsonville has participated in this direct installation program for 36 projects since its inception in 2006.

At the July 10, 2018 meeting of the Watsonville City Council, the Council authorized the City to participate in the PG&E On-Bill Financing Program brought forward by the AMBAG Energy Watch Program to retrofit City facilities lighting with energy efficient LED lights. At this time,

the final scope of the project is complete including the final loan documents, AMBAG rebate documents, and technical installation documents. The project is ready to proceed to implementation.

The AMBAG Energy Watch program completed an energy audit of the City of Watsonville facilities and identified energy efficiency opportunities at 27 locations. The total cost for this project is \$762,346.

The AMBAG Energy Watch rebate will provide \$182,893 toward these costs. This rebate will fund 24 percent of the City of Watsonville's energy efficiency projects discussed in this proposal. PG&E 0% On-Bill Financing is the most cost-effective method to fund the remaining \$579,453 of project costs. **When installed this energy efficiency retrofit is projected to save 854,010 kWh annually, resulting in an annual savings of \$146,235.**

Table 1 presents the detailed costs, annual monetary savings and rebates for each site.

Table 1:

| City of Watsonville 2019 City-Wide LED Lighting Project | | | | | | | | |
|--|--------|--------------------------------|-------------------|-------------|------------------|--------------------------------|-------------|-------------|
| loan # | Site # | Site | Install Cost (\$) | Rebate (\$) | Loan Amount (\$) | Estimated Utility Savings (\$) | kWh Savings | ROI (Years) |
| 1 | 1 | City Hall | \$ 67,073 | \$ 12,671 | \$ 54,401 | \$ 11,808 | 53,673 | 4.61 |
| 2 | 2 | Watsonville Civic Plaza | \$ 17,756 | \$ 3,766 | \$ 13,990 | \$ 4,882 | 24,002 | 2.87 |
| | 3 | City Plaza | \$ 3,208 | \$ 1,397 | \$ 1,810 | \$ 1,573 | 11,856 | 1.15 |
| 3 | 4 | Watsonville Airport Center | \$ 23,394 | \$ 11,770 | \$ 11,624 | \$ 10,657 | 47,088 | 1.09 |
| | 5 | Airport Office | \$ 168,698 | \$ 20,000 | \$ 148,698 | \$ 12,457 | 81,321 | 11.94 |
| 4 | 6 | City Landfill | \$ 7,911 | \$ 2,093 | \$ 5,818 | \$ 1,578 | 8,769 | 3.69 |
| 5 | 7 | FOWLE Reservoir | \$ 10,987 | \$ 3,842 | \$ 7,146 | \$ 2,244 | 11,191 | 3.18 |
| | 8 | Corralitos Filtration Plant | \$ 14,024 | \$ 3,925 | \$ 10,099 | \$ 1,301 | 11,964 | 7.76 |
| | 9 | Vista Well Site | \$ 2,816 | \$ 1,049 | \$ 1,767 | \$ 1,021 | 3,699 | 1.73 |
| 6 | 10 | PAL | \$ 2,389 | \$ 329 | \$ 2,059 | \$ 344 | 859 | 5.99 |
| | 11 | PAL Caminos | \$ 3,657 | \$ 992 | \$ 2,665 | \$ 1,038 | 1,887 | 2.57 |
| | 12 | Franich Park | \$ 6,853 | \$ 1,856 | \$ 4,997 | \$ 3,746 | 12,794 | 1.33 |
| 7 | 13 | Municipal Service Center | \$ 40,407 | \$ 10,327 | \$ 30,080 | \$ 8,464 | 47,022 | 3.55 |
| 8 | 14 | Callaghan Park Cultural Center | \$ 4,333 | \$ 712 | \$ 3,621 | \$ 912 | 3,877 | 3.97 |
| | 15 | Nature Center | \$ 1,861 | \$ 128 | \$ 1,733 | \$ 81 | 534 | 21.36 |
| | 16 | Pinto Lake Park | \$ 7,640 | \$ 3,205 | \$ 4,436 | \$ 2,795 | 19,518 | 1.59 |
| | 17 | Marinovich Community Center | \$ 12,589 | \$ 1,430 | \$ 11,159 | \$ 1,857 | 8,754 | 6.01 |
| | 18 | Muzzio Community Center | \$ 10,619 | \$ 1,155 | \$ 9,465 | \$ 887 | 5,460 | 10.67 |
| | 19 | River Park | \$ 1,416 | \$ 508 | \$ 908 | \$ 456 | 2,957 | 1.99 |
| 9 | 20 | Veterans Memorial Bldg | \$ 19,805 | \$ 5,503 | \$ 14,302 | \$ 2,511 | 13,214 | 5.70 |
| 10 | 21 | G.H.W.R. Youth Center | \$ 26,907 | \$ 4,865 | \$ 22,042 | \$ 3,090 | 17,164 | 7.13 |
| 11 | 22 | Ramsay Park | \$ 50,898 | \$ 20,967 | \$ 29,931 | \$ 9,045 | 47,607 | 3.31 |
| 12 | 23 | Watsonville Fire Station I | \$ 24,164 | \$ 10,765 | \$ 13,398 | \$ 5,469 | 37,807 | 2.45 |
| | 24 | Watsonville Fire Station II | \$ 15,856 | \$ 7,994 | \$ 7,863 | \$ 5,213 | 28,955 | 1.51 |
| 13 | 25 | Beach Street Parking Garage | \$ 18,069 | \$ 4,790 | \$ 13,278 | \$ 4,286 | 29,938 | 3.10 |
| 14 | 26 | Waste Water Treatment Plant | \$ 120,584 | \$ 32,657 | \$ 87,928 | \$ 33,558 | 197,403 | 2.62 |
| 15 | 27 | Watsonville Police Station | \$ 78,434 | \$ 14,198 | \$ 64,236 | \$ 14,964 | 124,697 | 4.29 |
| Scope Totals = | | | \$ 762,346 | \$ 182,893 | \$ 579,453 | \$ 146,235 | 854,010 | 3.96 |

STRATEGIC PLAN:

Participation in AMBAG's Energy Watch Direct Install Program provides improvements in energy efficiency to City-owned location properties, which support goals of maintaining infrastructure in Priority 3 Infrastructure and Environment of the City Strategic Plan. This project also supports the City's Climate Action Plan.

FINANCIAL IMPACT:

The total project cost is \$762,346. Of this cost, \$182,893 will be paid for through incentives from the AMBAG Energy Watch Program. The remaining \$579,453 will be funded by 0% On-Bill Financing provided by PG&E. This loan amount will be paid back at a rate that equals the monthly energy savings. After the payback period (about 4 years for the average of all facilities), the City will have an estimated net savings in energy costs of \$146,235 annually. There are no increases in operational costs, no capital costs and no financing interest costs.

ALTERNATIVES:

The City Council could decide to not move forward with this project and continue using the existing lighting that is currently in place.

ATTACHMENTS:

- 1) Retrofit Program Loan Amounts per Division

cc: City Attorney

**Retrofit Program
Loan Amounts Per Division**

| Site | Division Name | Division # | Install Cost (\$) | Loan Amount (\$) |
|--------------------------------|-----------------------|--------------|-------------------|-------------------|
| City Hall | Building & Facilities | 220 | \$ 67,073 | \$ 54,401 |
| Watsonville Civic Plaza | Civic Center | 321 | \$ 17,756 | \$ 13,990 |
| City Plaza | Parks & Rec | 680 | \$ 3,208 | \$ 1,810 |
| Watsonville Airport Center | Airport | 560 | \$ 23,394 | \$ 11,624 |
| Airport Office | Aiport | 560 | \$ 168,698 | \$ 148,698 |
| City Landfill | SolidWaste | 572 | \$ 7,911 | \$ 5,818 |
| FOWLE Reservoir | Water Operations | 596 | \$ 10,987 | \$ 7,146 |
| Corralitos Filtration Plant | Water Operations | 596 | \$ 14,024 | \$ 10,099 |
| Vista Well Site | Water Operations | 596 | \$ 2,816 | \$ 1,767 |
| PAL | Police | 417 | \$ 2,389 | \$ 2,059 |
| PAL Caminos | Police | 417 | \$ 3,657 | \$ 2,665 |
| Franich Park | Parks & Rec | 680 | \$ 6,853 | \$ 4,997 |
| Municipal Service Center | Customer Service | 597 | \$ 40,407 | \$ 30,080 |
| Callaghan Park Cultural Center | Parks & Rec | 690 | \$ 4,333 | \$ 3,621 |
| Nature Center | Water Operations | 596 | \$ 1,861 | \$ 1,733 |
| Pinto Lake Park | Parks & Rec | 680 | \$ 7,640 | \$ 4,436 |
| Marinovich Community Center | Parks & Rec | 690 | \$ 12,589 | \$ 11,159 |
| Muzzio Community Center | Parks & Rec | 690 | \$ 10,619 | \$ 9,465 |
| River Park | Parks & Rec | 680 | \$ 1,416 | \$ 908 |
| Veterans Memorial Bldg | Parks & Rec | 690 | \$ 19,805 | \$ 14,302 |
| G.H.W.R. Youth Center | Parks & Rec | 690 | \$ 26,907 | \$ 22,042 |
| Ramsay Park | Parks & Rec | 680 | \$ 50,898 | \$ 29,931 |
| Watsonville Fire Station I | Fire | 450 | \$ 24,164 | \$ 13,398 |
| Watsonville Fire Station II | Fire | 450 | \$ 15,856 | \$ 7,863 |
| Beach Street Parking Garage | Parking | 309 | \$ 18,069 | \$ 13,278 |
| Waste Water Treatment Plant | WasteWater | 530 | \$ 120,584 | \$ 87,928 |
| Watsonville Police Station | Police | 410 | \$ 78,434 | \$ 64,236 |
| | | Total | \$ 762,346 | \$ 579,453 |

RESOLUTION NO. _____ (CM)

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WATSONVILLE APPROVING THE FORM OF LOCAL AGENCY AND DISTRICT CUSTOMERS ON-BILL FINANCING LOAN AGREEMENT, CONTRACTOR WORK ORDER AGREEMENT; AUTHORIZING PARTICIPATION IN THE DIRECT INSTALL PROGRAM THROUGH THE ASSOCIATION OF MONTEREY BAY AREA GOVERNMENTS (AMBAG) ENERGY WATCH DIRECT INSTALL PROGRAM TO IMPLEMENT THE CITY-WIDE ENERGY EFFICIENT LED LIGHTING RETROFIT AT TWENTY-SEVEN CITY FACILITIES; AND AUTHORIZING AND DIRECTING THE CITY MANAGER TO EXECUTE ANY AND ALL REQUIRED DOCUMENTS

WHEREAS, the AMBAG Energy Watch Program has been serving the AMBAG jurisdictions, businesses, non-profits, school districts, special districts and residents since 2006 with energy efficiency; and

WHEREAS, the AMBAG Energy Watch program receives funding under the auspices of the California Public Utilities Commission (CPUC) to provide this support to all of the 21 AMBAG member jurisdictions; and

WHEREAS, under the direction of the CPUC, PG&E developed a financing program to provide incentives for jurisdictions to undertake energy efficiency projects; and

WHEREAS, the City has participated in this direct installation program for thirty-six (36) projects since its inception in 2006; and

WHEREAS, on or about July 10, 2018, the City Council, by motion, authorized the participation in the PG&E On-Bill Financing Program brought forward by the AMBAG Energy Watch Program to retrofit lighting with energy efficient LED lights at City facilities; and

WHEREAS, the AMBAG Energy Watch program completed an energy audit of the City of Watsonville facilities and identified energy efficiency opportunities at twenty-seven (27) locations; and

WHEREAS, the total project cost is \$762,346, of this cost, \$182,893 will be paid for through incentives from the AMBAG Energy Watch Program and the remaining \$579,453 will be funded by 0% On-Bill Financing provided by PG&E; and

WHEREAS, the City Council wishes to authorize the City Manager to execute these agreements and any amendments thereto.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF WATSONVILLE, CALIFORNIA, AS FOLLOWS:

1. That the City Council hereby approves the form of Local Agency and District Customers On-Bill Financing Loan Agreement, and Contractor Work Order Agreement, copies of which forms of Agreements are attached hereto and incorporated herein by this reference.

2. That the City Council hereby authorizes participation in the Direct Install Program through the Association of Monterey Bay Area Governments (AMBAG) Energy Watch Direct Install Program to implement the City-wide energy efficient LED lighting retrofit.

3. That the City Manager is hereby authorized and directed to execute all required documents on behalf of the City of Watsonville for each segment of the project.



LOCAL AGENCY AND DISTRICT CUSTOMERS ON-BILL FINANCING LOAN AGREEMENT

The undersigned Local Agency or District¹ Customer (“**Customer**”) has contracted for the provision of energy efficiency/demand response equipment and services (the “**Work**”) which qualify for one or more of PG&E’s applicable rebate or incentive programs. Subject to the conditions (including the process for Adjustment and preconditions to funding) set forth below, Pacific Gas and Electric Company (“**PG&E**”) shall extend a loan (the “**Loan**”) to Customer in the amount of the loan balance (the “**Loan Balance**”) pursuant to the terms of this On-Bill Financing Loan Agreement (“**Loan Agreement**”) and PG&E’s rate schedules E-OB and/or G-OB, as applicable (the “**Schedule**”).

To request the Loan, Customer has submitted a completed On-Bill Financing Application and associated documentation as required by PG&E (the “**Application**”). Collectively the Application and this Loan Agreement (including any Adjustment hereunder) comprise the “**Agreement**”.

1. Customer shall arrange for its Contractor, as identified at the end of this Agreement (“**Contractor**”), to provide the Work as described in the Application.
2. The estimated Loan Balance is set forth below. The total cost of the Work as installed, rebate/incentive for qualifying energy efficiency measures, Loan Balance, monthly payment, and loan term specified in this Loan Agreement may be adjusted, if necessary, after the Work and the post-installation inspection described in the Application and/or herein are completed (the “**Adjustment**”). The Adjustment will be calculated using the actual total cost of the Work, as installed, and the estimated energy savings (as described in the Application) of such Work. In no event will the Loan Balance be increased without Customer’s written consent, even if Customer is eligible for such increased Loan Balance. Moreover, in no event will the Loan Balance exceed the maximum loan amount stipulated in the Application. Customer understands that in order to be eligible for the Loan, the initial Loan Balance for Work may not fall below the minimum loan amount, nor may the payback period exceed the maximum payback period. **Accordingly, if after the Adjustment, the Loan Balance falls below the minimum loan amount or if the simple payback period exceeds the program maximum payback period, each as described in the Application, PG&E shall have no obligation to extend the Loan, as the Work would not meet program requirements.** The Adjustment described in this paragraph will be communicated to the Customer in writing and will automatically become part of this Loan Agreement, except that any proposed increase in the Loan Balance will only become part of this Loan Agreement upon Customer’s written consent to such increase.
3. **PG&E shall have no liability in connection with, and makes no warranties, expressed or implied, regarding the Work.** The Parties acknowledge and agree that PG&E is only providing the Local Agency or District cited here with financing. The Customer has independently hired contractors (“Local Agency or District Contractors”) to perform the work on behalf of the Customer to qualify for financing. The Customer acknowledges and agrees that the Local Agency or District Contractors are not third party beneficiaries to this agreement between the Customer and PG&E. To the extent authorized by law and subject to appropriation of the Legislature, the Customer agrees that it will look only to Local Agency or District Contractors for any claims related to the installed equipment or its performance and that PG&E shall have no responsibility or liability, except for the payment of the loan proceeds, and the Customer shall indemnify PG&E for any claims made by the Local Agency or District Contractors against PG&E.
4. Customer represents and warrants that (a) Customer is receiving this Loan solely for Work obtained in connection with Customer’s business, and not for personal, family or household purposes; (b) Customer, if not an individual or a government agency, is duly organized, validly existing and in good standing under the laws of its state of formation, and has full power and authority to enter into this Agreement and to carry out the provisions of this Agreement. Customer is duly qualified and in good standing to do business in all jurisdictions where such qualification is required; (c) this Loan Agreement has been duly authorized by all necessary proceedings, has been duly executed and delivered by Customer and is a valid and legally binding agreement of Customer duly enforceable in accordance with its terms; (d) no consent, approval, authorization, order, registration or qualification of or with any court or regulatory authority or other governmental body having jurisdiction over Customer is required for, and the absence of which would adversely affect, the legal and valid execution and delivery of this Loan Agreement, and the performance of the transactions contemplated by this Loan Agreement; (e) the execution and delivery of this Loan Agreement by Customer hereunder and the compliance by Customer with all provisions of this Loan Agreement: (i) will not conflict with or violate any Applicable Law; and (ii) will not conflict with or result in a breach of or default under any of the terms or provisions of any loan agreement or other contract or agreement under which Customer is an obligor or by which its property is bound; and (f) all factual information furnished by Customer to PG&E in the Application and pursuant to this Agreement is true and accurate.
5. The Application must include the Federal Tax Identification Number or Social Security Number of the party who will be the recipient of the checks for the rebate/incentive or any Loan proceeds. Checks may be issued directly to the Customer or its designated Contractor or both, for the benefit of the Customer, as specified below. Customer acknowledges that PG&E will not be responsible for any tax liability imposed on the Customer or its contractor in connection with the transactions contemplated under the Agreement, whether by virtue of the Loan contemplated under the Agreement, or otherwise, and Customer shall indemnify PG&E for any tax liability imposed upon PG&E as a result of the transactions contemplated under the Agreement.

¹ Local Agency or District as defined in California Government Code §50001 and §58004.

6. Upon completion of the Work, Customer shall send a written confirmation of completion to PG&E's On-Bill Financing Program Administrator at the address listed in Section 15. Within 60 days after receiving the confirmation, PG&E (a) will conduct a post installation inspection and project verification, including review of invoices, receipts and other documents as required by PG&E to verify the correctness of any amounts claimed by Customer; and (b) will adjust, if necessary, the total cost, incentive, Loan Balance, monthly payment, and loan term as stated above. Customer shall give PG&E reasonable access to its premises and the Work. If the Work conforms to all requirements of the Agreement and all amounts claimed by Customer as Work costs are substantiated to PG&E's reasonable satisfaction, PG&E will issue a check ("**Check**") to Customer or Contractor (as designated by Customer in Section 15) for all amounts PG&E approves for payment in accordance with the Agreement. The date of such issuance is the "**Issuance Date**". If the Check is issued to Customer, Customer shall be responsible for paying any outstanding fees due to Contractor for the Work. If the Check is less than the amount due from Customer to Contractor, Customer shall be responsible for the excess due to the Contractor.
7. Customer shall repay the Loan Balance to PG&E as provided in this Loan Agreement irrespective of whether or when the Work is completed, or whether the Work is in any way defective or deficient, and whether or not the Work delivers energy efficiency savings to Customer.
8. The monthly payments will be included by PG&E on the Account's regular energy service bills, or by separate bill, in PG&E's discretion. Regardless whether the monthly payments are included in the regular utility bill or a separate loan installment bill, the following repayment terms will apply:
 - a. The Customer agrees to repay to PG&E the Loan Balance in the number of payments listed below and in equal installments (with the final installment adjusted to account for rounding), by the due date set forth in each PG&E utility bill or loan installment bill rendered in connection with Customer's account (identified by the number set forth below) ("Account"), commencing with the bill which has a due date falling at least 30 days after the Issuance Date.
 - b. If separate energy service bills and loan installment bills are provided, amounts due under this Loan Agreement as shown in the loan installment bill shall be deemed to be amounts due under each energy services bill to the Account, and a default under this Loan Agreement shall be treated as a default under the Account.
 - c. If the Customer is unable to make a full utility bill payment in a given month, payment arrangements may be made at PG&E's discretion.
 - d. Any partial bill payments received for a month will be applied in equal proportion to the energy charges and the loan obligation for that month, and the Customer may be considered in default of both the energy bill and the loan installment bill.
 - e. Further payment details are set forth below.
9. Any notice from PG&E to Customer regarding the Program or the transactions contemplated under the Loan Agreement may be provided within a PG&E utility bill or loan installment bill, and any such notices may also be provided to Customer at the address below or to the Customer's billing address of record in PG&E's customer billing system from time to time, and in each case shall be effective five (5) days after they have been mailed.
10. The Loan Balance shall not bear interest.
11. Customer may, without prepayment penalty, pay the entire outstanding loan balance in one lump sum payment provided the customer first notifies PG&E by telephoning the toll free phone number (1-800-468-4743), and by sending written notice to PG&E On-Bill Financing Program Administrator at the address listed below, in advance of making the lump sum payment. Accelerated payments that are received from Customer without PG&E's prior approval may, at PG&E's sole discretion, be applied proportionally to subsequent energy charges and Loan repayments and PG&E shall have no obligation to apply accelerated payments exclusively to reduction of the outstanding Loan.
12. The entire outstanding Loan Balance will become immediately due and payable, and shall be paid by Customer within 30 days if: (i) the Account is closed or terminated for any reason; (ii) Customer defaults under the Agreement; (iii) Customer sells the equipment forming part of the Work to any third party; or (iv) Customer becomes Insolvent. Customer becomes "Insolvent" if: (i) Customer is unable to pay its debts as they become due or otherwise becomes insolvent, makes a general assignment for the benefit of its creditors, or suffers or permits the appointment of a receiver for its business or assets or otherwise ceases to conduct business in the normal course; or (ii) any proceeding is commenced by or against Customer under any bankruptcy or insolvency law that is not dismissed or stayed within 45 days.
13. Customer understands that without limiting any other remedy available to PG&E against Contractor or Customer, **failure to repay the Loan Balance in accordance with the terms of the Agreement could result in shut-off of utility energy service, adverse credit reporting, and collection procedures, including, without limitation, legal action.**
14. If there is any conflict among the documents comprising the Agreement, the following order of priority shall apply: 1. this Loan Agreement; 2. the Application; 3. any documents attached to the Application.

15. LOCAL AGENCY OR DISTRICT REQUIREMENT

a. All Payment Obligations Subject to Appropriation

The Customer acknowledges that the cost incurred pursuant to this Loan Agreement will be part of the monthly bill for electric use. All payment obligations and the Work replacement obligations of the Customer under this Loan Agreement or any related agreement or application is subject to appropriation by the Legislative body belonging to Local Agency or District cited in this loan agreement.

b. No Lien or Encumbrance; Subordination:

(1) Notwithstanding any other provision in this Loan Agreement – , PG&E acknowledges that nothing in this Loan Agreement shall constitute a mortgage, charge, assignment, transfer, pledge, lien or encumbrance upon either the Work or any part of the buildings, structures or related facilities in which the Work is constructed, installed or situated (collectively, the “Related Facilities”). Accordingly, PG&E agrees it will not record or file any instrument that would indicate or imply it has a security interest in the Related Facilities, including but not limited to a UCC-1.

(2) In addition to the preceding paragraph (a), if this Loan Agreement were ever construed or deemed to create any such encumbrance, then: (i) this Loan Agreement shall be junior and subordinate and subject in all respects to the terms and conditions of any and all leases, and indentures related to lease revenue bonds issued by the Local Agency or District cited here or any other issuer of bonds on behalf of the Local Agency or District concerning the Related Facilities entered into in the past, the present or the future (the “Senior Security Documents”); and (ii) any term or condition of this Loan Agreement relating to any right, title or interest in the Related Facilities or other benefits derived there from shall be in all respects junior and subordinate to, and subject to the terms of, the Senior Security Documents.

15. Loan Particulars.

| This table is to be completed by PG&E | | | | | | |
|---------------------------------------|-------------|------------------------------------|---------------------------|-----------------|----------------------------|--------------------|
| Total Cost | Incentive | Customer Buy- Down (if applicable) | Loan Balance ¹ | Monthly Payment | Term ² (months) | Number of Payments |
| \$67,072.69 | \$12,671.31 | \$- | \$54,401.38 | \$971.45 | 56 | 56 |

Check Made Payable to Customer ☐ **or Contractor** ☐

[customer to select payment method. Note that only one check can be issued]

16. This agreement at all times shall be subject to such modifications as the California Public Utilities Commission may direct from time to time in the exercise of its jurisdiction.

| Federal Tax ID or Social Security #, Customer | Federal Tax ID or Social Security #, Contractor |
|---|---|
| 94-6000451 | |

| PG&E Account # / Service Agreement # |
|--------------------------------------|
| 1553836670 / 1553836153 |

| Account Name, Customer | Name, Contractor |
|--|------------------|
| Primary Customer Name: CITY OF WATSONVILLE - 250 MAIN ST Primary MDSS Application Number: TIF ID: 009084 | |

| Customer Address (For OBF Check Delivery) | Contractor Address (For OBF Check Delivery) |
|---|---|
| | |
| | |
| | |
| | |

| Name and Title of Authorized Representative of Customer | Name and Title of Authorized Representative of Contractor |
|---|---|
| | |

| Signature of Authorized Representative of Customer |
|--|
| |

| Date |
|------|
| |

ACCEPTED: Pacific Gas and Electric Company

| By | Date |
|--|------|
| | |
| PG&E On-Bill Financing Authorized Representative | |

Address:
On-Bill Financing Program
Mail Code N6G
Pacific Gas and Electric Company
PO Box 770000
San Francisco, CA 94177-0001

¹ The Loan Balance shall not exceed one-hundred thousand dollars (\$100,000) for commercial customers and shall not exceed two-hundred fifty thousand dollars (\$250,000) for government agency and multi-family customers, excepting loans to government agency and multi-family customers where, in PG&E's sole opinion, the opportunity for uniquely large energy savings exist, in which case the Loan Balance may exceed two-hundred fifty thousand dollars (\$250,000) but shall not exceed two million dollars (\$2,000,000).

² The loan term in months will be established by PG&E at the time of the OBF Loan Agreement initiation. The maximum loan term shall be sixty (60) months excepting: 1) loans to Government agency Customers or Multi-Family Customers will have a maximum loan term of one hundred and twenty (120) months or the expected useful life (EUL) of the installed energy efficiency measures, which ever is less; and 2) loans to customers where, in PG&E's sole opinion, credit and risk factors support a loan term longer than sixty (60) months.

On-Bill Financing Program (OBF)
Loan Calculation Summary Sheet
Simple project payback per meter

Customer Name: CITY OF WATSONVILLE - 250 MAIN ST

Project Number: TIF: 009084

Calculations from: Original

| (A) PROJECT COST FOR MEASURES | (B) REBATES or INCENTIVES | Customer Down Payment or Buy-Down | CUSTOMER TOTAL LOAN AMOUNT | (C) CUSTOMER AVERAGE RATE <i>PER kWh</i> | (D) CUSTOMER AVERAGE RATE <i>PER Therm</i> | (E) ESTIMATED ANNUAL ENERGY SAVINGS <i>(kWh)</i> | (F) ESTIMATED ANNUAL GAS SAVINGS <i>(Therm)</i> | ESTIMATED ANNUAL ENERGY COST SAVINGS | SIMPLE PAYBACK IN YEARS |
|----------------------------------|------------------------------|-----------------------------------|----------------------------|--|--|--|---|--------------------------------------|-------------------------|
| \$67,072.69 | \$12,671.31 | \$- | \$54,401.38 | \$0.22 | | 53,672.96 | - | \$11,808.05 | 4.61 |

| PAYBACK IN MONTHS BASED ON EXPECTED ENERGY SAVINGS | LOAN TERM (MONTHS) (1 month added for bill neutrality) | CUSTOMER FIXED MONTHLY LOAN PAYMENT | ESTIMATED MONTHLY ENERGY COST SAVINGS |
|---|---|-------------------------------------|---------------------------------------|
| 55 | 56 | \$971.45 | \$984.00 |

(C) = (From utility bill) Total \$ amount (12-month) / Total kWh (same 12-month)

(D) = (From utility bill) Total \$ amount (12-month) / Total therm (same 12-month)

AMBAG Energy Watch
Energy Efficiency Program



Contractor Work Order Agreement
Energy and Cost Saving Projects
COW 702 Vista Montana Dr 2018-OBF9088-MLTG

Property: COW-702 Vista Montana Dr

702 VISTA MONTANA DR
WATSONVILLE, CA 95076

Presented To: Charles A. Montoya

275 Main St., Suite 400 (4th Floor)
Watsonville, CA 95076
(831) 768-3010
Email: citymanager@cityofwatsonville.org

Installer Partner:

Report Date: 12/3/2018

Rebate Payable To:

Presented by:

AJ Marquez

Ecology Action
877 Cedar Street, Suite 240
Santa Cruz, CA 95060
usa
Phone: (831) 426-5925
Mobile: (831) 227-0792
Fax: (831) 427-1368
Email: amarquez@ecoact.org

For questions contact the Installation Manager:

Rachel Radcliffe
Ecology Action
19 N 2nd St. #201
San Jose, CA 95113

Phone: (510) 871-0781
Mobile: +1 5108710781
Fax: (831) 427-1368
Email: rradcliffe@ecoact.org

Summary of Recommended Energy Efficiency Upgrades COW 702 Vista Montana Dr 2018-OBF9088-MLTG

COW-702 Vista Montana Dr
702 VISTA MONTANA DR
WATSONVILLE, CA 95076

| | | Estimated Costs | Estimated Annual Savings | Payback | | | | |
|---|-------------------------------------|---------------------------|---------------------------------|---------------------------|---------------------------|---------------------------|-------------------------|------------------------|
| Total installed cost | Before rebate | \$2,816.07 | | | | | | |
| Total Rebate | | \$1,048.84 | | | | | | |
| Your final cost | After rebate | \$1,767.23 | \$960.64 * | 1.84 Years | | | | |
| <u>The project cost is based on current equipment prices and rebate levels and is valid for a period of 14 days from the date presented.</u> | | | | | | | | |
| | <u>Deemed kWh Savings **</u> | <u>Demand (kW)</u> | <u>Electricity (kWh)</u> | <u>Gas (Therm)</u> | <u>Water (ccf)</u> | <u>Sewer (ccf)</u> | <u>Annual \$</u> | <u>Month \$</u> |
| Utility Savings Summary | 6,334.13 | 1.62 | 6,003.95 | 0.00 | | | \$960.64 | \$80.05 |
| By implementing these efficiency upgrades you will reduce the emissions of CO2 (carbon dioxide) into the atmosphere by 3,146.07 lb/yr | | | | | | | | |

*Note - Savings are estimated using standard engineering calculations and are based on the hours of operation as described to the surveyor. Depending on actual usage as well as changes in your electric utility rate, your savings may be higher or lower. The savings indicated above are NOT guaranteed. Construction costs may vary slightly depending on fixture quantities and unforeseen conditions.

**Note - Based on DEER property type and measure savings values from the CPUC, this project is deemed to deliver 6334.13 kWh and 0.12 kW. The rebate offered for the project is calculated based on the deemed savings values.

Energy Efficiency Projects and Equipment List
COW 702 Vista Montana Dr 2018-OBF9088-MLTG

COW-702 Vista Montana Dr
702 VISTA MONTANA DR
WATSONVILLE, CA 95076

| Recommended Energy Efficiency Upgrades | Quantity | Equipment Cost (Per Item) | Labor Hrs/Cost (Per Item) |
|---|---|--|--|
| Area: (313471) Wallpacks | | | |
| Area Comment: | | | |
| HPS 150w 1L/LED Wall Pack 28w 4000K Full Cut-off ATG (9) (9) Installation Comment: | [4102.28]-Hours=7.0x11.27 Annual Savings =\$945.17 /yr Total Install Cost =\$2,064.21 | Access Difficulty: Standard Rate Multiplier: 1.0 | Ceiling Height: < 9 ft Rate Multiplier: 1.0 |
| E1. Recycle: HID Lamps | 9.0 | \$2.50 | 0 /\$0.00 |
| E2. Recycle: Ballast from HID | 9.0 | \$0.00 | 0 /\$0.00 |
| E3. LED Wall Pack 28w 4000K Full Cut-off ATG | 9.0 | \$103.25 | 0.75 /\$90.00 |
| Area: (313472) Interior | | | |
| Area Comment: | | | |
| T8-4'-32w-1st Gen-2lamp-EI-RS-NLO/LED T8 Type C 4' 15w 2Lamp 4000K Espen (6) (6) Installation Comment: Verify Count | [521.4]-Hours=5.0x2.0 Annual Savings =\$15.47 /yr Total Install Cost =\$751.86 | Access Difficulty: Standard Rate Multiplier: 1.0 | Ceiling Height: < 9 ft Rate Multiplier: 1.0 |
| E1. Recycle: Fluorescent Lamps 4' or Shorter | 12.0 | \$0.70 | 0 /\$0.00 |

| | | | |
|---|------|---------|---------------|
| E2. LED T8 4' 15w 4000K Espen | 12.0 | \$9.55 | 0.05 /\$12.00 |
| E3. Recycle: Non-PCB Ballast from 4' or Shorter | 6.0 | \$0.00 | 0 /\$0.00 |
| E4. Driver LED T8 1L-2L Espen | 6.0 | \$14.06 | 0.33 /\$39.60 |

Recommendations and Savings Checklist
COW 702 Vista Montana Dr 2018-OBF9088-MLTG

Materials List Summary

COW-702 Vista Montana Dr
702 VISTA MONTANA DR
WATSONVILLE, CA 95076

| Equipment | Quantity | Equipment Cost(Per Item) | Labor Hrs/Cost(Per Item) | Custom Priced Item |
|--|----------|--------------------------------|--------------------------------|--------------------------|
| Recycle: HID Lamps | 9.0 | \$2.50 | 0 /\$0.00 | <input type="checkbox"/> |
| Recycle: Ballast from HID | 9.0 | \$0.00 | 0 /\$0.00 | <input type="checkbox"/> |
| LED Wall Pack 28w 4000K Full Cut-off ATG- ATG - WPFC-28-40-XX-G4-XXX | 9.0 | \$103.25 | 0.75 /\$90.00 | <input type="checkbox"/> |
| Recycle: Fluorescent Lamps 4' or Shorter | 12.0 | \$0.70 | 0 /\$0.00 | <input type="checkbox"/> |
| LED T8 4' 15w 4000K Espen- Espen - L48T8/840/15G-XT | 12.0 | \$9.55 | 0.05 /\$12.00 | <input type="checkbox"/> |
| Recycle: Non-PCB Ballast from 4' or Shorter | 6.0 | \$0.00 | 0 /\$0.00 | <input type="checkbox"/> |
| Driver LED T8 1L-2L Espen- Espen - VPL50-2C-030/036 | 6.0 | \$14.06 | 0.33 /\$39.60 | <input type="checkbox"/> |

| | |
|-----------------------------------|-----------------------|
| Disposal Material | \$30.90 \$1,128.21 |
| Base Labor Cost | \$1,119.60 |
| Access Difficulty Cost Adjustment | \$0.00 |
| Ceiling Height Cost Adjustment | \$0.00 |
| Labor (weekdays Rate) | \$1,119.60 |

Notes and Comments

| | |
|--------------------|----------|
| Pre-inspection Fee | \$90.00 |
| Mobilization Fee | \$60.00 |
| Labor Fee | \$283.00 |
| Estimated Taxes | \$104.36 |

Total \$2,816.07
(Including special orders)

COW-702 Vista Montana Dr
702 VISTA MONTANA DR
WATSONVILLE, CA 95076

Contractor Work Order Agreement

___ YES, does accept the project. [COW 702 Vista Montana Dr 2018-OBF9088-MLTG]

The cost of the work included in this bid proposal is not to exceed \$2816.07 unless a fully executed and approved change order is received by the AMBAG Energy Watch Program Administrator. The price and specifications of this bid proposal are satisfactory and are hereby accepted by . All work will be completed within three weeks of the project start date shown below. All work will be completed pursuant to the terms of conditions specified in the original Contractor Participation Agreement between Ecology Action and .

Per the AMBAG Energy Watch Installation Standards the undersigned contractor will submit a fully-detailed invoice, a manifest for any associated recycling fees, photos as detailed in the attached Contractor Photo Punch List (only required when attached), and a Project Completion and Customer Acceptance Certificate signed by the Customer. Upon receipt of these documents and a successful post-installation inspection, Ecology Action will pay the contractor the rebate portion of installed costs. It is incumbent on the contractor to collect the remaining portion of installed costs from the customer.

Scheduled start date: _____

___ NO, does not accept the project. The undersigned understands that repeated project refusals will result in exclusion from the AMBAG Energy Watch Program. If desired, please comment on why the project was refused.

As an authorized agent representing this project, by signing below I certify the improvement or installation complies with any applicable permitting requirements and if a contractor performed the installation or improvement, the contractor holds the appropriate licenses for the work performed.

License# _____

Authorized Signature (Contractor)

Date

(print name)

Company



PROJECT COMPLETION AND CUSTOMER ACCEPTANCE CERTIFICATE

Contractor Statement

_____ (firm name) certifies that we installed the following:

In the building of:

Business Name: COW 702 Vista Montana Dr 2018-OBF9088-MLTG

Street Address: 702 VISTA MONTANA DR City: WATSONVILLE State: CA Zip: 95076

☐ By checking this box, I certify that I have complied with applicable permitting requirements, as appropriate, for this HVAC or lighting installation or replacement.

Permit Number _____ Agency _____

☐ No permit required

Contractor Name :

Date:

Authorized Signature: _____

Title:

Print Name: _____

Customer Statement

The undersigned hereby certifies that all equipment and materials included in the retrofit project including any change orders have been furnished and installed, and that the work has been completed satisfactorily.

I understand that the Contractor is not an employee or representative of Ecology Action. I understand and agree that Ecology Action is not in any way liable or responsible for any acts or omissions of Contractor.

By the signature below I certify that I have not accepted any incentives (i.e., rebates offered by Pacific Gas and Electric or any other energy-efficiency program towards work that is covered by this agreement) from a source other than Ecology Action.

NOTICE TO CUSTOMER :

DO NOT SIGN this certificate until you are completely satisfied that the

Date : _____

Business Name : COW 702 Vista Montana Dr 2018-OBF9088-MLTG

Authorized Signature : _____

(print name): _____

Title : _____

Contractor has fulfilled his obligation to you and the work or equipment has been satisfactorily completed.

(Read before signing)

AMBAG Energy Watch Customer Testimonial/Information Release Form

Permission to Use Customer Energy Retrofit Information and/or Testimonial

In an effort to recognize the energy-savings accomplishments of its participants and promote the wider adoption of energy efficiency, the AMBAG Energy Watch Program requests that satisfied customers provide permission to use information from their projects for marketing and educational purposes. Your confidential information will never be sold to third party marketing firms.

Please initial below the extent to which you authorize promotional use of information related to your energy-efficiency project. Promotional materials may be published and distributed in printed form, on the Internet and/or other formats, via text, pictures and/or video formats.

Please initial each item as appropriate.

- _____ You may publish my energy savings information, measures installed, type of business, and the community in which my business is located.
- _____ You may identify my business by name and address.
- _____ You may identify me by name and publish a statement attributable to me.
- _____ I DO NOT authorize the promotional uses of my information described above.

Customer:

City of Watsonville
702 VISTA MONTANA DR
WATSONVILLE, CA 95076

Authorized Signature: _____

Print Name: _____

Title: _____

Date: _____

Contractor Photo Punch List for COW 702 Vista Montana Dr 2018-OBF9088-MLTG

Please review the photo punch list for your project. These photos are required by the utility to make a case for Accelerated Retirement. **Failure to comply could result in a loss of rebate.**
Contact the Installation Manager with questions.

| Existing Fixture/Lamp | Photo showing Area 'lights on' | Photo showing Lamp Wattage | Ballast label if linear fluorescent |
|--------------------------------------|--------------------------------|----------------------------|-------------------------------------|
| HPS 150w 1L | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| T8-4'-32w-1st Gen-2lamp-EI-RS-NLO | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

City of Watsonville
Public Works and Utilities Department



M E M O R A N D U M

DATE: February 21, 2019

TO: Matthew D. Huffaker, City Manager

FROM: Steve Palmisano, Director of Public Works & Utilities
Michelle Templeton, Public Works & Utilities Assistant Director

SUBJECT: A Resolution Endorsing a Climate Commitment by the City of Watsonville and Requesting Regional Collaboration on a Mobilization Effort to Restore a Safe Climate

AGENDA ITEM: February 26, 2019 **City Council**

RECOMMENDATION:

It is recommended that City Council approve the resolution endorsing a Climate Commitment by the City of Watsonville (City) and requesting regional collaboration on a mobilization effort to restore a safe climate.

BACKGROUND:

In April 2016 world leaders from 175 countries recognized the threat of climate change and the urgent need to combat it by signing the Paris Agreement, agreeing to keep warming “well below 2°C above pre-industrial levels” and to “pursue efforts to limit the temperature increase to 1.5°C.” While the United States (U.S.), under the Trump Administration, has indicated its intention to withdrawal from the Paris Agreement, 40 mayors in the greater San Francisco Bay Area have committed to adopt, honor, and uphold the Paris Agreement.

The City of Watsonville reaffirmed its commitment to uphold the Paris Agreement by joining the Climate Mayors (aka Mayors National Climate Action Agenda), a network aiming to mutually strengthen grassroots-level, city-led activity on undertaking climate action by greening our energy sources, making our infrastructure efficient and low impact, and growing the economy through investing in the sectors that enable a climate-compatible future.

Despite these proactive commitments, historical emissions have increased global temperatures by 1°C already and the climate continues to change, causing extreme and intensified natural hazard and weather conditions. According to the National Centers for Environmental Information, in 2017 the U.S. was impacted by 16 separate billion-dollar disaster events that matched 2011 for the record number of billion-dollar disasters for within a calendar year. The cumulative cost of \$309.5 billion in 2017 shattered the previous U.S. annual record cost of \$219.2 billion in 2005 due to hurricanes.

The October 2017 Northern California wildfires caused more than \$9.4 billion in damage, destroying over 8,900 structures, displacing many people, killing 44, and injuring another 192. With over 7,000 wildfires to date in California over 2018, damage, injury and mortality are set to exceed those of 2017. Worldwide, climate change-fueled droughts, famines, and diseases have already killed millions of people in the Global southern hemisphere, and displaced millions more.

According to the latest climate projections, global temperatures are expected to increase an average of 1.5°C above pre-industrial levels as soon as 2026, causing long-term “continuous thaw” of the Arctic permafrost, which could turn the tundra which has acted as a carbon sink, into a source of carbon release in the 2020s. Moreover, it is estimated that the Greenland Ice Sheet is likely to completely collapse at 1.6°C of sustained warming, which NASA scientists have concluded would lead to 23 feet of sea-level rise, billions of climate refugees, and a “global-scale catastrophe.” Unfortunately, as is often the case, indigenous and low-income communities and communities of color in the U.S. and abroad have suffered the gravest consequences of global warming. In addition to the devastating toll on human health and safety and the financially overwhelming impact to infrastructure, climate change is causing species extinction at rates 1,000 times higher than the natural rate. Vertebrate populations are predicted to decline 65% by 2020 and up to 37% of all plant and animal species by 2050.

According to both the 4th California Climate Change Assessment report, published August 27, 2018, and the IPCC report, published October, 8 2018, climate change is accelerating and urgent action is needed. Common sense and morality indicate that humanity must lower the excess carbon from the atmosphere in order to restore a safe level of greenhouse gas concentrations and global average temperatures. In order to proactively address this climate emergency, corrective and preventive action requires mobilization on a scale not seen since World War II, requiring those that have contributed the most to this global climate crisis to play a greater role in reversing it. To this end, in August 2018, the state of California hosted a Global Climate Action Summit, the purpose of which was to “bring together leaders from state and local governments, business, and citizens from around the world, to demonstrate how the tide has turned in the race against climate change, showcase climate action taking place around the world, and inspire deeper commitments from each other and from national governments.”

DISCUSSION:

The City of Watsonville has been on the forefront of efforts to combat climate change through the development of an Urban Greening Plan in 2012 and an ongoing Climate Action Plan developed in 2015. Most recently, the City’s participation in a community choice energy program, Monterey Bay Community Power, significantly reduced city-wide electricity emissions. With that effort, the City’s largest emissions source is now from the transportation sector. Furthermore, Watsonville is particularly vulnerable to increased flood events, salt water intrusion to coastal wells, and various other challenges exacerbated by extreme weather events and increased temperatures that affect the local economy, the influx of climate refugees to coastal communities, and the general health and quality of life for Watsonville residents.

Through this resolution, the City of Watsonville declares that a climate crisis threatens our cities, towns, region, state, nation, civilization, humanity and the natural world and endorses a just, countywide climate action mobilization effort to reverse global warming to drastically reduce greenhouse gas emissions and safely draw down carbon from the atmosphere as quickly as possible. Specifically, the City commits to:

- Consider revising its existing policy, priorities, processes, and distribution of resources to enable critical climate action measures in the City;
- Explore and develop guidelines or policies that address Socially and Environmentally Responsible Purchasing and Governance Policies;
- Explore new, or expand existing, options for reducing auto dependency through robust alternative transportation and transportation efficiency projects, programs, and other measures as appropriate;
- Support both affordable housing and transit oriented development;
- Support funding for an update to City Climate Action Plan, which sunsets in 2020, and consider ambitious but achievable goals, consistent with or exceeding state goals and objectives, integrated into a Climate and Energy Action Plan 2030;
- Keep the considerations of vulnerable communities and climate resiliency central to all climate action planning processes and to inviting and encouraging communities to actively participate in order to advocate directly for their needs;
- Continue to educate Watsonville residents about the climate crisis and support climate mobilization at the local, regional, state, national, and global levels to protect our residents as well as all the people and species of the world.

By passing this resolution, the City also will rise to the challenge of this great crisis with the active consultation, participation, and benefit of workers and disadvantaged communities, creating well-paying local jobs in building and installing renewable energy infrastructure, growing healthy plant-based food that stays in the community, restoring ecosystems, and retrofitting and redesigning our current environment, electric grid, and transportation systems.

The City underscores the need for full community participation and support, and recognizes that the residents of Watsonville and local organizations such as Regeneration Pajaro Valley, Citizens Climate Lobby, and several other community organizations will be integral to the emergency climate action mobilization effort. The City of Watsonville calls on the Santa Cruz County Regional Transportation Commission and other appropriate local agencies to participate in this regional emergency climate action mobilization effort.

STRATEGIC PLAN:

The Climate Emergency Resolution is consistent with the City Council's strategic plan in Focus Area 3 – Infrastructure and Environment.

Additionally, the plan helps promote a sustainable community and align with goals outlined in the Urban Greening Plan, Climate Action Plan, and promotes economic development through the use of green technology, decreases reliance on the reserve fund through increased grant funding and energy efficiency savings, and improves the short and long term health and safety of Watsonville residents as it pertains to climate impacts such as heat effects on

sensitive community members, increased severity impact of flood/drought fluctuations, and the impacts on specific job sectors.

FINANCIAL IMPACT:

Adopting the Climate Emergency Resolution will not have a financial impact on the City. However, future resource allocation will be a key consideration for the City to address as it works towards the commitments called for in the resolution and the Climate Action Plan.

ALTERNATIVES:

The City Council can choose not to approve the resolution.

ATTACHMENTS:

None

cc: City Attorney

RESOLUTION NO. _____ (CM)

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
WATSONVILLE ENDORSING A CLIMATE COMMITMENT BY THE CITY
OF WATSONVILLE AND REQUESTING REGIONAL COLLABORATION
ON A MOBILIZATION EFFORT TO RESTORE A SAFE CLIMATE**

WHEREAS, in April 2016, world leaders from 175 countries recognized the threat of climate change and the urgent need to combat it by signing the Paris Agreement, agreeing to keep warming “well below 2°C above pre-industrial levels” and to “pursue efforts to limit the temperature increase to 1.5°C”; and

WHEREAS, 40 mayors in the greater San Francisco Bay Area have committed to adopt, honor, and uphold the Paris Agreement, noting, “We will intensify efforts to meet each of our cities’ current climate goals, push for new action to meet the 1.5 degrees Celsius target, and work together to create a 21st century clean energy economy . . . The world cannot wait — and neither will we”; and

WHEREAS, according to the National Centers for Environmental Information, in 2017 “the U.S. was impacted by 16 separate billion-dollar disaster events tying 2011 for the record number of billion-dollar disasters for an entire calendar year,” with a cumulative cost of \$309.5 billion, shattering the previous U.S. annual record cost of \$219.2 billion in 2005 due to hurricanes; and

WHEREAS, from January to September 2018 there were 11 billion-dollar disasters, followed by the Camp and Woolsey fires resulting in 83 deaths, 2000 structures destroyed, and as-yet uncounted billions in damages; and

WHEREAS, severe rainfall in February 2017 across northern and central California resulted in at least five deaths and an estimated \$1.5 billion in damage, including to the Oroville Dam spillway, causing a multi-day evacuation of 188,000

residents, and to the City of San Jose, flooding neighborhoods and forcing 14,000 residents out of their homes. Here in Watsonville 2017 heavy storms caused millions of dollars in levee repairs, flooding in several neighborhoods, and thousands of hours of staff time working to prepare and distribute sandbags, clear clogged storm drains, manage pump stations; and

WHEREAS, the October 2017 Northern California wildfires caused more than \$9.4 billion in damage, destroying over 8,900 structures, displacing many people, killing 44, and injuring another 192; and

WHEREAS, climate change-fueled droughts, famines, and diseases have already killed millions of people in the Global southern hemisphere, and displaced millions more; and

WHEREAS, indigenous and low-income communities and communities of color in the United States and abroad have suffered the gravest consequences of global warming; and

WHEREAS, the death and destruction already brought by global warming of approximately 1°C demonstrate that the Earth is already too hot for safety and justice for the world's most vulnerable people; and

WHEREAS, according to the latest climate projections, humanity is on track to warm the Earth a sustained average of 1.5°C above pre-industrial levels as soon as 2026; and

WHEREAS, it is projected that sustained warming of 1.5°C could cause a long-term, “continuous thaw” of the Arctic permafrost, which could turn the tundra from a net carbon sink into a source in the 2020s; and

WHEREAS, it is estimated that the Greenland Ice Sheet is likely to completely collapse at 1.6°C of sustained warming, which NASA scientists have concluded would lead to 23 feet of sea-level rise, billions of climate refugees, and a “global-scale catastrophe”; and

WHEREAS, tipping points such as those stated above must be avoided, as they will have feedback effects causing further and increasingly uncontrollable climate change and costs; and

WHEREAS, according to the Ecological Footprint, it is estimated that humanity currently uses the equivalent of 1.7 Earths per year in resource consumption and waste disposal; and

WHEREAS, it is estimated that if the world consumed as the average American consumes, humanity would need the equivalent of 4.97 Earths per year in resource consumption and waste disposal; and

WHEREAS, climate change is driving species extinction rates today 1,000 times higher than the natural rate, with a predicted 65% percent decline in vertebrate populations by 2020 and up to 37% percent of all plant and animal species by 2050; and

WHEREAS, it is an act of unspeakable injustice and cruelty to knowingly subject our fellow humans now and in the future to societal disintegration, food and clean water shortages, economic collapse, and early death on an increasingly uninhabitable planet; and

WHEREAS, common sense and morality indicate that humanity must seek to draw down the excess carbon from the atmosphere in order to restore a safe level of

greenhouse gas concentrations and global average temperatures; and

WHEREAS, corrective and preventive action requires mobilization on a scale not seen since World War II; and

WHEREAS, justice requires that those that have contributed the most to this global climate and ecological cataclysm must carry a commensurate burden in reversing it; and

WHEREAS, the Global Climate Action Summit, the purpose of which was to “bring together leaders from state and local governments, business, and citizens from around the world, to demonstrate how the tide has turned in the race against climate change, showcase climate action taking place around the world, and inspire deeper commitments from each other and from national governments,” was held in San Francisco in September 2018; and

WHEREAS, in the City of Watsonville, transportation contributes 34% of carbon emissions and 33% of carbon emissions come from the commercial/industrial electricity use; and

WHEREAS, the City of Watsonville is particularly vulnerable to increased flood events, salt water intrusion to coastal wells, and various other challenges exacerbated by extreme weather events and increased temperatures that affect the local economy, the influx of climate refugees to coastal communities, and the general health and quality of life for Watsonville residents; and

WHEREAS, we in the City of Watsonville can rise to the challenge of this great crisis with the active consultation, participation, and benefit of workers and disadvantaged communities, creating hundreds of well-paying local jobs in building and

installing renewable energy infrastructure, growing healthy plant-based food that stays in the community, restoring ecosystems, and retrofitting and redesigning our current environment, buildings, electric grid, and transportation systems; and

WHEREAS, both the 4th California Climate Change Assessment report, published August 27, 2018, and the IPCC (Intergovernmental Panel on Climate Change) report, published October 8, 2018, both stress that climate change is accelerating and urgent action is needed.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF WATSONVILLE, CALIFORNIA, AS FOLLOWS:

1. That the City of Watsonville commits to consider revising its existing policy, priorities, processes, and distribution of resources to enable emergency climate action measures in the City.
2. That the City of Watsonville commits to explore and develop guidelines or policies that address socially and environmentally responsible governance and purchasing policies.
3. That the City of Watsonville commits to explore new, or expand existing, options for reducing auto dependency through robust alternative transportation and transportation efficiency projects, programs, and other measures as appropriate.
4. That the City of Watsonville commits to support both affordable housing and transit oriented development.
5. That the City of Watsonville commits to considering ambitious but achievable goals in the 2020 CAP Update, consistent with or exceeding state goals and objectives, integrated into a Climate and Energy Action Plan for 2030.

6. That the City of Watsonville commits to continue educating residents about the climate crisis and supporting climate mobilization at the local, regional, state, national, and global levels to protect our residents as well as all the people and species of the world.

7. That the City of Watsonville underscores the need for full community participation and support, and recognizes that the residents of Watsonville, and various community organizations and non-profit partners will be integral to the emergency climate action mobilization effort.

8. That the City of Watsonville commits to keeping the considerations of vulnerable communities central to all emergency climate action planning processes and to inviting and encouraging such communities to actively participate in order to advocate directly for their needs.

9. That the City of Watsonville collaborate with community, labor, environmental justice, economic justice, and racial justice organizations throughout the climate action planning process, as appropriate.

10. That the City of Watsonville endorses a just, countywide climate action mobilization effort to reverse global warming to reduce drastically citywide greenhouse gas emissions and safely draw down carbon from the atmosphere as quickly as possible.

11. That the City of Watsonville calls on the Santa Cruz County Regional Transportation Commission, AMBAG and other appropriate local agencies to participate in this regional emergency climate action mobilization effort.

12. That the City of Watsonville calls for a regional just transition and climate

action mobilization collaborative effort, including concerned residents, youth, faith, labor, business, environmental, economic, racial and social justice organizations as well as other community groups, and all elected officials in and from Watsonville and nearby counties and especially all the mayors who have signed on to enact the Paris Agreement.



**CITY COUNCIL
CITY OF WATSONVILLE
CLOSED SESSION AGENDA
AND STATEMENT FOR MAYOR PRIOR TO CLOSED SESSION**
(Government Code §§ 54954.2 and 54957.7)

5:30 P.M.

City Council Chambers
275 Main Street, 4th Floor

 X Regular Adjourned Special Meeting of February 26, 2019
[Date]

The City Council of the City of Watsonville will recess to Closed Session to discuss the matters that follow:

A. CONFERENCE WITH LEGAL COUNSEL—ANTICIPATED LITIGATION
(Government Code Section 54956.9)

1. Anticipated litigation pursuant to subdivision (e)(3):

a) Claimant: Celestine Marie Glover (Represented by Dolan
Law Firm, PC)

Agency claimed against: City of Watsonville

Dated: Friday, February 15, 2019

Prepared by: _____


Alan J. Smith, City Attorney

PRIJEDLOG JE DA BUDU BORDO KORICE,
GRBOVI I NASLOV SPORAZUMA OTISNUTI ZLATOM,
UNUTRA JE BORDO TRAKICA S OBJE STRANE
KORICA, U KOJE SE UMETNE TEKST NA ENGLISKOM I HRVATSKOM JEZIKU.
TO BI IŠLO U DVA PRIMJERKA.



AGREEMENT

ON COOPERATION BETWEEN THE CITY OF WATSONVILLE (USA)
AND THE MUNICIPALITY OF KONAVLE (REPUBLIC OF CROATIA)

SPORAZUM

O SURADNJI IZMEĐU GRADA WATSONVILLE (SAD)
I OPĆINE KONAVLE (REPUBLIKA HRVATSKA)



SPORAZUM

O SURADNJI IZMEĐU GRADA WATSONVILLE (SAD) I OPĆINE KONAVLE (REPUBLIKA HRVATSKA)

UZIMAJUĆI U OBZIR želju za međusobnim upoznavanjem kulture, zemlje i stanovnika Hrvatske i Sjedinjenih Američkih Država,

UZIMAJUĆI U OBZIR zajedničke želje građana Watsonville i Općine Konavle za uspostavljanjem prijateljskih odnosa i suradnje između naših dviju zajednica,

UZIMAJUĆI U OBZIR povijesne veze između naših dviju zajednica, a posebno veliki broj stanovnika Konavala koji su krajem 19. – tog i početkom 20. – tog stoljeća imigrirali u Sjedinjene Američke Države, a najvećim dijelom u Pajaro Valley,

UZIMAJUĆI U OBZIR da su obitelji koje su iz Konavala imigrirale u Sjedinjene Američke Države i u jednom razdoblju dosegli više od 20% od ukupnog broja stanovnika Watsonville, imali značajan utjecaj na ekonomski razvoj Grada Watsonville,

UZIMAJUĆI U OBZIR da mnogi stanovnici Watsonville čiji su preci imigrirali iz Konavala, održavaju snažne veze sa svojim obiteljima u Konavlima,

UZIMAJUĆI U OBZIR zajedničke interese za životom i kulturom naših dviju zajednica radi obostrane dobrobiti, smatrajući da uspostavljanje prijateljskih odnosa među nama doprinosi miru, uzajamnom razumijevanju i razvitku raznovrsnih veza između Sjedinjenih Američkih Država i Hrvatske,

RADI poticanja i promicanja razmjene između naših zajednica sukladno zakonu i aktima naših jedinica lokalne samouprave,

OVIME SE OBVEZUJEMO na suradnju i razvitak prijateljstva, posebice suradnjom i razmjenom u obrazovanju, programima koji su namijenjeni djeci i osobama s posebnim potrebama, u kulturi, sportu i podupiranjem gospodarske suradnje.

OVIME USPOSTAVLJAMO suradnju radi razvijanja međusobnog razumijevanja, napretka i izraza dobre volje.

U ime Grada Watsonville
gradonačelnik
Francisco Estrada

U ime Općine Konavle
općinski načelnik
Božo Lasić

_____ veljače 2019.



AGREEMENT

ON COOPERATION BETWEEN THE CITY OF WATSONVILLE (USA) AND THE MUNICIPALITY OF KONAVLE (REPUBLIC OF CROATIA)

TAKING INTO CONSIDERATION the desire to get to know each other's culture, country and population of Croatia and the United States,

TAKING INTO CONSIDERATION the common desire of citizens of Watsonville and Municipality of Konavle for the establishment of friendly relations and cooperation between our two communities,

TAKING INTO CONSIDERATION the historical links between our two communities, and especially the large number of Konavle residents who immigrated to the United States in the late 19th and beginning of the 20th century and mostly to Pajaro Valley,

TAKING INTO CONSIDERATION that families from Konavle immigrated to the United States and at one point reached more than 20% of the total population of Watsonville, had a significant impact on the economic development of the City of Watsonville,

TAKING INTO CONSIDERATION that many Watsonville residents whose ancestors immigrated from Konavle maintain strong ties with their families in Konavle,

TAKING INTO CONSIDERATION the common interests of the life and culture of our two communities for the sake of mutual benefit, believing that the establishment of friendly relations between us contribute to peace, mutual understanding and the development of diverse ties between the United States and the Croatia,

FOR THE SAKE OF the encouragement and promotion exchanges between our communities in accordance with the law and the acts of our local self-government units,

HEREBY WE COMMIT to the development of friendship and cooperation, especially cooperation and exchange in education programs aimed at children and people with special needs, in culture, in sport and supporting economic cooperation.

HEREBY WE ESTABLISH the cooperation in order to develop mutual understanding, progress and expressions of good will.

On Behalf of the City of Watsonville
mayor
Francisco Estrada

On Behalf of the chief of the
Municipality of Konavle
Božo Lasić

February _____ 2019

**City of Watsonville
Finance Department**

M E M O R A N D U M



DATE: February, 2019

TO: Matt Huffaker, City Manager

FROM: Cynthia Czerwin, Administrative Services Director
William P Hays, Administrative Services Manager

SUBJECT: Receive the Comprehensive Annual Financial Report and the Measure G Report for Fiscal Year Ended 2017/18, Impact Fees Report for Fiscal Year Ended 2017/18, Accept the 2018-19 Mid-Year Financial Report, and Approve Resolutions Adopting a deposit into the emergency reserve and the Advance Payables Schedule, Approve Resolution to Appropriate Budgetary changes for the 2018-19 Fiscal Year and Accept by Motion the mid-year staffing changes for FY 18/19 Budget

AGENDA ITEM: February 26, 2019 City Council

RECOMMENDATION:

That the City Council:

- (1) Accept by motion, the Comprehensive Financial Report for FY 2017-18, and
- (2) Accept by motion, the Annual Measure G Audit Report for FY 2017-18, (Attachment 1) and
- (3) Accept by motion, the Impact Fee Report for FY 2017-18, (Attachment 2) and
- (4) Accept by motion, the mid-year financial report for the 2018-19 Fiscal Year:
 - a. General Fund
 - b. Enterprise Funds
 - i. Sewer
 - ii. Water
 - iii. Solid Waste
 - iv. Airport
 - c. Library Fund
 - d. Internal Service Fund
 - e. Measure G Fund
- (5) Accept by motion, the mid-year staffing changes for FY 2018-19 budget as shown in Exhibit "C". (Page 14)

- (6) Accept by resolution an additional commitment of \$1,500,000 into the City's Emergency Reserve
- (7) Approve a resolution adopting the advance payables (long term loans) schedules identified in the Audited Financial Statements in accordance with the City's Interfund Loan Policy and presented in Attachment 3.
- (8) Approve a resolution to appropriate the items in the FY 2018-19 budget as shown in Exhibit "B", (Page 14)

Overview:

The City of Watsonville is in an increasingly positive financial situation. Beginning in fiscal year 2014-15 Watsonville's General Fund Revenues finally returned to pre-recession levels and have continued to grow at normal rates. Fiscal Year 2017-18 saw continued revenue growth and a strengthening of the City's financial position. The City is now meeting the Council's goal of having a fund balance equal to or greater than 20% of operating expenditures in the City's General Fund. We are anticipating the reduction of the General Fund Balance with the one-time costs incurred for the Airport settlement in the amount of \$2,911,319.

Watsonville has seen a few years of improving financial position and therefore it is time for the City to get serious about addressing its backlog of needs and planning for future known and unknown risks. The City has a list of unfunded maintenance and capital needs totaling over \$18 million dollars. It is also known that the next few fiscal years will see rapid increases in CalPERS retirement costs, and the City is not yet fully funding its emergency reserve. The improved financial position needs to be paired with careful planning and spending if Watsonville is going to be able to meet future challenges.

DISCUSSION:**1) Comprehensive Audited Financial Statements (CAFR) FY 2017-18 Results.**

The City's Charter and the State of California law require that all general purpose local governments publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (US GAAP). Upon its completion, the City prepared the CAFR and submitted it to the Government of Finance Officers Association (GFOA) for consideration in receiving the "Certificate of Achievement for Excellence in Financial Reporting."

The report was audited by Maze and Associates, an independent firm of certified public accountants (CPA), who issued an unqualified opinion of the City's audit. Some of the highlights presented in the audited statements include (all figures are in thousands unless otherwise indicated):

- The assets of the City of Watsonville exceeded its liabilities at the close of the most recent fiscal year by \$234,083.
- The City's total restated net position increased by \$8,067. Governmental activities net position increased by \$4,758, most of which is attributable to increases in

property and sales taxes. Business type activities net position increased by \$3,309. Most of this increase was from the Water Fund ending with positive change in net position.

- The City's governmental funds reported combined ending fund balances of \$33,251 an increase of \$6,958 in comparison with the prior fiscal year's balances. The non-spendable portion of the fund balance was \$2,588, the restricted portion was \$21,049 and the unassigned amount was \$9,614.

Table 1:

City of Watsonville's Net Position

June 30, 2018

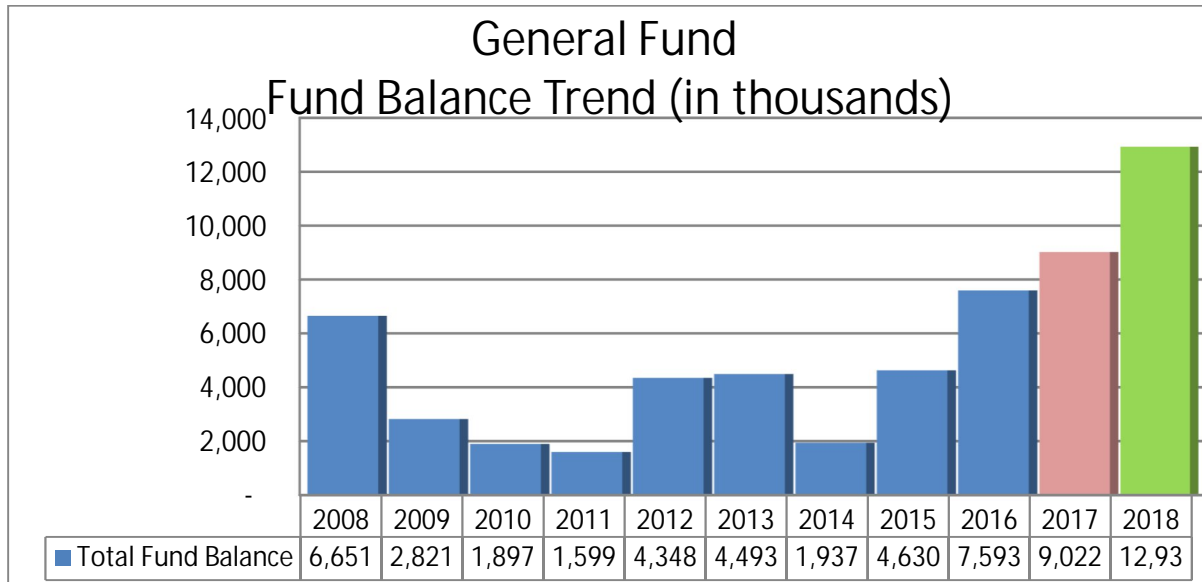
(in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|------------------------------------|-------------|-------------------------------------|-------------|--------------|-------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | 14,301 | 14,117 | 42,886 | 39,892 | 57,187 | 54,009 |
| Operating grants and contributions | 2,019 | 3,310 | 1,430 | 1,373 | 3,449 | 4,683 |
| Capital grants and contributions | - | - | 311 | 1,103 | 311 | 1,103 |
| General Revenues | | | | | | |
| Property taxes | 13,436 | 13,300 | - | - | 13,436 | 13,300 |
| Other taxes | 24,908 | 22,025 | - | - | 24,908 | 22,025 |
| Others | 3,708 | 3,227 | 352 | 206 | 4,060 | 3,433 |
| Total Revenues and Transfers | 58,372 | 55,979 | 44,979 | 42,574 | 103,351 | 98,553 |
| Expenses: | | | | | | |
| General government | 7,032 | 8,257 | - | - | 7,032 | 8,257 |
| Public safety | 30,971 | 27,381 | - | - | 30,971 | 27,381 |
| Housing | 1,158 | 2,318 | - | - | 1,158 | 2,318 |
| Streets | 5,974 | 6,348 | - | - | 5,974 | 6,348 |
| Culture and recreation | 8,591 | 7,817 | - | - | 8,591 | 7,817 |
| Interest on debt | 158 | 146 | - | - | 158 | 146 |
| Water | - | - | 12,038 | 13,851 | 12,038 | 13,851 |
| Sewer | - | - | 13,175 | 10,272 | 13,175 | 10,272 |
| Solid waste | - | - | 12,758 | 10,976 | 12,758 | 10,976 |
| Airport | - | - | 3,382 | 2,684 | 3,382 | 2,684 |
| Fiber optic | - | - | 47 | 41 | 47 | 41 |
| Total Expenses | 53,884 | 52,267 | 41,400 | 37,824 | 95,284 | 90,091 |
| Increase in net position before transfers | 4,488 | 3,712 | 3,579 | 4,750 | 8,067 | 8,462 |
| Internal balances | 270 | 308 | (270) | (308) | - | - |
| Change in net position | 4,758 | 4,020 | 3,309 | 4,442 | 8,067 | 8,462 |
| Net position - beginning | 124,458 | 120,376 | 101,558 | 97,242 | 226,016 | 217,618 |
| Prior year adjustments | - | 62 | - | (126) | - | (64) |
| Net position - beginning restated | 124,458 | 120,438 | 101,558 | 97,116 | 226,016 | 217,554 |
| Net position ending | 129,216 | 124,458 | 104,867 | 101,558 | 234,083 | 226,016 |

The City's General Fund *ongoing operations* ended FY 2017-18 with revenues exceeding expenditures by approximately \$3.9 million. This positive balance can be

attributed to the ongoing efforts by the City and its employees to control expenditures and the stabilization of major revenue sources such as Sales and Property Taxes. This positive difference has directly impacted the General Fund's bottom line which increased from \$9.0 million to \$12.9 million.

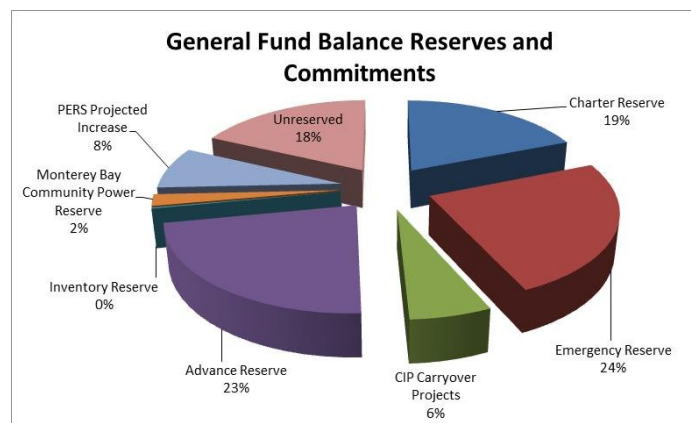
Chart 1:



As the General Fund financial situation improves, it is important to revisit the City Council's General Fund Balance replenishment plan adopted in February of 2015 and updated reserve policies adopted in February of 2018. The action approved by the Council included the following:

- In accordance with previous practice and the City's Charter, a balanced budget must be adopted each year, meaning ongoing operating revenues will equal or exceed ongoing operating expenditures. This principle is the most important factor in the plan and has in fact been followed consistently by the City.
- Designate the target unrestricted fund balance for the General Fund as 20% of General Fund expenditures.

Chart 2:



As you can see the General Fund's fund balance as a percentage of General Fund expenditures is 31.49% an improvement from the prior year's 22.74%. This seems to be a healthy General Fund balance but there are already various demands on the Fund Balance and also known future funding increases within the next five fiscal years. The current unreserved portion is approximately 18% of total fund balance but we know that the PERS UAL and Normal PERS costs will be increasing by an estimated million dollars per year which could eliminate the unreserved balance in less than three years.

The audited FY 2017-18 financial statements also do not reflect a major subsequent event that will greatly affect the City's fund balance in future years. In July of 2018, the City signed a settlement with the Watsonville Pilots Association to remove an Advance Payable from the Airport Fund to the General Fund in the amount of \$2,911,319. The agreement also included payment of legal fees and is expected to result in a decreased ending funding balance at the end of FY 2018-19.

2) Additional Commitment into General Fund Emergency Reserve

Based on the above discussion we are recommending committing an additional \$1.5 million into the City's General Fund Emergency Reserve. In February of 2018 the Council adopted the creation of an emergency reserve that would be available to the City only in certain circumstances and set a goal of that reserve being 10% of General Fund expenditures. At the same time, \$1.65 million was committed as initial funding for that reserve. That represents only 3.5%. An additional \$1.5 million would bring the emergency reserve up to 7.1% and set the City on course for fully funding this within 3 years.

3) Measure G audited financial results

On June 3, 2014; 67.22% of Watsonville voters approved Measure G, enacting a one half of one percent transactions and use tax in the City of Watsonville to fund police, fire and youth violence prevention services. The new tax became operative on October 1, 2014 and revenue began flowing to the City in December of 2014. The new revenue is being used to fund Police Services (60%) and Fire Services (40%)

In 2017-18 Measure G received \$3.7 million in revenue and spent \$3.3 million. Of these funds, the Police Department spent \$1,810,462 and the Fire Department spent \$1,473,644. The expenses for the Police Department include salaries for one Police Services Specialist, one Community Organizer, a Crime Analyst, a Property and Evidence Tech I, a Recreation Specialist for the Police Activities League, and five Police Officers. The Police Department also used \$556,538 for equipment and vehicles. The Fire Department's expenses included a total of six firefighters, and \$872,180 in capital needs for the department. See table 2 for a summary of Measure G through the end of Fiscal Year 2016-17.

Measure G also requires that an annual maintenance of effort (MOE) is met and a 10% reserve of annual revenues is established. The maintenance of effort is set by the ordinance at \$12,359,924 for police services and \$5,672,299 for fire services annually. Both of these amounts were exceeded. The reserve was also exceeded due to setting funds aside for planned capital and vehicle purchases in future years.

Table 2:

| Sales Tax Measure G City of Watsonville as of June 30, 2017 | | | | | |
|--|------------------|--------------------|--------------------|--------------------|--------------------|
| Fiscal Year | FY 14-15 | FY 14-15 | FY 15-16 | FY 16-17 | FY 17-18 |
| Year | BUDGET | ACTUAL | ACTUAL | ACTUAL | ACTUAL |
| Tax Revenue - Police | \$2,042,613 | \$1,365,576 | \$2,199,667 | \$2,128,135 | \$2,295,713 |
| Tax Revenue -Fire | - | 910,384 | 1,469,446 | 1,418,757 | 1,530,475 |
| Grant Revenue - Police | 90,000 | - | 148,679 | 122,383 | 93,940 |
| Interest | - | - | - | 13,045 | 38,674 |
| Carryover from prior year | - | - | 1,248,495 | 2,525,523 | 2,920,737 |
| Total Revenues | 2,132,613 | 2,275,960 | 5,066,287 | 6,207,843 | 6,879,539 |
| Police Services | 590,214 | 392,721 | 837,767 | 947,164 | 1,137,444 |
| Gang Prevention | 136,228 | 63,074 | 209,442 | 306,760 | 278,953 |
| Equipment / Facilities (police) | 487,481 | 283,414 | 554,700 | 556,539 | 638,008 |
| Fire Services | 667,050 | 190,980 | 498,794 | 604,465 | 938,606 |
| Equipment / Facilities (Fire) | 88,950 | 97,276 | 440,061 | 872,180 | 684,688 |
| Administration Fee (2%) | 42,000 | - | - | - | - |
| Total Expenditures | 2,011,923 | 1,027,465 | 2,540,763 | 3,287,108 | 3,677,699 |
| Reserve | \$120,690 | \$1,248,495 | \$2,525,523 | \$2,920,735 | \$3,201,840 |

4) Impact Fees Report

Development Impact Fees, also known as impact fees, are one-time charges paid by developers and builders to offset the cost of additional public service costs of new development. Impact fees are usually applied at the time a building permit is issued and are dedicated to the provision of additional services, such as- roads, storm drains, affordable housing, public facilities, public safety and equipment, and parks and recreation facilities. The funds collected cannot be used for operation, maintenance, repair, alteration, or replacement of existing capital facilities and cannot be added to general revenue.

Once the fees are established and funds are received, the local government is required to deposit these funds into a separate fund avoiding any commingling of the fees with other revenues, except for temporary investments. Governments are also required to make available to the public specified information relating to the fee (amount and description), interest, other income, expenditures and refunds for each separate impact fee fund on an annual basis. The Statement of Revenues, Expenditures and Amount Needed to Fund Future Projects (attachment A) fulfills that requirement for Fiscal Year 2017-18. The Statements also show ending fund balances, planned future projects and amount of impact fees/interest income required in the future to fully fund future projects.

5) Mid-Year Budget Report

Annually the City Council initiates the upcoming budget cycle with a formal mid-year status report. This annual report focuses on issues or changes within the current budget cycle and provides an indication of potential issues for the upcoming Fiscal Year. As in previous years, the main theme of this report is to proceed with caution, to constrain pressure to increase operating costs, to provide funding for deferred one-time capital needs, and to continue building up operating and catastrophic reserves.

The mid-year estimate provides an updated assessment of the City's FY 2018-19 budget and projected fund balances at the end of the fiscal year. The report is prepared after a comprehensive review of all financial activity through the end of December and estimates the financial outlook at year end. Accordingly, staff prepared the resolutions for Council consideration. Upon approval, the Administrative Services Director will make the necessary adjustments based on Exhibit "B" unless other direction is provided.

General Fund

As discussed in the CAFR section of this report, fund balance increased in FY 2017-18. During the current year, fund balance is projected to decrease by \$1,400,000, as shown in Table 3 below due to an agreement to remove \$2.5 million advance owed to the City's General Fund by the Airport Fund plus legal fees but this is offset by \$800,000 in one time mitigations fees.

Concerns for Fiscal Year 2018-19. Primary future financial concerns that must continue to be closely watched and addressed over the coming years include:

- Open contracts with most Bargaining Units
- Pending Arbitration with Firefighters Association
- Measure G Sunset
- Cannabis Revenues
- Pension Costs
- Deferred Infrastructure and Capital Needs

Table 3:

| General Fund Estimate Expenditures and Revenues Fiscal Year Ending June 30, 2019 | | | |
|---|--------------------|--------------------|--------------------|
| Department | Amended Budget | Estimate | Variance |
| Revenues: | | | |
| Property Tax | 6,490,000 | 6,406,507 | (83,493) |
| Sales Tax | 8,055,000 | 8,194,364 | 139,364 |
| Property Tax in-Lieu | 4,275,750 | 4,491,146 | 215,396 |
| Hotel Room Tax | 1,220,000 | 1,204,721 | (15,279) |
| Utility User Tax | 3,661,110 | 3,683,743 | 22,633 |
| Cannabis - Rev | 613,922 | 324,370 | (289,552) |
| Other | 19,610,090 | 19,136,369 | (473,721) |
| Total - GF Revenues | <u>43,925,872</u> | <u>43,441,219</u> | <u>(484,653)</u> |
| General Government | 3,766,861 | 3,563,134 | 203,727 |
| City Clerk | 740,638 | 701,545 | 39,093 |
| Community Development | 2,172,199 | 1,998,262 | 173,937 |
| Finance | 1,717,708 | 1,544,797 | 172,911 |
| Fire | 7,499,373 | 7,265,061 | 234,312 |
| Library | 541,484 | 541,484 | - |
| Non-Department | 763,598 | 816,188 | (52,590) |
| Social Services | 210,341 | 210,341 | - |
| Parks & Community Services | 4,251,190 | 4,332,144 | (80,954) |
| Police | 18,117,026 | 17,665,038 | 451,988 |
| Public Works | 3,118,419 | 2,882,766 | 235,653 |
| Transfer Out | 352,814 | 352,814 | - |
| Cannabis - Exp | 613,922 | 324,370 | 289,552 |
| Cannabis Capital | 255,750 | 255,750 | - |
| Capital | 1,137,864 | 1,137,864 | - |
| Sub total GF Expenditures | <u>45,259,187</u> | <u>43,591,558</u> | <u>1,667,629</u> |
| One time Transactions: | | | |
| Revenues | - | 830,000 | 830,000 |
| Expenditures | - | (3,297,055) | (3,297,055) |
| Total One Time Transactions | <u>-</u> | <u>(2,467,055)</u> | <u>(2,467,055)</u> |
| Total GF Activity: | <u>(1,333,315)</u> | <u>(2,617,394)</u> | <u>(1,284,079)</u> |

Public Safety Overtime

Overtime in the fire and police departments have posed challenges in managing the City's budget in the past. Though both departments are not projecting the overages they have in past years, both departments are currently projected to be over budget primarily due to overtime spending.

The Fire Department continues to be successful in reducing total overtime compared to previous fiscal years. Their projected amount for the fiscal year is under the budgeted amount by \$25,000.

The Police Department incurred overtime costs have exceeded the budgeted amount. There are multiple reasons causing the overage including City activities, investigations and staffing levels. City activities that require policing such as the camp clean ups have required the department to absorb \$21,739 in overtime costs and it continues to be an ongoing project. Investigations such as attempted homicides are unpredictable but must be investigated immediately leading to an increase in overtime, in July 2018, one attempted homicide/robbery had an overtime cost of \$20,724. In addition, the department had approximately five (5) police officer vacancies causing a shortage of sworn personnel and the need to backfill using overtime. Please note that when the vacant positions are filled with police officer trainees, it takes approximately a year for them to become solo beat officers.

Cannabis Revenues

In the November 2016 election, Watsonville citizens approved the Cannabis Business Tax Revenue – Measure M. The measure imposes a tax on cannabis businesses in the City of Watsonville. As approved by voters, 20% of proceeds will to be used to pay for law enforcement and crime prevention services, 15% for fire services, 20% for community development services, 25% for parks and community services, 8% for library services and 12% for non-profit and community services. In Fiscal Year 2018-19 revenues of \$613,922 were budgeted though early on we recognized that permittees were not yet running their operations and therefore we would not collect the expected revenues. Departments were told to freeze any future spending but were allowed to retain positions that were already hired. Based on those instructions we anticipate spending what we expect to receive in Cannabis funding this fiscal year. For presentation purpose, capital is projected at budget but is still frozen until revenues can cover the costs of capital.

Table 4:

| Measure M Cannabis Funding Fiscal Year 2018-19 | | | |
|--|-----------|------------|-----------|
| | Budget | Projection | Variance |
| | \$ | \$ | |
| Cannabis Revenue | 613,922 | 324,370 | (289,552) |
| Cannabis - CDD | 149,793 | 84,439 | 65,354 |
| Cannabis - Fire | 112,557 | 27,342 | 85,215 |
| Cannabis - Library | 89,300 | 14,358 | 74,942 |
| Cannabis - SS Grts | 50,000 | 50,000 | - |
| Cannabis - P&CS | 98,099 | 65,714 | 32,385 |
| Cannabis - Police | 103,531 | 71,875 | 31,656 |
| Cannabis - Capital | 255,750 | 255,750 | - |
| Cannabis Expenditures | 859,030 | 569,478 | 289,552 |
| | (245,108) | (245,108) | 0 |
| Variance | | | |

As of the writing of this report, 5 of the 7 cultivation facilities are in operation. 1 facility failed to execute building permits prior to the expiration of the Entitlement Permit, and 1 facility is still under construction. There are 2 manufacturing facilities in operation, with the remaining 7 facilities still under construction. It is estimated that 5 of the 7 remaining manufacturing facilities will be operational by the end of FY 2019.

CalPERS

The City is in a period of increasing PERS costs that will affect all City services in the future. PERS costs are rising and will continue to rise for at least the next seven years as the UAL (Unfunded Actuarial Liability) payments for past losses keep increasing. Beginning in fiscal year 2018/19 the discount rate reduction by PERS increased the UAL and PERS normal costs rates. This increased Miscellaneous PERS members' contributions to 18.9% of salaries and Public Safety rates are projected to increase to 76.23% for Fire and 63.34% for Police in FY 24/25. The cost to fund all city employees normal and UAL costs is expected to increase from \$7.5 million in FY 18/19 to \$13.2 Million in FY 24/25.

With PERS costs increasing by as much as \$1.3 million per year, staff are recommending later in this report that some of the current unrestricted General Fund Balance be committed by Council to fund future PERS costs as revenues will not keep us with this type of growth over the next seven years. Staff will continue to work to accurately project these costs and understand their impact on the City.

Enterprise, Special Revenue and Internal Service Funds

Table 5:

| Other Fund Projections Fiscal Year 2018-19 | | | | | | | | |
|--|------------------------|------------|------------|-------------|-------------|------------|-------------|-------------------------------|
| Fund | Beginning Cash Balance | Budget | | | Projections | | | Projected Ending Cash Balance |
| | | Revenues | Expenses | Variance | Revenues | Expenses | Variance | |
| Sewer (710) | 9,622,157 | 17,863,565 | 20,992,981 | (3,129,416) | 14,310,513 | 16,570,743 | (2,260,230) | 7,361,927 |
| Water (720) | 9,453,163 | 23,158,463 | 26,532,542 | (3,374,079) | 19,093,974 | 15,527,856 | 3,566,118 | 13,019,281 |
| Solid Waste (740) | 7,421,293 | 13,198,263 | 14,042,841 | (844,578) | 13,296,330 | 13,869,713 | (573,383) | 6,847,910 |
| Airport (730) | 441,879 | 4,852,169 | 5,509,014 | (656,845) | 3,722,170 | 4,060,509 | (338,339) | 103,540 |
| Library (250) | 917,139 | 3,611,100 | 3,600,586 | 10,514 | 3,806,100 | 3,769,493 | 36,607 | 953,746 |
| Liability and WC (780) | 2,770,137 | 3,285,025 | 3,146,690 | 138,335 | 3,732,988 | 3,231,779 | 501,209 | 3,271,346 |
| Health Insurance | 54,455 | 7,775,172 | 7,914,655 | (139,483) | 7,878,080 | 7,687,798 | 190,282 | 244,737 |

The **Sewer Fund's** expenses are projected to exceed revenues by approximately \$2.2 million. The fund's beginning cash balance was \$9.6 million and the end of the year projected cash balance is \$7.4 million. This represents 4.21 months of working capital, a decrease from the 4.26 months of working capital for the previous year. The change is attributed to the planned additional spending in capital projects in order to catch up with projects previously planned but not completed. Several large sewer replacement projects are under design, and are planned for the next several fiscal years. Staff foresees a significant increase in capital project expense in future years that will be necessary to maintain the City's aging sewer infrastructure.

The **Water Fund's** revenues are projected to exceed projected expenses by \$3.6 million. The projected year-end cash balance is \$13 million. This represents 5.89 months of working capital for this fund. Although this level of reserves is healthy; it would not be sufficient to fund all the capital needs in the fund. In fact, if all the current year capital expenses were to be built, the fund would be over-budget. These numerous capital projects are necessary to maintain the City's aging water system infrastructure and bring it to modern standards.

The **Solid Waste Fund's** operating expenses are projected to exceed revenues by \$0.6 million. The projected year-end cash balance is \$6.8 million. Staff anticipates the need for increases in capital expenses in future years to maintain the garbage and recycling vehicle fleet, and the facilities used to operate solid waste services. Accordingly, the fund's projected cash balance of \$6.8 million represents 6.6 months of working capital for this fund. Even though the cash reserves are healthy in this fund, staff will have to present to Council the possibility of issuing bonds or obtaining loans in the future in order to secure enough capital for the closure and post closure costs of the City's landfill.

The **Airport Fund**'s revenues are projected to exceed operating expenses by \$0.62 million. The audited financial statements for Fiscal Year 2017-18 show a cash balance of \$0.4 million resulting in a projected year end cash balance of \$0.1 million. The department is expanding its staffing operations and has embarked on some major capital projects including the building of a new administrative office. A spend down of the enterprises cash balance was projected during the budget process and both the Finance and the Airport departments are continuing to work together to monitor the situation to ensure the Airport maintains a reasonable cash balance for future years

The **Library fund** is projected to have revenues of \$195,000 in excess of budgeted revenues and expenditures of \$95,000 over appropriations. They are asking for 95,000 of new appropriations with the increase of revenues. Cash reserves for this fund are projected to increase to \$.95 million. This would represent a working capital of 3.7 months. This is a decrease from the 4.52 months of working capital for the previous year.

The **Self-Insurance fund** has three different components: Liability Insurance, Worker's Compensation Insurance, and Health Insurance. Overall, this fund is within budgeted amounts and cash balances remain healthy.

The **Health Insurance fund** is projected to be in balance due to the recent increase of premiums for both the City's cost and the employee contributions. Overall, the estimated cash impact to the Health Insurance fund is positive.

The Health Insurance activity for the City is broken down into two components, the legacy fund and the new fund. The City transitioned to a new Health Insurance Fund at the beginning of the FY 2013-14. This transition was necessary as the health self-insurance model for providing health benefits had produced adverse financial results for the City during FY 2010-11 and 2011-12. As a result the City entered into a pooled insurance model with CSAC EIA and created a new Health Insurance fund to track the revenues and expenses under this new model. This new model has produced positive results since its inception and the new health fund is projected to be within budget and in balance by the end of FY 2018-19.

Measure G. Measure G is an additional transactions and use tax in the City of Watsonville dedicated to fund police, fire and youth violence prevention services. In Fiscal Year 2017-18 it is once again projected to have better than budgeted revenues and underspending due to vacant positions and efforts to build up reserves to pay for future capital, equipment, and technology outlays.

Table 6:

| Measure G Projections Fiscal Year 2018-19 | | | |
|---|-------------|-----------|---------|
| Category | Budget | Projected | Percent |
| | \$ | \$ | |
| Revenues | 3,931,960 | 4,145,748 | 105.44% |
| Expenditures | | | |
| Fire Operations | 1,122,298 | 896,595 | 79.89% |
| Fire Capital | 1,725,373 | 753,447 | 43.67% |
| Police Operations | 2,012,709 | 1,392,476 | 69.18% |
| Police Capital | 263,545 | 192,514 | 73.05% |
| Revenue Minus Exp | (1,191,965) | 910,716 | |
| Beginning Cash Balance | 2,812,223 | 2,812,223 | |
| Ending Cash Balance | 1,620,258 | 3,722,939 | |

6) Approval of Long Term (Advances Payable) Interfund Loans

Staff recommends approval of the interfund loans as shown in Attachment 3 of this staff report to comply with the interfund loan policy. As explained in the policy, these transactions occur as the normal course of business in any organization.

7) Mid-year Appropriation Adjustments

In reviewing the City's financial situation for the mid-year it has come to our attention that a few appropriation adjustments are needed to allow for departments to have the expenditure authority needed to continue their normal operations. Each of the departments requesting adjustments in Exhibit B have sufficient revenue to support their requests.

Exhibit B
Fiscal Year 2018-19 Operating Appropriation Adjustments

| Fund Name | Department | Appropriation | Reason |
|---------------------------------|----------------|---------------|---|
| General Fund | Public Works | \$ 7,551 | 3 new Utility Workers for Traffic Control |
| General Fund | Public Works | \$ 200,000 | PG&E Loans |
| General Fund | City Manager | \$ 5,000 | Increase for new membership dues |
| General Fund | City Manager | \$ 191,000 | Study plan for new bond issue |
| General Fund | Non Department | \$ 3,297,055 | Airport Settlement |
| General Fund | Library | \$ 95,000 | Increase in Sales Tax Revenue |
| General Fund | Library | \$ (95,000) | Transfer out to Library Fund |
| Library | Library | \$ 95,000 | Increase in Sales Tax Revenue |
| Gas Tax | Public Works | \$ 42,474 | 3 new Utility Workers for Traffic Control |
| Successor Agency Administration | Finance | \$ 18,338 | Increase Administration costs up to allowable amount due to increased staff time. |
| Water Fund | | \$ 12,742 | |
| Solid Waste | Public Works | \$ 12,742 | 3 new Utility Workers for Traffic Control |

8) Mid-year Staffing Adjustments

Exhibit C

| Position | Proposed | Fund | Department | Annual Cost |
|----------------------------------|----------|--------------|--------------------------------------|-------------|
| Utility Worker II | 1.68 | Gas Tax | 309 - Traffic Control | \$113,692 |
| Utility Worker II | 0.51 | Solid Waste | 570 - Collections | \$34,514 |
| Utility Worker II | 0.51 | Water | 596 - Operations | \$34,514 |
| Utility Worker II | 0.30 | General Fund | 510 - Streets -Traffic Control | \$20,302 |
| Subtotal Utility Worker II | 3.00 | | | 203,022 |
| Airport Operations Specialist I | 4.00 | Airport | 560 - Operations | \$248,341 |
| Circulation Manager | 1.00 | Library | 620 - Operations | \$92,512 |
| Community Organizer | 0.25 | General Fund | 688 - Police - Neighborhood Services | \$10,536 |
| Information Technology Analyst I | 1.00 | General Fund | 250 - Information Services | \$96,342 |
| | 9.25 | | | \$ 650,753 |

STRATEGIC PLAN:

The above report and recommended actions reflects the positive financial situation of the City and recommends policies to plan for the future financial stability of the City and reduce reliance on use of reserves.

FINANCIAL IMPACT:

By approving the changes in appropriations, all the funds in the resolution will have sufficient spending authority for the fiscal year.

ALTERNATIVES:

Alternatives include not approving appropriations for the requested funds, or approving only some appropriations.

ATTACHMENTS:

1. Measure G Audit Report
2. Annual Development Impact Fees Report FY 2017-18
3. Advance Payables Schedule

cc: City Attorney

City of Watsonville
Measure G Fund Financial Statements
Watsonville, California
For the Year Ended June 30, 2018

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CITY OF WATSONVILLE
MEASURE G FUND FINANCIAL STATEMENTS
For the Year Ended June 30, 2018

Table of Contents

| | |
|---|---|
| Independent Auditor's Report | 1 |
| Balance Sheet..... | 3 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance | 4 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 5 |
| Notes to Financial Statements | 7 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance with Applicable Requirements and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 9 |

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council
of the City of Watsonville, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure G Fund (Measure G) of the City of Watsonville, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing such an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above fairly, in all material respects, the financial position of the Measure G Fund as of June 30, 2018, and the change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the Measure G Fund and do not purport to, and do not present fairly the financial position of the City of Watsonville as of June 30, 2018, the changes in its financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

December 7, 2018
Pleasant Hill, California

CITY OF WATSONVILLE
MEASURE G FUND
BALANCE SHEET
June 30, 2018

ASSETS

| | |
|-----------------------------|-----------------------------------|
| Cash and investments | \$ 2,812,223 |
| Accounts receivable | 616,656 |
| Due from other governments | <u>21,471</u> |
| Total Current Assets | <u><u>\$ 3,450,350</u></u> |

LIABILITIES

| | |
|--------------------------|-----------------------|
| Accounts payable | \$ 63,299 |
| Accrued liabilities | <u>163,740</u> |
| Total Liabilities | <u>227,039</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|---------------------|---------------|
| Unavailable revenue | <u>21,471</u> |
|---------------------|---------------|

FUND BALANCE

| | |
|---------------------------|-------------------------|
| Restricted for: | |
| Fire services | 1,029,940 |
| Police services | <u>2,171,900</u> |
| Total Fund Balance | <u>3,201,840</u> |

**TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES
AND FUND BALANCE**

\$ 3,450,350

See accompanying Notes to Basic Financial Statements.

**CITY OF WATSONVILLE
MEASURE G FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
For The Year Ended June 30, 2018**

REVENUES

| | |
|------------------------|--------------|
| Sales tax - Fire | \$ 1,530,475 |
| Sales tax - Police | 2,295,713 |
| Interest - Fire | 15,470 |
| Interest - Police | 23,204 |
| Other revenue - police | 93,940 |

| | |
|-----------------------|------------------|
| Total Revenues | <u>3,958,802</u> |
|-----------------------|------------------|

EXPENDITURES

| | |
|--------|-----------|
| Fire | 1,623,294 |
| Police | 2,054,405 |

| | |
|---------------------------|------------------|
| Total Expenditures | <u>3,677,699</u> |
|---------------------------|------------------|

| | |
|-----------------------------------|---------|
| NET CHANGE IN FUND BALANCE | 281,103 |
|-----------------------------------|---------|

FUND BALANCE

| | |
|------------------------|----------------------------|
| Beginning Fund Balance | <u>2,920,737</u> |
| Ending Fund Balance | <u><u>\$ 3,201,840</u></u> |

See accompanying Notes to Basic Financial Statements.

CITY OF WATSONVILLE
MEASURE G FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
For The Year Ended June 30, 2018

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|-----------------------------------|-----------------------|---------------------|--|
| REVENUES | | | |
| Sales tax - Fire | \$ 1,445,006 | \$ 1,530,475 | \$ 85,469 |
| Sales tax - Police | 2,267,700 | 2,295,713 | 28,013 |
| Interest - Fire | 1,440 | 15,470 | 14,030 |
| Interest - Police | 1,000 | 23,204 | 22,204 |
| Other revenue - Police | | 93,940 | 93,940 |
| Total Revenues | 3,715,146 | 3,958,802 | 243,656 |
| EXPENDITURES | | | |
| Fire: | | | |
| Salaries and Wages | 816,158 | 777,793 | 38,365 |
| Operations | 171,195 | 160,812 | 10,383 |
| Capital Outlay | 948,128 | 684,689 | 263,439 |
| Total Fire | 1,935,481 | 1,623,294 | 312,187 |
| Police: | | | |
| Salaries and Wages | 1,237,270 | 970,246 | 267,024 |
| Operations | 625,738 | 446,151 | 179,587 |
| Capital Outlay | 1,127,044 | 638,008 | 489,036 |
| Total Police | 2,990,052 | 2,054,405 | 935,647 |
| Total Expenditures | 4,925,533 | 3,677,699 | 1,247,834 |
| NET CHANGE IN FUND BALANCE | \$ (1,210,387) | 281,103 | \$ (1,004,178) |
| FUND BALANCE | | | |
| Beginning Fund Balance | | 2,920,737 | |
| Ending Fund Balance | | <u>\$ 3,201,840</u> | |

See accompanying Notes to Basic Financial Statements

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**CITY OF WATSONVILLE
MEASURE G FUND
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

In the June 3, 2014 election, City of Watsonville (City) voters approved Measure G, establishing a temporary half-cent transaction sales and use tax. The Measure G Fund (Fund) was established to accumulate revenues transmitted by the State Board of Equalization (BOE), the agency responsible for administering and collecting the transactions and use taxes for the City, and apportion them to essential services outlined within the approved expenditure plan.

The financial statements presented only the activities of the Measure G Fund, and are not intended to present the financial position and changes in financial position of the City of Watsonville, in accordance with accounting principles generally accepted in the United States of America.

B. Basis of Accounting

The Measure G Fund of the City is maintained on the modified accrual basis of accounting. As such, revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

C. Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Cash and investments at June 30, 2018, consist of the following:

| | |
|--------------------------------------|-------------|
| Pooled cash and investments with the | |
| City of Watsonville | \$2,821,223 |

Please refer to the notes of the City's June 30, 2018 Comprehensive Annual Financial Report regarding cash and investments for additional detail.

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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE WITH THE APPLICABLE REQUIREMENTS
AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and Members of City Council
of the City of Watsonville, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the City of Watsonville Measure G Fund (Measure G) as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the Measure G financial statements, we considered the Measure G's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Measure G's internal control. Accordingly, we do not express an opinion on the effectiveness of Measure G's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Measure G's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure G's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our procedures included the applicable audit procedures and tests of compliance with the applicable provisions of City Ordinance No. 1301-14 Section. 3- 6.1102 Program Restrictions. Section 3-6.1102 requires that an independent auditor shall perform at least the following tasks: (a) test expenditures to ensure Measure G revenue was being spent on hiring more police officers, helping improve police emergency response times, increase neighborhood patrols, maintain anti-gang and youth violence prevention, intervention and suppression efforts, including the Caminos and Police Activities League programs, upgrade equipment and technology to help solve crimes, catch criminals and fight gangs, expand programs to identify and shutdown gang houses, hire more firefighters to ensure enough are on duty, maintain fire and paramedic emergency response times, and replace inadequate and outdated life-saving equipment, (b) ensure that the city has created a Measure G fund with two separate divisions for Police and Fire into which new monies was deposited in the proportion of 60% to Police and 40% to Fire, (c) ensure that the City maintains a maintenance of effort from General Fund monies of at least the fiscal year 2013-2014 adopted General Fund budgeted amounts for Police and Fire operations, (d) ensure that no more than 2% of the annual budgeted revenues were spent on administrative overhead for accounting, payroll, and human resources, (e) ensure that the City has established a contingency fund that holds no less than 10% of annual budgeted revenues.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated December 7, 2018, which is an integral part of our audit and should be read in conjunction with this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Measure G's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Measure G's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the City Council, others within the City, and is not intended to be and should not be used by anyone other than these specified parties; however, this restriction is not intended to limit the distribution of the report, which is a matter of public records.



Pleasant Hill, California
December 7, 2018

City of Watsonville, California
Annual Development Impact Fees Report
Statements of Revenues, Expenditures and Amount Needed to Fund Future Projects
For the Fiscal Year Ended June 30, 2018

| | Airport Blvd. | City-wide | Pennsylvania Dr. | Crest View Area | Green Valley Corridor | East Highway 1 |
|---|---------------------|-------------------|--------------------|--------------------|-----------------------|-----------------------|
| Revenues: | | | | | | |
| Impact Fees | \$ - | \$ 434,255 | \$ - | \$ - | \$ - | \$ - |
| Interest Income | - | 8,729 | 1,230 | - | 1,951 | 38,594 |
| Other Revenue | - | - | - | - | - | - |
| Total Revenues | - | 442,984 | 1,230 | - | 1,951 | 38,594 |
| Expenditures: | | | | | | |
| Interest Expense | 4,298 | - | - | 332 | - | - |
| Loans & Grants | - | - | - | - | - | - |
| Capital Outlay: | | | | | | |
| Project Specific Outlay | - | - | - | - | - | 63,000 |
| Total Expenditures | 4,298 | - | - | 332 | - | 63,000 |
| Excess of Revenues over (under) Expenditures | (4,298) | 442,984 | 1,230 | (332) | 1,951 | (24,406) |
| Beginning Fund Balance (7-1-17) | (186,410) | 434,273 | 94,241 | (14,398) | 149,518 | 2,975,255 |
| Ending Fund Balance (6-30-18) | (190,708) | 877,257 | 95,471 | (14,730) | 151,469 | 2,950,849 |
| Less Future Projected Projects: | | | | | | |
| Freedom Blvd Project | - | (350,000) | - | - | - | - |
| Main Street at Riverside Project | - | (100,000) | - | - | - | - |
| Pennsylvania and Clifford | - | - | (136,740) | - | - | - |
| Green Valley & Mian Street | - | - | - | - | (430,000) | - |
| Highway 1 at Harkins Slough | - | - | - | - | - | (1,865,906) |
| Highway 1 Ramp | - | - | - | - | - | (8,100,000) |
| Beach/Ohlone Prky | - | - | - | - | - | - |
| Underground Utilities Project | - | - | - | - | - | - |
| Annual Debt Service | - | - | - | - | - | - |
| Senior Center Project | - | - | - | - | - | - |
| Non Structural Improvement Project | - | - | - | - | - | - |
| Coolidge Ave, Pump Station | - | - | - | - | - | - |
| Lincoln St. Pup Street | - | - | - | - | - | - |
| Marchant St. Pump Station | - | - | - | - | - | - |
| Housing Programs and Projects | - | - | - | - | - | - |
| Park Development Plan | - | - | - | - | - | - |
| Flood Hazard Area Projects | - | - | - | - | - | - |
| Contract Agreement | - | - | - | - | - | - |
| Transfer to Impact Fee Funds | - | - | - | - | - | - |
| Budgeted Projects | - | - | - | - | - | - |
| Total Future Projected Projects | - | (450,000) | (136,740) | - | (430,000) | (9,965,906) |
| Amount (to Fund)/to Allocate for Future Projects | \$ (190,708) | \$ 427,257 | \$ (41,269) | \$ (14,730) | \$ (278,531) | \$ (7,015,057) |

City of Watsonville, California
Annual Development Impact Fees Report
Statements of Revenues, Expenditures and Amount Needed to Fund Future Projects
For the Fiscal Year Ended June 30, 2018

| | Struve Bridge | Errington/Clifford Area | Fire Capital Improvement | Public Facility | Storm Drain | Watsonville Slough Area |
|---|---------------------|-------------------------|--------------------------|------------------|-------------------|-------------------------|
| Revenues: | | | | | | |
| Impact Fees | \$ - | \$ - | \$ 112,995 | \$ 71,029 | \$ 54,933 | \$ - |
| Interest Income | - | 3,731 | - | 2,476 | 17,573 | - |
| Other Revenue | - | - | - | - | - | - |
| Total Revenues | - | 3,731 | 112,995 | 73,505 | 72,506 | - |
| Expenditures: | | | | | | |
| Interest Expense | 4,245 | - | 4,068 | - | - | 40,119 |
| Loans & Grants | - | - | - | - | - | - |
| Capital Outlay: | | | | | | |
| Project Specific Outlay | - | - | - | 625 | - | - |
| Total Expenditures | 4,245 | - | 4,068 | 625 | - | 40,119 |
| Excess of Revenues over (under) Expenditures | (4,245) | 3,731 | 108,927 | 72,880 | 72,506 | (40,119) |
| Beginning Fund Balance (7-1-17) | (184,106) | 285,598 | (238,254) | 158,596 | 1,318,135 | (1,740,091) |
| Ending Fund Balance (6-30-18) | (188,351) | 289,329 | (129,327) | 231,476 | 1,390,641 | (1,780,210) |
| Less Future Projected Projects: | | | | | | |
| Freedom Blvd Project | - | - | - | - | - | - |
| Main Street at Riverside Project | - | - | - | - | - | - |
| Pennsylvania and Clifford | - | - | - | - | - | - |
| Green Valley & Mian Street | - | - | - | - | - | - |
| Highway 1 at Harkins Slough | - | - | - | - | - | - |
| Highway 1 Ramp | - | - | - | - | - | - |
| Beach/Ohlone Prky | - | (153,492) | - | - | - | - |
| Underground Utilities Project | - | (200,000) | - | - | - | - |
| Annual Debt Service | - | - | - | - | - | - |
| Senior Center Project | - | - | - | (45,000) | - | - |
| Non Structural Improvement Project | - | - | - | (138,016) | - | - |
| Coolidge Ave, Pump Station | - | - | - | - | (199,777) | - |
| Lincoln St. Pup Street | - | - | - | - | (305,062) | - |
| Marchant St. Pump Station | - | - | - | - | (321,812) | - |
| Housing Programs and Projects | - | - | - | - | - | - |
| Park Development Plan | - | - | - | - | - | - |
| Flood Hazard Area Projects | - | - | - | - | - | - |
| Contract Agreement | - | - | - | - | - | - |
| Transfer to Impact Fee Funds | - | - | - | - | - | - |
| Budgeted Projects | - | - | - | - | - | - |
| Total Future Projected Projects | - | (353,492) | - | (183,016) | (826,651) | - |
| Amount (to Fund)/to Allocate for Future Projects | \$ (188,351) | \$ (64,163) | \$ (129,327) | \$ 48,460 | \$ 563,990 | \$ (1,780,210) |

City of Watsonville, California
Annual Development Impact Fees Report
Statements of Revenues, Expenditures and Amount Needed to Fund Future Projects
For the Fiscal Year Ended June 30, 2018

| | Affordable Housing | Parks Development | Errington South Benefit Area | Impervious Impact Fee | 1% transfer Fee | Green Building Fee |
|---|---------------------|-----------------------|---------------------------------|--------------------------|-------------------|--------------------|
| Revenues: | | | | | | |
| Impact Fees | \$ 190,718 | \$ 338,277 | \$ - | \$ 54,588 | \$ 189,500 | \$10,162 |
| Interest Income | 26,875 | 15,010 | - | 16,768 | - | - |
| Other Revenue | 58,515 | - | - | - | - | - |
| Total Revenues | 276,108 | 353,287 | - | 71,356 | 189,500 | 10,162 |
| Expenditures: | | | | | | |
| Interest Expense | - | - | 7,031 | - | - | - |
| Loans & Grants | 266,355 | - | - | - | - | - |
| Capital Outlay: | | | | | | |
| Project Specific Outlay | - | 31,054 | - | - | - | 5,000 |
| Total Expenditures | 266,355 | 31,054 | 7,031 | - | - | 5,000 |
| Excess of Revenues over (under) Expenditures | 9,753 | 322,233 | (7,031) | 71,356 | 189,500 | 5,162 |
| Beginning Fund Balance (7-1-17) | 2,100,172 | 959,735 | (304,987) | 1,250,085 | 127,461 | 40,370 |
| Ending Fund Balance (6-30-18) | 2,109,925 | 1,281,968 | (312,018) | 1,321,441 | 316,961 | 45,532 |
| Less Future Projected Projects: | | | | | | |
| Freedom Blvd Project | - | - | - | - | - | - |
| Main Street at Riverside Project | - | - | - | - | - | - |
| Pennsylvania and Clifford | - | - | - | - | - | - |
| Green Valley & Mian Street | - | - | - | - | - | - |
| Highway 1 at Harkins Slough | - | - | - | - | - | - |
| Highway 1 Ramp | - | - | - | - | - | - |
| Beach/Ohlone Prky | - | - | - | - | - | - |
| Underground Utilities Project | - | - | - | - | - | - |
| Annual Debt Service | - | - | - | - | - | - |
| Senior Center Project | - | - | - | - | - | - |
| Non Structural Improvement Project | - | - | - | - | - | - |
| Coolidge Ave, Pump Station | - | - | - | - | - | - |
| Lincoln St. Pup Street | - | - | - | - | - | - |
| Marchant St. Pump Station | - | - | - | - | - | - |
| Housing Programs and Projects | (662,926) | - | - | - | - | - |
| Park Development Plan | - | (3,267,500) | - | - | - | - |
| Flood Hazard Area Projects | - | - | - | (2,000,000) | - | - |
| Contract Agreement | - | - | - | (100,000) | - | - |
| Transfer to Impact Fee Funds | - | - | - | - | (127,461) | - |
| Budgeted Projects | - | - | - | - | - | (5,000) |
| Total Future Projected Projects | (662,926) | (3,267,500) | - | (2,100,000) | (127,461) | (5,000) |
| Amount (to Fund)/to Allocate for Future Projects | \$ 1,446,999 | \$ (1,985,532) | \$ (312,018) | \$ (778,559) | \$ 189,500 | \$ 40,532 |

City of Watsonville, California
Annual Development Impact Fees Report
Statements of Revenues, Expenditures and Amount Needed to Fund Future Projects
For the Fiscal Year Ended June 30, 2018

| | Carbon Fee | Manabe Ow Fee |
|---|-------------------|-------------------|
| Revenues: | | |
| Impact Fees | \$116,282 | \$47,670 |
| Interest Income | 1,598 | 1,878 |
| Other Revenue | - | - |
| Total Revenues | 117,880 | 49,548 |
| Expenditures: | | |
| Interest Expense | - | - |
| Loans & Grants | - | - |
| Capital Outlay: | | |
| Project Specific Outlay | - | - |
| Total Expenditures | - | - |
| Excess of Revenues over (under) Expenditures | 117,880 | 49,548 |
| Beginning Fund Balance (7-1-17) | 57,335 | 104,095 |
| Ending Fund Balance (6-30-18) | 175,215 | 153,643 |
| Less Future Projected Projects: | | |
| Freedom Blvd Project | - | - |
| Main Street at Riverside Project | - | - |
| Pennsylvania and Clifford | - | - |
| Green Valley & Mian Street | - | - |
| Highway 1 at Harkins Slough | - | - |
| Highway 1 Ramp | - | - |
| Beach/Ohlone Prky | - | - |
| Underground Utilities Project | - | - |
| Annual Debt Service | - | - |
| Senior Center Project | - | - |
| Non Structural Improvement Project | - | - |
| Coolidge Ave, Pump Station | - | - |
| Lincoln St. Pup Street | - | - |
| Marchant St. Pump Station | - | - |
| Housing Programs and Projects | - | - |
| Park Development Plan | - | - |
| Flood Hazard Area Projects | - | - |
| Contract Agreement | - | - |
| Transfer to Impact Fee Funds | - | - |
| Budgeted Projects | (15,000) | - |
| Total Future Projected Projects | (15,000) | - |
| Amount (to Fund)/to Allocate for Future Projects | \$ 160,215 | \$ 153,643 |

**City of Watsonville
6/30/2018**

Advance Payables (Long Term Loans)

| Lending Fund | Advances Receivable (Loan Amount) | Advance Payable (Paying Fund) | Reason | Notes |
|----------------------|--|--|---------------------------|---|
| General Fund | \$ 2,461,319 | Airport | Long Term Cash Deficiency | Previously Approved by Resolution CM 100-16 |
| General Fund | \$ 293,901 | Fiber Optic | Fiber Optic Project | Previously Approved by Resolution CM 47-17 |
| Impact Fees | \$ 356,904 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Inclusionary Housing | \$ 165,906 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Library | \$ 85,794 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Parks Development | \$ 94,000 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Airport | \$ 21,465 | Fiber Optic | Fiber Optic Project | Previously Approved by Resolution CM 47-17 |
| Sewer | \$ 198,223 | Fiber Optic | Fiber Optic Project | Previously Approved by Resolution CM 47-17 |
| Sewer | \$ 779,149 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Solid Waste | \$ 263,698 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Water | \$ 193,340 | Fiber Optic | Fiber Optic Project | Previously Approved by Resolution CM 47-17 |
| Water | \$ 660,009 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Water | \$ 3,168,891 | General Fund | RDA Loan | Previously Approved by Resolution CM 147-13 |
| Totals | \$ 8,742,599 | | | |



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**Fiscal Year Ended
June 30, 2018**



City of Watsonville, California

City of Watsonville, California

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Prepared by the Finance Department
Cindy Czerwin, Administrative Services Director



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CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2018

TABLE OF CONTENTS

I. INTRODUCTORY SECTION:

| | |
|---------------------------------------|----|
| Transmittal Letter | 2 |
| GFOA Certificate of Achievement | 9 |
| Officers and Officials | 10 |
| Organizational Structure | 11 |

II. FINANCIAL SECTION:

| | |
|--|----|
| Independent Auditors' Report | 15 |
| Management's Discussion and Analysis | 18 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Position | 30 |
| Statement of Activities | 33 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 34 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position | 35 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 36 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 37 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - General Fund | 38 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - Impact Fees Fund | 39 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - Low Income Housing Set Aside Fund | 40 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget to Actual - Redevelopment and Housing Grants Fund | 41 |
| Statement of Net Position - Proprietary Funds | 42 |
| Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds | 43 |
| Statement of Cash Flows - Proprietary Funds | 44 |

CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2018

TABLE OF CONTENTS (Continued)

| | |
|---|-----|
| Statement of Fiduciary Net Position – Private Purpose Trust Fund | 45 |
| Statement of Changes in Net Position - Private Purpose Trust Fund | 46 |
| Notes to Financial Statements. | 47 |
| Required Supplementary Information (Unaudited) | |
| Schedule of Changes in the Net Pension Liability and Related Ratios - | |
| Miscellaneous Pension Plan | 90 |
| Schedule of Contributions – Miscellaneous Pension Plan | 91 |
| Schedule of Proportionate Share of Net Pension Liability - | |
| Safety Pension Plan | 92 |
| Schedule of Contributions – Safety Pension Plan | 93 |
| Other Supplementary Information: | |
| Combining and Individual Fund Statements and Schedules: | |
| Combining Balance Sheet - Nonmajor Governmental Funds | 96 |
| Combining Statement of Revenues, Expenditures, and Changes | |
| in Fund Balances - Nonmajor Governmental Funds | 98 |
| Schedule of Revenues, Expenditures, and Changes | |
| in Fund Balances - Budget to Actual: | |
| Gas Tax and Narcotics Assets Seizure Funds | 100 |
| Business Development and Economic Development Funds | 101 |
| Library and Parks Development Funds | 102 |
| Retirement Tax and Parking Garage Funds | 103 |
| Measure G and Abandoned Vehicle Funds. | 104 |
| Inclusionary Housing and SB 1 – Gas Tax Fund | 105 |
| Measure D Fund | 106 |
| Schedule of Revenues, Expenditures, and Changes | |
| in Fund Balances - Budget to Actual: | |
| Debt Service Fund | 107 |

III. STATISTICAL SECTION (Unaudited):

| | |
|---|-----|
| Net Position By Component - Last Ten Fiscal Years | 109 |
| Changes In Net Position - Last Ten Fiscal Years | 110 |
| Fund Balances of Governmental Funds - Last Ten Fiscal Years | 112 |
| Net Change In Fund Balances of Governmental Funds - Last | |
| Ten Fiscal Years | 113 |
| General Governmental Tax Revenues By Source - Last Ten Fiscal Years . | 114 |
| Assessed Value and Estimated Actual Value of Taxable Property | 115 |
| Property Tax Rates - Direct and Overlapping - Last Ten Years | 116 |

CITY OF WATSONVILLE, CALIFORNIA
Comprehensive Annual Financial Report
Fiscal Year Ending June 30, 2018

TABLE OF CONTENTS (Continued)

| | |
|---|-----|
| Principal Property Taxpayers - Current Year and Nine Years Ago | 117 |
| Property Tax Collection | 118 |
| Ratio of Outstanding Debt By Type - Last Ten Fiscal Years | 119 |
| Ratio of Net General Obligation Debt Outstanding - Last Ten Fiscal Years. | 120 |
| Legal Debt Margin Information - Last Ten Fiscal Years | 121 |
| Computation of Direct and Overlapping Bonded Debt | 122 |
| Demographic and Economic Statistics - Last Ten Fiscal Years | 123 |
| Principal Employers – Current Fiscal Year and Nine Years Ago | 124 |
| Full-time Equivalent City Government Employees by Function - Last Ten Fiscal Years | 125 |
| Operating Indicators by Function - Last Ten Fiscal Years | 126 |
| Capital Assets Statistics by Function - Last Ten Fiscal Years | 127 |

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INTRODUCTORY SECTION



City of Watsonville

"A Community of Opportunities"

December 7, 2018

Honorable Mayor, City Council and Citizens of the City of Watsonville:

REPORT PURPOSE AND ORGANIZATION

We are pleased to present the City of Watsonville's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2018. The CAFR is intended to present information above, what is required by generally accepted accounting principles and State law.

The Charter of the City of Watsonville and the State of California law require that all general-purpose local governments publish within six months of the close of the fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (U.S.GAAP). The report should also be audited by an independent firm of certified public accountants (CPA) in accordance with generally accepted government auditing standards (GAGAS). Pursuant to the requirements, we hereby issue the comprehensive annual financial report of the City of Watsonville for the fiscal year ended June 30, 2018.

The CAFR consists of management's representation concerning the finances of the City of Watsonville (City). Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Watsonville's financial statements in conformity to U.S.GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Watsonville's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Audited Financial Statements

Certified Public Accountants, have issued an unmodified ("clean") opinion on the City of Watsonville's financial statements for the fiscal year ending June 30, 2018. A copy of this report is included in page 15 in the Financial Section of this report.

The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended June 30, 2018, are fairly presented in conformity with U.S. GAAP. The independent auditors report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Watsonville also incorporates a broader, federally mandated **Single Audit Uniform Guidance** designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Watsonville's separately issued Single Audit Report.

GAPP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Watsonville's MD&A can be found immediately following the report of the independent auditors.

CITY OF WATSONVILLE PROFILE

The City of Watsonville was incorporated in 1868 and is located six miles inland from the Monterey Bay in the State of California. The government has a land area of 6.19 square miles and a population of 54,098 people as of July 1, 2017.

Watsonville became a charter City government in 1908. Policymaking and legislative authority are vested in the governing City Council, which consists of seven Council Members, one of whom serves as mayor. The mayor is appointed on sequential basis from each of the numbered City Council districts and serves for a term of one year. The council is elected on a non-partisan basis from seven electoral districts. Council members are elected to four-year terms. Elections are staggered with four Council Members elected during one election and three Council Members elected in the following election two years later. The governing City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the government's City Manager, City Clerk, and attorney. The City Manager is responsible for carrying out the policies and ordinances of the governing council, for overseeing the day-to-day operations of the government, and for appointing the department heads.

City Services

The City of Watsonville provides a full range of services including police and fire protection; water treatment and distribution; solid waste collection and landfill disposal; sanitary sewer collection and treatment services; airport facilities; building inspection, planning, economic development, housing rehabilitation, and general government services; library services; recreational services; parks; street construction and maintenance; and general administration.

The financial reporting entity of the City includes all the funds of the City of Watsonville, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The Successor Agency of the City of Watsonville Redevelopment Agency's information in this year's financial report is presented separately as part of the fiduciary statements. Additional information can be found on this entity starting on page 90 within the notes to the financial statements.

Budgetary Process and Controls

The annual budget serves as the foundation for the City of Watsonville's financial planning and control. All departments of the City of Watsonville are required to submit requests for appropriations to the government's management on or before March 31 of each fiscal year. The Finance Department uses these requests as a starting point for developing a proposed budget. The Finance Department then presents this proposed budget to the Council for review prior to May 31. The Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City of Watsonville's fiscal year. The appropriated budget is prepared by fund (i.e. General Fund, Water), department (i.e., police), and division (i.e., investigation).

Department directors may make transfers of appropriations within a department. Transfers of appropriations between departments, however, require the special approval of the City Manager. Budget to actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. The general fund, impact fee fund, housing fund, and redevelopment and housing grants fund comparisons are presented on pages 38 to 41 as part of the basic financial statements for the governmental funds. For governmental funds, other than major funds, with appropriated annual budgets, these comparisons can be found in the governmental fund subsection of this report, which starts on page 102.

FACTORS AFFECTING FINANCIAL CONDITON

Information presented in the financial statements is perhaps best understood when it is considered from a broader perspective of the specific environment within which the City of Watsonville operates.

Local Economy

The Pajaro Valley has a long tradition as an agricultural center. In the late 1800s, the area harvested staples such as wheat and sugar beets. In 1868, the same year Watsonville was incorporated, Martinelli's Sparkling Apple Cider was founded and led the change for Watsonville to become a major food processing center. Agriculture has remained the heart of the Pajaro Valley through today, with the base shifting towards the production of strawberries and flowers. At the same time, various light manufacturing firms have expanded Watsonville's economic base to include electronics, high-tech, marine supplies, and construction, such as Applied Motion Products, CSC Group, West Marine, Fox Racing Shox, Annieglass, Granite Construction, and Granite Rock, biodiesel plant, and a FedEx regional shipping center which opened its doors in early 2016.

Economic conditions in Watsonville are heavily influenced by agriculture and the cost of housing. Santa Cruz County is consistently ranked as one of the most expensive places to live in the United States when housing costs are compared to median income. Watsonville has the most affordable housing in the County. Watsonville has a median household income 25% less than the County average. This disparity is attributable to the high number of farm workers who live in the City. Incomes tend to be lower, leading to greater demands for affordable housing. Watsonville also tends to have a higher unemployment rate than other cities in the County.

Watsonville lags the surrounding area by almost any economic measure. However, recent years show that Watsonville is reaching a stronger more sustainable position with increases in all of the City's major revenue sources, including sales tax, property tax, and departmental revenues. Certain revenue streams provide a supporting indication of how the local economy is doing. Property tax provides a glance of how strong housing prices are increasing or decreasing. Sales tax specifically is a good barometer of residential and visitor's ability to have and willingness to spend their resources. Community development (planning and building) fees provide a glimpse of what the development sector expects for demand in the near future.

Property Tax collections (excluding Redevelopment Property Taxes) hit a low in 2010-11 and have been recovering since. FY 2017-18 marks a new peak and a modest 1.6% growth over 2016-17. We have reason to believe this important stream will continue to increase. Recently, a 54 residential apartment complex was completed in the downtown area which we expect will hit our property tax base next year. Additionally there are several other residential projects in planning or construction phases including 3 townhome projects with a total of 121 units and 2 mixed home projects with a total of 237 units. These projects are anticipated to add to our property tax base in future years. Furthermore, median home prices in our area are increasing which will add to our revenues as properties change hands.

Sales tax revenues have been slowly climbing since a low point in 2010-11. Collections in 2017-18 are 10% above the prior year driven by automobile sales and building construction supplies. This revenue is likely to see changes in coming years as more and more people shift away from brick and mortar shopping to online sales. Also, as noted, the driving source of our increase is in areas that are sensitive to recession and economic trends. However, we do expect that the housing and commercial developments anticipated in future years will result in more people spending their time and money in Watsonville, and therefore we are cautiously optimistic that this source will continue to see growth.

Growth in community development fees has been steady since a low in 2009-10. Although this revenue stream saw only a 0.8% increase in FY 2017-18 it does represent a new high. New development growth has continued over the past decade. Recent years saw the completion of a 200,000 square foot FedEx distribution facility, a new Kaiser medical office facility, Lakeside Organic Garden's 91,700 square foot cooler facility, and a 20,000 square foot diesel repair and sales facility. Soon to be opened is a 10,000 square foot commercial project at 45 Aviation Way, which will include new restaurants and retail businesses in the airport area. Coming commercial developments include 2 new hotels, an organic grocery store, and assorted retail and food.

In addition to the growth in property and sale tax revenues, the community approved increases for Utility User Tax, an increase to the Transient Occupancy taxes (TOT), and a new Cannabis Tax in November 2016. Fiscal Year 2017-18 includes the first full year of these increases.

Utility user taxes are driven by consumer utility prices and demand. Normal increases in utility rates from higher energy prices and planned capital improvements to infrastructure have a corresponding increase in this tax. The updates to the ordinance which voters adopted in November of 2017 lowered the tax rate, but expanded the types of technologies which could be taxed to be more in alignment with modern technologies. FY 2017-18 is the first year these changes were in full effect and resulted in a 10% increase in this revenue stream.

Voters also approved an increased Transient Occupancy Tax which pushed that revenue to also reach a new peak with a 9% increase from the prior year. That rate increase, along with new hotels in development, and another voter approved increase in November of 2018 should result in increases in future years.

The Cannabis Business Tax – Measure M imposes a tax on cannabis businesses in the City of Watsonville. As approved by the voters, 20% of its proceeds are to be used to pay for law enforcement and crime prevention services, 15% for fire services, 20% for community development, and 25% for parks and community services, 8% for City libraries, and 12% for non-profit and community services. Collections in FY 2017-18 fell well below expectations due to slow starts for

cultivation and manufacturing permittees. This revenue is proving volatile across the state as businesses and the market establish themselves. While we do anticipate increases from FY 2017-18 levels, we do not believe initial estimates will hold and will be monitoring this revenue stream and the market closely until we can make more accurate projections.

Long-term financial planning

Although the City has seen revenues rebound, stabilize, and grow, there are still considerable risks as we plan for the future. Watsonville, while we have been able to build up our reserves, still only has minimally recommended levels of reserves that are lower than the surrounding areas. This speaks to our financial preparation for future economic slowdowns and our ability to respond to unanticipated events such as natural disasters. The City is also facing continued significant increases in pension costs, as CalPERS (California Public Employees Retirement System) increases both the City's Unfunded Actuarial Liability (UAL) payments for past losses, and the normal cost of existing members going forward. These increases in pension costs will result in a total increase of approximately \$5,000,000 over the next 5 years and pose a serious threat to the City's financial health in the near and long-term. Combined with ongoing increases in health care costs, the City Council and staff will need to closely control expenditures and any increases to operations.

Furthermore, the City has a large backlog, over \$18 million, of deferred infrastructure and capital needs. Many of the City's facilities are in poor condition and threaten our ability to effectively and safely provide services to the public. Further, many of the City's fleet and patrol vehicles are over 10 years old, requiring additional maintenance and repairs. Unless funding for major capital projects is increased, the City will continue to face increasing maintenance costs and infrastructure failure. In addition, much of the development discussed above that will bring us additional sources of revenue will also bring us additional expenses in the form of new service demands. Additional infrastructure and service levels will be needed in order to maintain core service levels for the additional residents and visitors.

The FY 2018-19 budgets were approved as balanced by the City Council and included negotiated raises for employees and some staffing enhancements for departments. Watsonville's financial outlook is positive. Nevertheless we need to grow thoughtfully, addressing past deficiencies, building up appropriate reserves, investing in our infrastructure, and preparing for future risks.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watsonville, California for its comprehensive annual financial report (CAFR) for the fiscal year ending June 30, 2017. This was the eighteenth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate

of Achievement, the government must publish an easy, readable, and efficiently organized CAFR. The report satisfies both U.S. GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR meets the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate. In addition, the City has received the GFOA's Award for Distinguished Budget Presentation for its biennial budget dated June 19, 2017. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including policy documentation, a financial plan and a communication device.

The preparation of this report could not have been accomplished without the efficient and dedicated service of the Finance Department staff. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. In particular Administrative Services Manager, William P. Hays, CPA, who coordinated the audit. His leadership and dedication to the project is the major contributing factor to the City being rewarded with the Certificate of Achievement for the last eighteen years. Marissa Duran and Patricia Rodriguez, Financial Analysts, who maintain the City's general ledger, also deserve special recognition for their contribution to the report. The following remaining Finance Staff made this report possible through their dedicated service throughout the fiscal year: Marisa Bermudez, Ilda Estrada, Christine McGrath, Diana Rivas, Leticia Samano, and Mary Stepovich. The Mayor and the governing council should also be given due credit for their interest and support in managing the City of Watsonville in a responsible and progressive manner.

Respectfully submitted,

A handwritten signature in dark ink, appearing to be 'G. Hays', written over a horizontal line.

Administrative Services Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Watsonville
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrell

Executive Director/CEO

City of Watsonville, California

Officers and Officials

For the Fiscal Year Ended June 30, 2018

City Council:

Mayor – Lowell Hurst
Mayor Pro Tempore – Jimmy Dutra
Council Member – Nancy Bilicich
Council Member – Trina Coffman-Gomez
Council Member – Rebecca J. Garcia
Council Member – Aurelio Gonzalez
Council Member – Felipe Hernandez

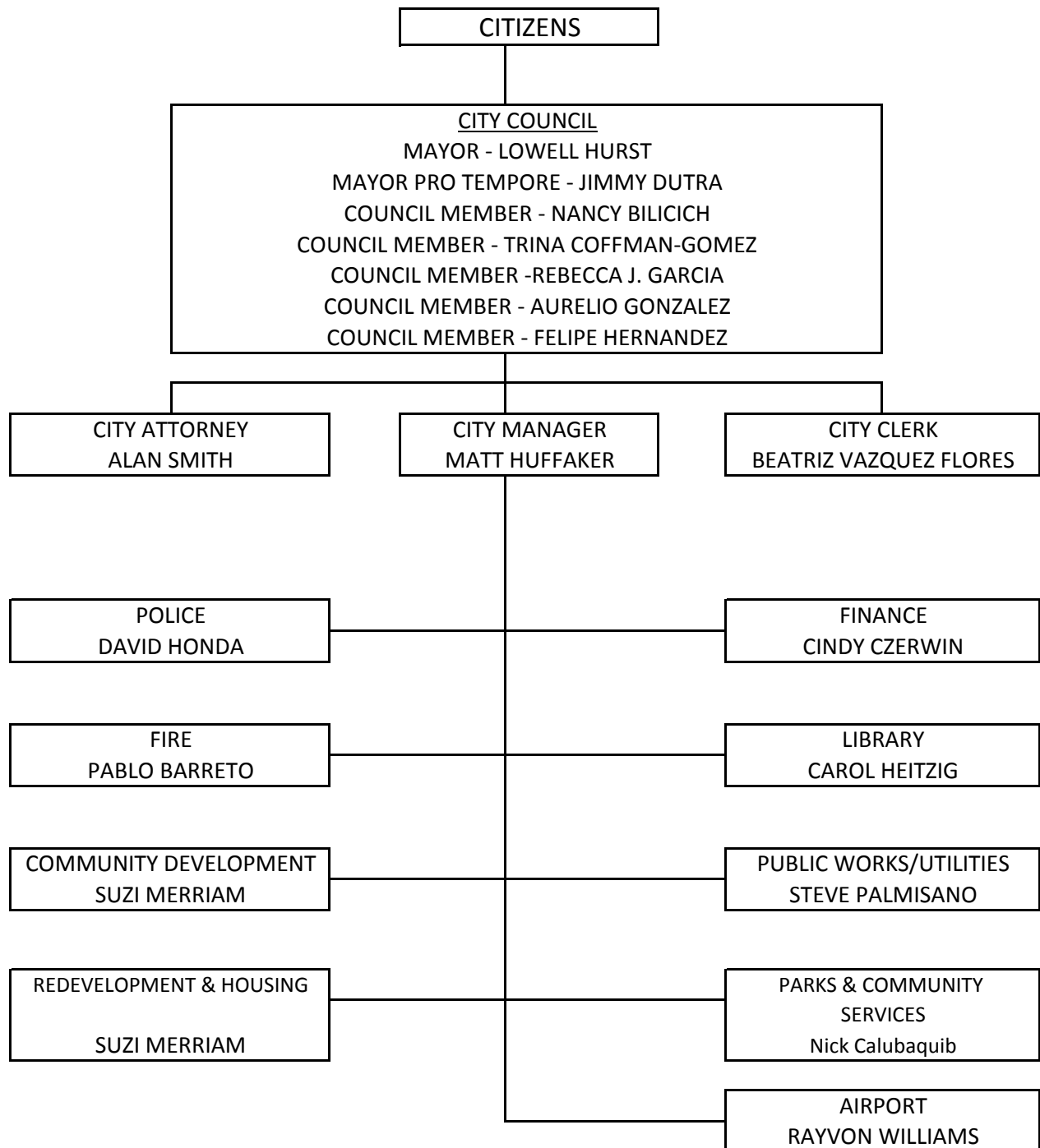
City Officials:

City Manager – Matt Huffaker
City Clerk – Beatriz Vazquez Flores
Fire Chief – Pablo Barreto
Police Chief – David Honda
Public Works and Utilities Director – Steve Palmisano
Administrative Services Director – Cindy Czerwin
Library Director – Carol Heitzig
Community Development Director – Suzi Merriam
Parks and Community Development Services Director – Nick Calubaquib
Airport Manager – Rayvon Williams

WATSONVILLE GOVERNING BODY

ORGANIZATIONAL STRUCTURE

FISCAL YEAR 2017 - 2018



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Financial Section

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the
City Council of the City of Watsonville, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watsonville, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Accountancy Corporation
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W mazeassociates.com

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and of the City as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other required supplementary information as listed in the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Introductory Section, Supplementary Information, and Statistical Section as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
December 7, 2018

CITY OF WATSONVILLE, CALIFORNIA MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Watsonville, we offer readers of the City of Watsonville's financial statements this narrative overview and analysis of the financial activities of the City of Watsonville for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 2 - 8 of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The assets of the City of Watsonville exceeded its liabilities at the close of the most recent fiscal year by \$234,083.
- The City's total net position increased by \$8,067. Governmental activities net position increased by \$4,758, which most of this increase from increases in property taxes and sale taxes. Business type activities net position increased by \$3,309. Most of this increase was from Water ending with positive operating income.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$33,251 an increase of \$6,958 in comparison with the prior fiscal year's balances. The non-spendable portion of the fund balance was \$2,588, the restricted portion was \$21,499 and the unassigned amount was \$9,614 a large portion of the unassigned fund balance was created by increases in taxes by the general fund during fiscal year 2017-18 and repayment of notes receivable from the Watsonville Successor Agency.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Watsonville's basic financial statements. The City of Watsonville's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Watsonville's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the City of Watsonville's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Watsonville is improving or deteriorating overtime.

The *Statement of Activities* presents information showing how the City of Watsonville's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing or related

cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City of Watsonville that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Watsonville include general government, public safety, housing, streets, and culture and recreation. The business-type activities of the City of Watsonville include water, sewer, solid waste, airport, and fiber optic activities.

The government-wide financial statements can be found on pages 30 to 33 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Watsonville, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Watsonville can be divided into three categories: governmental funds, proprietary funds and fiduciary fund.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluation of a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Watsonville maintains eighteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, impact fees fund, housing fund, redevelopment and housing grants fund, and general debt service fund which are all major funds. Data for the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Watsonville adopts a biennial budget (one year adopted and one year proposed) for all its governmental funds.

The basic governmental fund financial statements can be found on pages 34 to 41 of this report.

Proprietary funds. The City of Watsonville maintains two types of proprietary funds; Enterprise and Internal Service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Watsonville uses enterprise funds to account for Water, Sewer, Solid Waste, Airport and Fiber Optic operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the water, sewer, solid waste, airport and fiber optic operations, all of which are considered to be major funds of the City of Watsonville.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Watsonville's various functions. The City of Watsonville uses an internal service fund to account for insurance activities of the City. The fund predominantly benefits governmental funds rather than business-type functions, and it has been included within governmental activities in the government-wide financial statements. Conversely, the internal service fund is presented in the proprietary funds financial statements.

The basic proprietary funds financial statements can be found on pages 42 to 44 of this report.

Fiduciary fund. Fiduciary funds are used to account for resources held for the benefit of parties' outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Watsonville's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 45 to 46.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 47 to 88 of this report.

Other information. In addition to the basic financial statements and accompanying notes, required supplementary information, combining statements and schedules referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 94 to 107 of this report.

Government-wide Financial Analysis

Statement of Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Watsonville, assets exceeded liabilities by \$234,083 at the close of the most recent fiscal year.

By far the largest portion of the City of Watsonville's net position \$204,674 reflects its investment in capital assets (e.g., land, buildings and improvements, machinery, work in progress, and infrastructure) less any related outstanding debt used to acquire those assets. The City of Watsonville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Watsonville's investment in its

capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City of Watsonville's net position \$18,594 represent resources that are subject to external restrictions on how they may be used by creditors (such as through debt covenants), grantors, contributions or laws or regulations of other governments. The remaining balance of unrestricted net position \$10,815 is unrestricted and available for next year's operations at the direction of the City Council.

City of Watsonville's Net Position
June 30, 2018
(in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|------------------------------------|-------------|-------------------------------------|-------------|--------------|-------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Current and other assets | 75,404 | 66,194 | 34,961 | 28,526 | 110,365 | 94,720 |
| Capital assets | 112,711 | 115,075 | 96,067 | 96,657 | 208,778 | 211,732 |
| Total Assets | 188,115 | 181,269 | 131,028 | 125,183 | 319,143 | 306,452 |
| Deferred outflows of resources | 16,512 | 12,846 | 5,710 | 3,943 | 22,222 | 16,789 |
| Total Deferred Resources | 16,512 | 12,846 | 5,710 | 3,943 | 22,222 | 16,789 |
| Long-term liabilities outstanding | 64,229 | 59,701 | 28,089 | 23,463 | 92,318 | 83,164 |
| Other Liabilities | 9,446 | 6,753 | 3,089 | 2,968 | 12,535 | 9,721 |
| Total Liabilities | 73,675 | 66,454 | 31,178 | 26,431 | 104,853 | 92,885 |
| Deferred inflows of resources | 1,736 | 3,203 | 693 | 1,137 | 2,429 | 4,340 |
| Total Deferred Resources | 1,736 | 3,203 | 693 | 1,137 | 2,429 | 4,340 |
| Net Position: | | | | | | |
| Net investment in capital assets | 108,892 | 111,256 | 95,782 | 96,034 | 204,674 | 207,290 |
| Restricted | 18,594 | 16,496 | - | - | 18,594 | 16,496 |
| Unrestricted | 1,730 | (3,294) | 9,085 | 5,524 | 10,815 | 2,230 |
| Total Net Position | 129,216 | 124,458 | 104,867 | 101,558 | 234,083 | 226,016 |

At the end of the current fiscal year, the City of Watsonville is able to report positive balances in net investment in capital assets and restricted net position for the government as a whole, as well as for its separate governmental and business-type activities.

City of Watsonville
Summary of Changes in Net Position
For the Fiscal Year Ending June 30, 2018
(in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|---|------------------------------------|-------------|-------------------------------------|-------------|--------------|-------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for services | 14,301 | 14,117 | 42,886 | 39,892 | 57,187 | 54,009 |
| Operating grants and contributions | 2,019 | 3,310 | 1,430 | 1,373 | 3,449 | 4,683 |
| Capital grants and contributions | - | - | 311 | 1,103 | 311 | 1,103 |
| General Revenues | | | | | | |
| Property taxes | 13,436 | 13,300 | - | - | 13,436 | 13,300 |
| Other taxes | 24,908 | 22,025 | - | - | 24,908 | 22,025 |
| Others | 3,708 | 3,227 | 352 | 206 | 4,060 | 3,433 |
| Total Revenues and Transfers | 58,372 | 55,979 | 44,979 | 42,574 | 103,351 | 98,553 |
| Expenses: | | | | | | |
| General government | 7,032 | 8,257 | - | - | 7,032 | 8,257 |
| Public safety | 30,971 | 27,381 | - | - | 30,971 | 27,381 |
| Housing | 1,158 | 2,318 | - | - | 1,158 | 2,318 |
| Streets | 5,974 | 6,348 | - | - | 5,974 | 6,348 |
| Culture and recreation | 8,591 | 7,817 | - | - | 8,591 | 7,817 |
| Interest on debt | 158 | 146 | - | - | 158 | 146 |
| Water | - | - | 12,038 | 13,851 | 12,038 | 13,851 |
| Sewer | - | - | 13,175 | 10,272 | 13,175 | 10,272 |
| Solid waste | - | - | 12,758 | 10,976 | 12,758 | 10,976 |
| Airport | - | - | 3,382 | 2,684 | 3,382 | 2,684 |
| Fiber optic | - | - | 47 | 41 | 47 | 41 |
| Total Expenses | 53,884 | 52,267 | 41,400 | 37,824 | 95,284 | 90,091 |
| Increase in net position before transfers | 4,488 | 3,712 | 3,579 | 4,750 | 8,067 | 8,462 |
| Internal balances | 270 | 308 | (270) | (308) | - | - |
| Change in net position | 4,758 | 4,020 | 3,309 | 4,442 | 8,067 | 8,462 |
| Net position - beginning | 124,458 | 120,376 | 101,558 | 97,242 | 226,016 | 217,618 |
| Prior year adjustments | - | 62 | - | (126) | - | (64) |
| Net position - beginning restated | 124,458 | 120,438 | 101,558 | 97,116 | 226,016 | 217,554 |
| Net position ending | 129,216 | 124,458 | 104,867 | 101,558 | 234,083 | 226,016 |

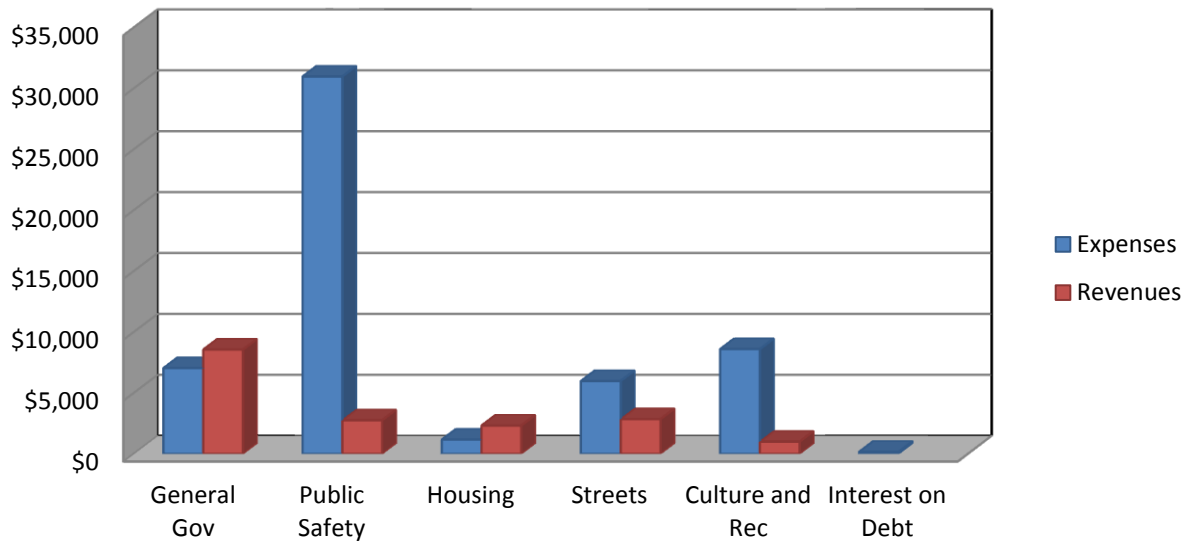
Governmental Activities. Governmental activities increased the City of Watsonville's Net Position by a \$4,758. Key elements of this increase are as follows:

- Governmental revenues were greater than last year with increase in other taxes of \$2,883. Most of this increase was due to \$1,240 in sales tax increases in various governmental funds. Utility users' taxes and property taxes increased by \$499 with the general fund receiving increases in utility users and property tax revenues.
- Governmental expenses also increased by \$1,617. The increase was from the public safety expenses increasing \$3,590 over prior fiscal year. A large portion of the increase was

incurred within the Measure G Special Revenue fund as staff was increased for both police and fire.

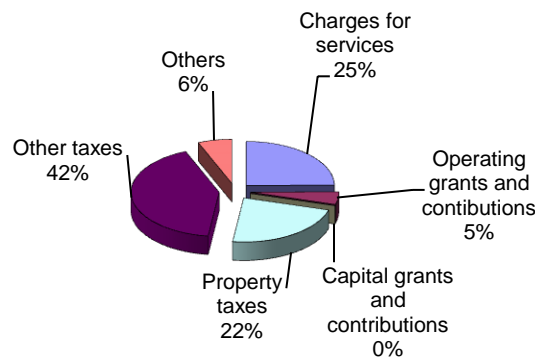
Expenses and Program Revenues

Governmental Activities



Revenues by Source

Governmental Activities



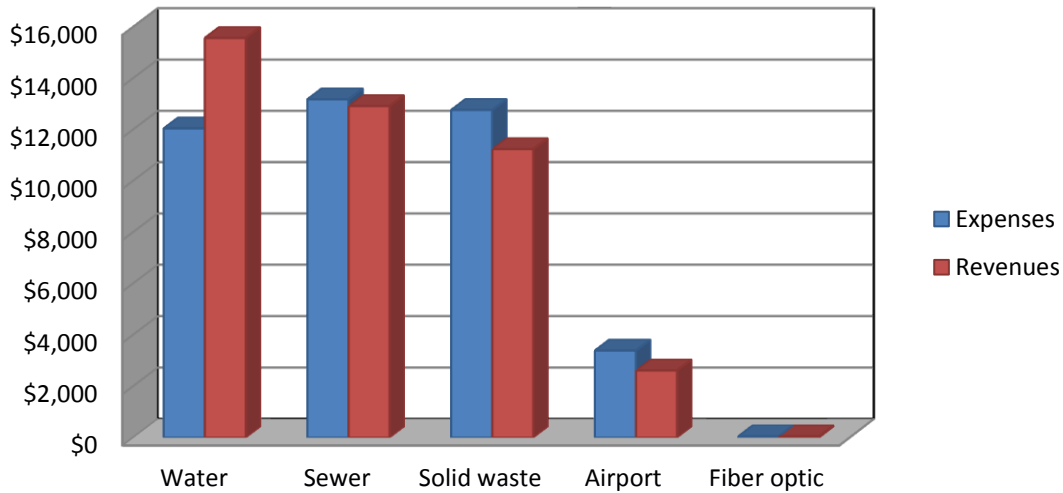
Expenses for culture and recreation and interest on debt increased from prior year. The increase in culture and recreation was from new operating grant activity.

General government, housing, and streets costs decreased from the prior year. General government costs decreased due to salary savings from vacant positions throughout the year. Housing costs decreased from prior year as a large housing grant was given out in the prior year. Streets costs we also down as they were saving funds during the current year for some project in the near future.

Business-type activities. Business-type activities increased the City of Watsonville's net position by \$3,309. Key elements of this increase are as follows:

Expenses and Program Revenues

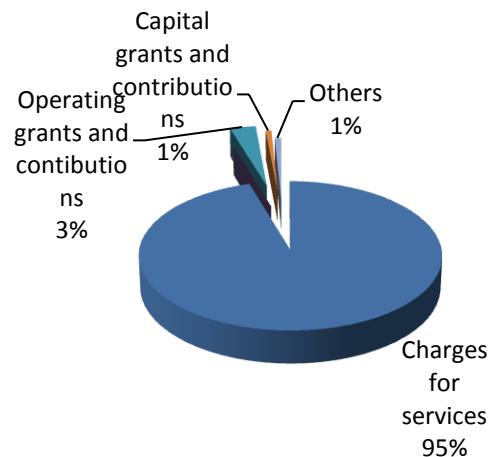
Business-type Activities



- Charges for services increased by \$2,994 and other revenue increased by \$146. The increase in charges for services was mostly from a rate increase for the Water, Sewer and Solid Waste Funds.
- Other revenues also increased as the Airport fund has been working on bring up its building lease revenues to fair market over the past year.
- Sewer and Solid Waste funds had increases in operating costs as of the fiscal year end. Sewer fund had an increase of \$2,903, and Solid Waste fund had an increase of \$1,782. A large portion of the increase for both funds was in salary costs as demand for more services creates demand for more staff.

Revenues by Source

Business-type Activities



Financial Analysis of the City of Watsonville's Funds

As noted earlier, the City of Watsonville uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Watsonville's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Watsonville's financing requirements. In particular, restricted fund balances for specific purposes may serve as a useful measure of a government's net resources available for spending on various activities at the end of the fiscal year.

As of the end of the current fiscal year, the City of Watsonville's governmental funds reported combined ending fund balances of \$33,251, an increase of \$6,958 in comparison with the prior fund balances. The largest portion of fund balances is restricted for specific purposes and the largest restricted portion is for impact fees in the amount of \$5,384. This balance is for projects that have been budgeted, planned or will be completed within the next five years. The remainders of fund balances are either non-spendable or unassigned at year end. The non-spendable portion of fund balances represents the amounts of funds that cannot be spent because they are either not in spendable form or legally required to remain intact. Unassigned fund balances represent amounts which are unconstrained in that they may be spent for any purpose.

The *General Fund* is the chief operating fund of the City of Watsonville. At the end of the current fiscal year, the charter reserve of the General Fund was \$2,450. As a measure of the General Fund's liquidity, it may be useful to compare both the charter reserve and total fund balance to total fund expenditures. The City's General Fund Reserve met the Charter Reserve this fiscal year end. The required Charter Reserve fund balance would be 6.0 percent of total general fund expenditures; the total fund balance represented 32 percent of the same amount as the City was able to increase the fund balance with reduction of debt and one time income.

The fund balance of the City of Watsonville's General Fund increased by \$3,908 during the current fiscal year due to the following key factors:

The General Fund increase in fund balance was from increases in various property tax, sale tax and utility tax revenues, decrease in operating costs and a one-time payment of \$1,350 on its notes receivable for the City of Watsonville Successor Agency Fund.

The Impact Fees Fund had a fund balance of \$5,384 an increase of \$1,057 over the prior year's fund balance. This increase was due to increase in revenues and saving for future projects in fund balance.

The Housing Fund had a fund balance of \$3,527, an increase of \$376 over the prior year's fund balance. This increase is due to loan repayments during the fiscal year were greater than expenditures.

The Redevelopment and Housing Grants Fund has a negative fund balance of (\$147), a decrease of (\$143) from the negative beginning fund balance. This decrease is the result of expending

cash held by the fund on housing projects.

The government's Debt Service Fund had a fund balance of \$123, a decrease of (\$8) during the fiscal year. This decrease is the result of some prepayments on special assessment debt that was used to retired the corresponding debt.

Proprietary funds. The City of Watsonville's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Net position and changes of net position for the five major enterprise funds are as follows:

Proprietary Funds Change of Net Position

| Fund | FY 2018 | FY 2017 | Change | % Change |
|-------------|---------|---------|--------|----------|
| Water | 52,661 | 49,123 | 3,538 | 7.20% |
| Sewer | 43,475 | 43,614 | (139) | -0.32% |
| Solid Waste | 2,275 | 2,484 | (209) | -8.41% |
| Airport | 6,441 | 6,319 | 122 | 1.93% |
| Fiber Optic | 15 | 19 | (4) | -21.05% |

Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Watsonville's business-type activities.

General Fund Budgetary Highlights

There were few mid-year budget amendments this fiscal year. The City Council added mid-year appropriations by \$667,000. There were also appropriations of \$680,875 for new grants that increased all four General Fund divisions.

Tax revenues were \$1,266 over budget. This increase in tax revenue was due to various taxes being over budgeted amounts. Miscellaneous revenues were over budget by \$1,566 as the City received a one-time payment from the Watsonville Successor Agency on a note receivable for \$1.350. General government, public safety, streets and culture and recreation expenditures were lower than expected as all divisions still held costs down due to salary savings and holding down operating costs.

Capital Asset and Debt Administration

Capital assets. The City of Watsonville's capital assets, for its governmental and business type activities as of June 30, 2018 was \$208,778 (net of depreciation). This represents a \$2,954 decrease from the prior year or -1.40%.

Total City of Watsonville Capital Assets FY 2017-18

| Capital Asset | FY 2018 | FY 2017 | Change | % Change |
|---------------------------|---------|---------|---------|----------|
| Land | 32,486 | 32,175 | 311 | 0.97% |
| Building and Improvements | 133,942 | 139,426 | (5,484) | -3.93% |
| Machinery & Equipment | 7,860 | 7,517 | 343 | 4.56% |
| Infrastructure | 23,044 | 22,577 | 467 | 2.07% |
| Construction in progress | 11,446 | 10,037 | 1,409 | 14.04% |
| Totals | 208,778 | 211,732 | (2,954) | -1.40% |

Governmental Type Activities contributed to this decrease by a decrease of -2.05%

Governmental Activities Capital Assets FY 2017-18

| Capital Asset | FY 2018 | FY 2017 | Change | % Change |
|---------------------------|---------|---------|---------|----------|
| Land | 13,971 | 13,971 | - | 0.00% |
| Building and Improvements | 82,879 | 86,262 | (3,383) | -3.92% |
| Machinery & Equipment | 3,837 | 3,610 | 227 | 6.29% |
| Infrastructure | 6,553 | 6,018 | 535 | 8.89% |
| Construction in progress | 5,471 | 5,214 | 257 | 4.93% |
| Totals | 112,711 | 115,075 | (2,364) | -2.05% |

While Business Type Activities contributed to this decrease by a decrease of -0.63%

Business Type Activities Capital Assets FY 2017-18

| Capital Asset | FY 2018 | FY 2017 | Change | % Change |
|---------------------------|---------|---------|---------|----------|
| Land | 18,515 | 18,204 | 311 | 1.71% |
| Building and Improvements | 51,063 | 53,180 | (2,117) | -3.98% |
| Machinery & Equipment | 4,023 | 3,907 | 116 | 2.97% |
| Infrastructure | 16,491 | 16,562 | (71) | -0.43% |
| Construction in progress | 5,975 | 4,823 | 1,152 | 23.89% |
| Totals | 96,067 | 96,676 | (609) | -0.63% |

Additional information on the City of Watsonville's capital assets can be found in Note 4 on pages 60 to 61 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Watsonville had total net debt outstanding of \$92,318. Of this amount, \$235 comprises debt that represents bonds secured solely by specific revenue sources (e.g. revenue bonds), and \$98 in special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The other debt for governmental activities is made up of notes payable of \$1,325, debt payable of \$2,081, net OPEB liability of \$1,902, compensated absences of \$1,766, and net pension of \$57,057. Business type activities have \$49 in notes payable, \$873 in a loan, net OPEB liability of \$1,431, compensated absences of \$715, net pension of \$21,182 and landfill closure/postclosure liability of \$3,603.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limit for the City of Watsonville is

\$155,373 which is significantly in excess of the City of Watsonville's outstanding debt subject to this limit.

Additional information on the City of Watsonville's long-term debt can be found in Note 5 on pages 64 to 70 of this report.

Economic Factors and Next Year's Budget

- Potential gain of property and sales tax revenues from the improved economy and increased housing units.
- New half percent sales tax approved for seven years to fund fire and police positions and equipment will sunset in 2021.
- Increasing PERS contributions until 2033.

With all the above factors considered, the City of Watsonville future appears to be brighter than past fiscal years. Overall economic activity has improved over the last fiscal year. Housing prices have increased resulting in improved property taxes, car sales have shown consistent growth and the unemployment rate in the City has decreased to a five year low. But the City needs to be prepared for the increasing PERS rates over the foreseeable future.

All of these factors were taken into consideration during the preparation of the City of Watsonville's annual budget for the fiscal year 2018-19.

Request for Information

This financial report is designed to provide a general overview of the City of Watsonville's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Director, City of Watsonville, and 250 Main Street, Watsonville, CA 95076.

Basic Financial Statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2018

| | Primary Government | | |
|---|--------------------|---------------|-------------|
| | Governmental | Business-type | Total |
| | Activities | Activities | |
| | \$ | \$ | \$ |
| ASSETS | | | |
| Cash and investments | 37,503,800 | 27,026,894 | 64,530,694 |
| Cash and investments with fiscal agent | - | 59,140 | 59,140 |
| Restricted cash | - | 1,594,637 | 1,594,637 |
| Receivables: | | | |
| Interest | 2,117,533 | - | 2,117,533 |
| Taxes | 4,092,801 | - | 4,092,801 |
| Assessments | 49,000 | - | 49,000 |
| Accounts | 1,242,325 | 2,537,804 | 3,780,129 |
| Intergovernmental | 1,840,544 | 707,092 | 2,547,636 |
| Internal balances | (1,666,527) | 1,666,527 | - |
| Loans receivable | 28,962,196 | 735,085 | 29,697,281 |
| Inventories | 24,729 | 634,215 | 658,944 |
| Deposits | 60,000 | - | 60,000 |
| Land held for resale | 1,177,012 | - | 1,177,012 |
| Capital assets (net of depreciation, where applicable) | | | |
| Land | 13,970,752 | 18,515,035 | 32,485,787 |
| Buildings and Improvements | 82,878,535 | 51,062,689 | 133,941,224 |
| Machinery | 3,837,349 | 4,023,111 | 7,860,460 |
| Infrastructure | 6,553,504 | 16,491,374 | 23,044,878 |
| Construction in progress | 5,470,740 | 5,974,698 | 11,445,438 |
| Total Assets | 188,114,293 | 131,028,301 | 319,142,594 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Deferred outflow of resources - Pensions | 16,512,333 | 5,709,832 | 22,222,165 |
| Total deferred outflow of resources | 16,512,333 | 5,709,832 | 22,222,165 |

See accompanying notes to financial statements

Continued

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2018

| | Primary Government | | |
|---|--------------------|---------------|-------------|
| | Governmental | Business-type | Total |
| | Activities | Activities | |
| | \$ | \$ | \$ |
| LIABILITIES | | | |
| Accounts payable | 2,080,404 | 2,183,265 | 4,263,669 |
| Accrued personnel costs | 1,659,823 | 530,326 | 2,190,149 |
| Insurance claims payable | 3,826,517 | - | 3,826,517 |
| Interest payable | 38,329 | 960 | 39,289 |
| Retentions payable | 26,195 | 160,363 | 186,558 |
| Unearned revenue | 1,283,955 | 168,004 | 1,451,959 |
| Deposits | 530,768 | 46,643 | 577,411 |
| Noncurrent liabilities | | | |
| Due within one year | 578,124 | 348,334 | 926,458 |
| Due in more than one year | | | |
| (Net of capitalized discounts) | 63,650,475 | 27,740,231 | 91,390,706 |
| Total Liabilities | 73,674,590 | 31,178,126 | 104,852,716 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Deferred inflow of resources - Pensions | 1,736,174 | 692,738 | 2,428,912 |
| Total deferred inflow of resources | 1,736,174 | 692,738 | 2,428,912 |
| NET POSITION | | | |
| Net investment in capital assets | 108,892,148 | 95,782,263 | 204,674,411 |
| Restricted for: | | | |
| Debt service | 84,482 | - | 84,482 |
| Impact fee | 5,383,942 | - | 5,383,942 |
| Housing | 3,527,418 | - | 3,527,418 |
| Grants, contributions & fees for specific purpose | 10,852,543 | - | 10,852,543 |
| Unrestricted | 475,329 | 9,085,006 | 9,560,335 |
| Total Net Position | 129,215,862 | 104,867,269 | 234,083,131 |

See accompanying notes to financial statements

Concluded

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CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| Functions/Programs | Program Revenues | | | | Primary Government | | |
|---|------------------|----------------------|------------------------------------|----------------------------------|-------------------------|--------------------------|--------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary Government: | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Governmental activities: | | | | | | | |
| General government | 7,032,109 | 8,285,468 | 25,962 | - | 1,279,321 | - | 1,279,321 |
| Public safety | 30,971,490 | 1,874,737 | 985,886 | - | (28,110,867) | - | (28,110,867) |
| Housing | 1,158,246 | 289,320 | 394,196 | - | (474,730) | - | (474,730) |
| Streets | 5,974,114 | 2,663,353 | 572,455 | - | (2,738,306) | - | (2,738,306) |
| Culture and recreation | 8,591,233 | 1,188,803 | 40,459 | - | (7,361,971) | - | (7,361,971) |
| Interest on long term debt | 157,799 | - | - | - | (157,799) | - | (157,799) |
| Total government activities | 53,884,991 | 14,301,681 | 2,018,958 | - | (37,564,352) | - | (37,564,352) |
| Business-type activities: | | | | | | | |
| Water | 12,038,108 | 15,243,117 | 44,480 | 212,573 | - | 3,462,062 | 3,462,062 |
| Sewer | 13,174,860 | 12,474,736 | 452,415 | 97,960 | - | (149,749) | (149,749) |
| Solid Waste | 12,758,011 | 12,549,221 | 5,148 | - | - | (203,642) | (203,642) |
| Airport | 3,381,917 | 2,576,497 | 927,472 | - | - | 122,052 | 122,052 |
| Fiber Optic | 46,487 | 42,619 | - | - | - | (3,868) | (3,868) |
| Total business-type activities | 41,399,383 | 42,886,190 | 1,429,515 | 310,533 | - | 3,226,855 | 3,226,855 |
| Total primary government | 95,284,374 | 57,187,871 | 3,448,473 | 310,533 | (37,564,352) | 3,226,855 | (34,337,497) |
| General revenues: | | | | | | | |
| Property taxes | | | | | 13,435,728 | - | 13,435,728 |
| Sales taxes | | | | | 18,392,822 | - | 18,392,822 |
| Utility users taxes | | | | | 4,019,024 | - | 4,019,024 |
| Franchise taxes | | | | | 435,987 | - | 435,987 |
| Other taxes | | | | | 2,060,193 | - | 2,060,193 |
| Intergovernmental revenues not restricted to specific program | | | | | 1,048,488 | - | 1,048,488 |
| Unrestricted investment earnings | | | | | 2,659,618 | 352,348 | 3,011,966 |
| Transfers | | | | | 270,115 | (270,115) | - |
| Total general revenues and transfers | | | | | 42,321,975 | 82,233 | 42,404,208 |
| Change in net position | | | | | 4,757,623 | 3,309,088 | 8,066,711 |
| Net position - beginning | | | | | 124,458,239 | 101,558,181 | 226,016,420 |
| Net position - ending | | | | | 129,215,862 | 104,867,269 | 234,083,131 |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

| | SPECIAL REVENUE FUNDS | | | | | | |
|--|-----------------------|-------------|------------|--|-----------------|--------------------------------|--------------------------------|
| | GENERAL | IMPACT FEES | HOUSING | REDEVELOPMENT AND HOUSING GRANTS | DEBT SERVICE | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| ASSETS: | | | | | | | |
| Cash and investments | 13,935,574 | 5,027,663 | 2,354,075 | 1,820,671 | 121,185 | 11,420,040 | 34,679,208 |
| Receivables: | | | | | | | |
| Interest | 360,567 | - | 723,318 | 913,720 | - | 119,928 | 2,117,533 |
| Taxes | 2,932,617 | - | - | - | 1,626 | 1,158,558 | 4,092,801 |
| Deferred assessments | - | - | - | - | 49,000 | - | 49,000 |
| Accounts | 614,979 | - | - | - | - | 185,513 | 800,492 |
| Intergovernmental | 492,942 | - | - | 148,348 | - | 1,199,254 | 1,840,544 |
| Due from other funds | 1,053,310 | - | - | - | - | - | 1,053,310 |
| Advances receivable | 2,562,993 | 356,904 | - | - | - | 537,927 | 3,457,824 |
| Loans receivable | 3,225,689 | - | 11,751,018 | 13,234,423 | - | 751,066 | 28,962,196 |
| Inventories | 24,729 | - | - | - | - | - | 24,729 |
| Land held for resale | - | - | 1,177,012 | - | - | - | 1,177,012 |
| Total Assets | 25,203,400 | 5,384,567 | 16,005,423 | 16,117,162 | 171,811 | 15,372,286 | 78,254,649 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES: | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | 988,978 | 625 | 301 | 18,271 | - | 949,130 | 1,957,305 |
| Accrued personnel costs | 1,470,335 | - | 2,897 | 3,112 | - | 183,479 | 1,659,823 |
| Retention payable | - | - | - | - | - | 26,195 | 26,195 |
| Due to other funds | - | - | - | - | - | 603,311 | 603,311 |
| Advances payable | 5,574,351 | - | - | - | - | - | 5,574,351 |
| Unearned revenue | 530,985 | - | - | 752,970 | - | - | 1,283,955 |
| Deposits | 427,251 | - | 471 | - | - | 103,046 | 530,768 |
| Total Liabilities | 8,991,900 | 625 | 3,669 | 774,353 | - | 1,865,161 | 11,635,708 |
| Deferred Inflows of Resources | | | | | | | |
| Unavailable revenue | 3,281,616 | - | 12,474,336 | 15,489,514 | 49,000 | 2,073,149 | 33,367,615 |
| Total Deferred Inflows of Resources | 3,281,616 | - | 12,474,336 | 15,489,514 | 49,000 | 2,073,149 | 33,367,615 |
| Fund Balances: | | | | | | | |
| Nonspendable: | | | | | | | |
| Inventories | 24,729 | - | - | - | - | - | 24,729 |
| Advance receivable | 2,562,993 | - | - | - | - | - | 2,562,993 |
| Restricted for: | | | | | | | |
| Debt service | - | - | - | - | 122,811 | - | 122,811 |
| Streets - Impact fees | - | 5,383,942 | - | - | - | - | 5,383,942 |
| Housing | - | - | 3,527,418 | - | - | - | 3,527,418 |
| Streets - Gas tax | - | - | - | - | - | 789,631 | 789,631 |
| Public safety - Narcotics assets seizure | - | - | - | - | - | 111,903 | 111,903 |
| Housing - Business development | - | - | - | - | - | 47,730 | 47,730 |
| Housing - Economic development | - | - | - | - | - | 18,939 | 18,939 |
| Cultural and recreation - Library | - | - | - | - | - | 1,513,821 | 1,513,821 |
| Cultural and recreation - Parks development | - | - | - | - | - | 1,982,149 | 1,982,149 |
| General government - Retirement tax | - | - | - | - | - | 1,035,664 | 1,035,664 |
| Public safety - Measure G | - | - | - | - | - | 3,201,840 | 3,201,840 |
| Housing - Inclusionary housing | - | - | - | - | - | 2,109,925 | 2,109,925 |
| Streets - SB1 Gas tax | - | - | - | - | - | 371,605 | 371,605 |
| Streets - Measure D | - | - | - | - | - | 832,202 | 832,202 |
| Unassigned | 10,342,162 | - | - | (146,705) | - | (581,433) | 9,614,024 |
| Total Fund Balances | 12,929,884 | 5,383,942 | 3,527,418 | (146,705) | 122,811 | 11,433,976 | 33,251,326 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | 25,203,400 | 5,384,567 | 16,005,423 | 16,117,162 | 171,811 | 15,372,286 | 78,254,649 |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENTS OF NET POSITION
JUNE 30,2018

| | |
|---|---------------------------|
| Amounts Reported For Governmental Activities To The Statement Of Net Position Are Different Because: | \$ |
| Fund Balances Of Governmental Funds. (Page 34) | 33,251,326 |
| Capital Assets Used In Governmental Activities Are Not Financial Resources And, Therefore, Are Not Reported In The Funds. | 198,829,276 |
| Accumulated Depreciation Has Not Been Included In The Funds Financial Statements. | (86,118,396) |
| Internal Service Fund Is Used By Management To Charge The Costs Of Insurances To Individual Funds. The Assets And Liabilities Of The Internal Service Fund Are Included In Governmental Activities In The Statement Of Net Position. | (623,189) |
| Loans, Intergovernmental And Assessment Receivables Recorded As Unearned Revenue Or Unavailable Revenue In The Governmental Funds Was Recorded As Revenue On The Statement Of Activities. | 34,622,354 |
| Interest Payable Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds. | (38,329) |
| Long-term Liability Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds. | (64,228,599) |
| Deferred Outflows And Inflows Of Resources Relating To Pensions: In Governmental Funds, Deferred Outflows And Inflows Of Resources Relating To Pensions Are Not Reported Because They Are Applicable To Future Periods. In The Statement Of Net Position, Deferred Outflows And Inflows Of Resources Relating To Pensions Are Reported. | |
| Deferred Outflows Of Resources Relating To Pensions | 16,512,333 |
| Deferred Inflows Of Resources Relating To Pensions | (1,736,174) |
| Total Net Position - Governmental Activities | <u><u>130,470,602</u></u> |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | SPECIAL REVENUE FUNDS | | | | | | |
|--|-----------------------|-------------|-----------|--|-----------------|--------------------------------|--------------------------------|
| | GENERAL | IMPACT FEES | HOUSING | REDEVELOPMENT AND HOUSING GRANTS | DEBT SERVICE | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUES: | | | | | | | |
| Taxes | 26,777,274 | - | - | - | - | 12,614,968 | 39,392,242 |
| Licenses, permits, and fees | 4,491,205 | 1,091,449 | - | - | - | 1,059,537 | 6,642,191 |
| Intergovernmental | 1,490,363 | - | - | 871,058 | 36,049 | 1,057,371 | 3,454,841 |
| Charges for services | 3,223,487 | - | - | - | - | - | 3,223,487 |
| Fines | 723,257 | - | - | - | - | - | 723,257 |
| Interest | 2,596,668 | 94,495 | 26,357 | 24,276 | - | 127,079 | 2,868,875 |
| Special assessment | - | - | - | - | 58,096 | - | 58,096 |
| Miscellaneous | 2,064,176 | - | 262,963 | - | - | 163,631 | 2,490,770 |
| Total revenues | 41,366,430 | 1,185,944 | 289,320 | 895,334 | 94,145 | 15,022,586 | 58,853,759 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General government | 8,187,185 | - | - | - | - | 215,582 | 8,402,767 |
| Public safety | 24,284,632 | - | - | - | - | 3,760,611 | 28,045,243 |
| Housing | - | - | 117,742 | 778,223 | - | 262,281 | 1,158,246 |
| Streets | 3,382,869 | 123,718 | - | - | - | 2,175,463 | 5,682,050 |
| Culture and recreation | 4,904,475 | - | - | - | - | 3,312,742 | 8,217,217 |
| Debt service: | | | | | | | |
| Principal | - | - | - | - | 462,663 | - | 462,663 |
| Interest and fiscal charges | - | - | - | - | 161,449 | - | 161,449 |
| Total expenditures | 40,759,161 | 123,718 | 117,742 | 778,223 | 624,112 | 9,726,679 | 52,129,635 |
| Excess (deficiency) of revenues over (under) expenditures | 607,269 | 1,062,226 | 171,578 | 117,111 | (529,967) | 5,295,907 | 6,724,124 |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Transfers in | 3,604,789 | - | 204,250 | - | 521,677 | 132,988 | 4,463,704 |
| Transfers out | (304,009) | (5,000) | - | (260,191) | - | (3,660,347) | (4,229,547) |
| Total other financing sources (uses) | 3,300,780 | (5,000) | 204,250 | (260,191) | 521,677 | (3,527,359) | 234,157 |
| Net change in fund balances | 3,908,049 | 1,057,226 | 375,828 | (143,080) | (8,290) | 1,768,548 | 6,958,281 |
| Fund balances, July 1 | 9,021,835 | 4,326,716 | 3,151,590 | (3,625) | 131,101 | 9,665,428 | 26,293,045 |
| Fund balances, June 30 | 12,929,884 | 5,383,942 | 3,527,418 | (146,705) | 122,811 | 11,433,976 | 33,251,326 |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
GOVERNMENTAL FUNDS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | <u>\$</u> |
|--|-------------------------|
| Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because: | |
| Net Change In Fund Balance - Total Governmental Funds (Page 36) | 6,958,281 |
| Governmental Funds Report Capital Outlay As Expenditures However, In The Statement Of Activities The Cost Of Those Assets Are Allocated Over Their Estimated Useful Lives And Reported As Depreciation Expense. This Is The Amount By Which Capital Outlays Was Less Than Depreciation In The Current Period And Costs of Capital Assets Disposed In The Current Year. | (2,364,301) |
| Revenues On The Statement Of Activities That Does Not Provide Current Financial Resources Are Not Reported As Revenues In Governmental Funds. | (1) |
| The Issuance Of Long-term Debt (e.g., Bonds) Provides Current Financial Resources To Governmental Funds, While The Repayment Of The Principal Of Long-term Debt Consumes The Current Financial Resources Of Governmental Funds. Neither Transaction, However Has Any Effect On Net Position. | |
| This Amount Is The Repayment Of Principal | 462,663 |
| This Amount Of Post Retirement Costs | 1,928,614 |
| This Amount Of Compensated Absences | 136,378 |
| Internal Service Funds Are Used By Management To Charge The Costs Of Insurance To Individual Funds. | 612,854 |
| In Governmental Funds, Pension Costs Are Recognized When Employer Contributions Are Made. In The Statement Of Activities, Pension Costs Are Recognized On The Accrual Basis. This Fiscal Year, The Difference Between Accrual-basis Pension Costs And Actual Employer Contributions Was: Premium For The Period Is | (1,922,360) |
| Interest Expense Reported In The Statement Of Activities Does Not Require The Use Of Current Financial Resources And, Therefore Is Not Reported As An Expenditure In Governmental Funds. | <u>3,650</u> |
| Change In Net Position Of Governmental Funds. (Page 33) | <u><u>5,815,778</u></u> |
| See accompanying notes to financial statements | |

CITY OF WATSONVILLE, CALIFORNIA**GENERAL FUND****STATEMENT OF REVENUES, EXPENDITURES,****AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL****FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | | Variance With Final Budget - Positive (Negative) |
|--|--------------------|--------------------|-------------------|---|
| | Original | Final | Actual | |
| | \$ | \$ | \$ | \$ |
| REVENUES: | | | | |
| Taxes | 25,511,335 | 25,511,335 | 26,777,274 | 1,265,939 |
| Licenses, permits, and fees | 4,693,613 | 4,693,613 | 4,491,205 | (202,408) |
| Intergovernmental | 572,734 | 1,253,591 | 1,490,363 | 236,772 |
| Charges for services | 3,227,570 | 3,302,570 | 3,223,487 | (79,083) |
| Fines | 1,020,000 | 1,020,000 | 723,257 | (296,743) |
| Interest | 2,242,273 | 2,242,273 | 2,596,668 | 354,395 |
| Miscellaneous | 498,475 | 498,475 | 2,064,176 | 1,565,701 |
| Total revenues | 37,766,000 | 38,521,857 | 41,366,430 | 2,844,573 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | 8,440,733 | 8,458,733 | 8,187,185 | 271,548 |
| Public safety | 25,260,627 | 25,365,627 | 24,284,632 | 1,080,995 |
| Streets | 3,532,238 | 4,280,518 | 3,382,869 | 897,649 |
| Culture and recreation | 5,335,043 | 5,811,620 | 4,904,475 | 907,145 |
| Total expenditures | 42,568,641 | 43,916,498 | 40,759,161 | 3,157,337 |
| Excess (deficiency) of revenues over (under) expenditures | (4,802,641) | (5,394,641) | 607,269 | 6,001,910 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 3,855,238 | 3,855,238 | 3,604,789 | (250,449) |
| Transfers out | (304,282) | (304,282) | (304,009) | - |
| Total other financing sources (uses) | 3,550,956 | 3,550,956 | 3,300,780 | (250,449) |
| Net change in fund balance | (1,251,685) | (1,843,685) | 3,908,049 | 5,751,461 |
| Fund balance, July 1 | 9,021,835 | 9,021,835 | 9,021,835 | - |
| Fund balance, June 30 | 7,770,150 | 7,178,150 | 12,929,884 | 5,751,461 |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
IMPACT FEES FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
|--|------------------|-------------|-----------|---|
| | Original | Final | | |
| | \$ | \$ | \$ | \$ |
| REVENUES: | | | | |
| Licenses, permits, and fees | 438,000 | 438,000 | 1,091,449 | 653,449 |
| Interest | 38,500 | 38,500 | 94,495 | 55,995 |
| Total revenues | 476,500 | 476,500 | 1,185,944 | 709,444 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Streets | 1,894,727 | 1,894,727 | 123,718 | 1,771,009 |
| Total expenditures | 1,894,727 | 1,894,727 | 123,718 | 1,771,009 |
| Excess (deficiency) of revenues over (under) expenditures | (1,418,227) | (1,418,227) | 1,062,226 | 2,480,453 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (5,000) | (5,000) | (5,000) | - |
| Total other financing sources (uses) | (5,000) | (5,000) | (5,000) | - |
| Net change in fund balance | (1,423,227) | (1,423,227) | 1,057,226 | 2,480,453 |
| Fund balance, July 1 | 4,326,716 | 4,326,716 | 4,326,716 | - |
| Fund balance, June 30 | 2,903,489 | 2,903,489 | 5,383,942 | 2,480,453 |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
HOUSING FUND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | Budgeted Amounts | | | Variance With Final Budget - Positive (Negative) |
|--|------------------|-----------|-----------|---|
| | Original | Final | Actual | |
| | \$ | \$ | \$ | \$ |
| REVENUES: | | | | |
| Interest | 2,500 | 2,500 | 26,357 | 23,857 |
| Miscellaneous | 214,523 | 214,523 | 262,963 | 48,440 |
| Total revenues | 217,023 | 217,023 | 289,320 | 72,297 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Housing | 705,164 | 705,164 | 117,742 | 587,422 |
| Total expenditures | 705,164 | 705,164 | 117,742 | 587,422 |
| Excess (deficiency) of revenues over (under) expenditures | (488,141) | (488,141) | 171,578 | 659,719 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 204,523 | 204,523 | 204,250 | (273) |
| Total other financing sources (uses) | 204,523 | 204,523 | 204,250 | (273) |
| Net change in fund balance | (283,618) | (283,618) | 375,828 | 659,446 |
| Fund balance, July 1 | 3,151,590 | 3,151,590 | 3,151,590 | - |
| Fund balance, June 30 | 2,867,972 | 2,867,972 | 3,527,418 | 659,446 |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
REDEVELOPMENT AND HOUSING GRANTS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | Budgeted Amounts | | | Variance With Final Budget - Positive (Negative) |
|--|------------------|-----------|-----------|---|
| | Original | Final | Actual | |
| | \$ | \$ | \$ | \$ |
| REVENUES: | | | | |
| Intergovernmental | 2,221,425 | 2,221,425 | 871,058 | (1,350,367) |
| Interest | 5,000 | 5,000 | 24,276 | 24,276 |
| Total revenues | 2,226,425 | 2,226,425 | 895,334 | (1,326,091) |
| EXPENDITURES: | | | | |
| Housing | 2,220,860 | 2,220,860 | 778,223 | 1,442,637 |
| Total expenditures | 2,220,860 | 2,220,860 | 778,223 | 116,546 |
| Excess (deficiency) of revenues over (under) expenditures | 5,565 | 5,565 | 117,111 | 116,546 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers out | (260,191) | (260,191) | (260,191) | - |
| Total other financing sources (uses) | (260,191) | (260,191) | (260,191) | - |
| Net change in fund balance | (254,626) | (254,626) | (143,080) | 116,546 |
| Fund balance, July 1 | (3,625) | (3,625) | (3,625) | - |
| Fund balance, June 30 | (258,251) | (258,251) | (146,705) | 116,546 |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

| | Business-type Activities - Enterprise Funds | | | | | | Governmental Activities - Internal Service |
|---|--|--------------|-------------|--------------|-------------|--------------|--|
| | WATER | SEWER | SOLID WASTE | AIRPORT | FIBER OPTIC | TOTALS | Fund |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| ASSETS | | | | | | | |
| Current Assets: | | | | | | | |
| Cash and investments | 9,453,163 | 9,622,157 | 7,421,293 | 441,879 | 88,402 | 27,026,894 | 2,824,592 |
| Cash and investments with fiscal agent | - | - | 18,678 | - | - | 18,678 | - |
| Restricted cash | - | 1,594,637 | - | - | - | 1,594,637 | - |
| Receivables: | | | | | | | |
| Accounts | 417,500 | 1,686,875 | 312,212 | 78,598 | 42,619 | 2,537,804 | 441,834 |
| Intergovernmental | 9,137 | 452,415 | 9,768 | 235,772 | - | 707,092 | - |
| Loans receivable | - | 76,715 | - | - | - | 76,715 | - |
| Deposits | - | - | - | - | - | - | 60,000 |
| Inventories | 554,203 | - | 1,958 | 78,054 | - | 634,215 | - |
| Total Current Assets | 10,434,003 | 13,432,799 | 7,763,909 | 834,303 | 131,021 | 32,596,035 | 3,326,426 |
| Noncurrent Assets | | | | | | | |
| Cash and investments with fiscal agent | - | - | 40,462 | - | - | 40,462 | - |
| Advances receivable | 4,022,240 | 977,372 | 263,698 | 21,465 | - | 5,284,775 | - |
| Loan receivable | - | 658,370 | - | - | - | 658,370 | - |
| Capital assets: | | | | | | | |
| Land and improvements | 218,742 | 8,943,007 | 1,769,391 | 7,583,895 | - | 18,515,035 | - |
| Buildings | 48,457,209 | 29,341,630 | 1,705,352 | 9,160,742 | - | 88,664,933 | - |
| Machinery and equipment | 5,874,939 | 4,841,861 | 9,869,356 | 288,682 | - | 20,874,838 | - |
| Infrastructure | 13,110,752 | 39,399,557 | - | 3,351,652 | 706,929 | 56,568,890 | - |
| Construction in progress | 3,250,375 | 2,693,302 | - | 31,021 | - | 5,974,698 | - |
| Accumulated depreciation | (27,894,420) | (47,087,126) | (8,885,734) | (10,590,569) | (73,638) | (94,531,487) | - |
| Total Capital Assets (Net of accumulated depreciation) | 43,017,597 | 38,132,231 | 4,458,365 | 9,825,423 | 633,291 | 96,066,907 | - |
| Total Noncurrent Assets | 47,039,837 | 39,767,973 | 4,762,525 | 9,846,888 | 633,291 | 102,050,514 | - |
| Total Assets | 57,473,840 | 53,200,772 | 12,526,434 | 10,681,191 | 764,312 | 134,646,549 | 3,326,426 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | | |
| Deferred outflow of resources - pension | 1,293,472 | 2,459,742 | 1,616,422 | 340,196 | - | 5,709,832 | - |
| Total deferred outflow of resources | 1,293,472 | 2,459,742 | 1,616,422 | 340,196 | - | 5,709,832 | - |
| LIABILITIES | | | | | | | |
| Current Liabilities: | | | | | | | |
| Accounts payable | 556,218 | 526,782 | 977,415 | 122,850 | - | 2,183,265 | 123,098 |
| Accrued personnel costs | - | 288,860 | 188,821 | 52,645 | - | 530,326 | - |
| Insurance claims payable | - | - | - | - | - | - | 3,826,517 |
| Interest payable | - | - | 960 | - | - | 960 | - |
| Retention payable | - | 150,474 | - | 9,889 | - | 160,363 | - |
| Customer deposits | 46,643 | - | - | - | - | 46,643 | - |
| Due to other funds | - | - | - | 450,000 | - | 450,000 | - |
| Unearned revenue | - | 67,647 | 14,011 | 43,727 | 42,619 | 168,004 | - |
| Current maturities of long term debt: | | | | | | | |
| Compensated absences | 10,453 | 17,035 | 13,201 | 2,202 | - | 42,891 | - |
| Liability for landfill closure | - | - | 59,500 | - | - | 59,500 | - |
| Revenue bonds | - | - | 235,388 | - | - | 235,388 | - |
| Note payable | - | 10,555 | - | - | - | 10,555 | - |
| Total Current Liabilities | 613,314 | 1,061,353 | 1,489,296 | 681,313 | 42,619 | 3,887,895 | 3,949,615 |
| Noncurrent Liabilities: | | | | | | | |
| Advance payable | - | - | - | 2,461,319 | 706,929 | 3,168,248 | - |
| Compensated absences | 163,759 | 266,889 | 206,811 | 34,504 | - | 671,963 | - |
| Net OPEB obligations | 373,403 | 522,718 | 435,598 | 99,566 | - | 1,431,285 | - |
| Liability for landfill closure | - | - | 3,543,705 | - | - | 3,543,705 | - |
| Net pension liability | 4,798,463 | 9,125,037 | 5,996,529 | 1,262,043 | - | 21,182,072 | - |
| Note payable | - | 38,701 | - | - | - | 38,701 | - |
| Loan payable | - | 872,505 | - | - | - | 872,505 | - |
| Total Noncurrent Liabilities | 5,335,625 | 10,825,850 | 10,182,643 | 3,857,432 | 706,929 | 30,908,479 | - |
| Total Liabilities | 5,948,939 | 11,887,203 | 11,671,939 | 4,538,745 | 749,548 | 34,796,374 | 3,949,615 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | | |
| Deferred inflow of resources - pension | 156,929 | 298,425 | 196,110 | 41,274 | - | 692,738 | - |
| Total deferred inflow of resources | 156,929 | 298,425 | 196,110 | 41,274 | - | 692,738 | - |
| Net Position | | | | | | | |
| Net investment in capital assets | 43,017,597 | 38,082,975 | 4,222,977 | 9,825,423 | 633,291 | 95,782,263 | - |
| Unrestricted | 9,643,847 | 5,391,911 | (1,948,170) | (3,384,055) | (618,527) | 9,085,006 | (623,189) |
| Total Net Position | 52,661,444 | 43,474,886 | 2,274,807 | 6,441,368 | 14,764 | 104,867,269 | (623,189) |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | Business-type Activities - Enterprise Funds | | | | | | Governmental Activities - Internal Service Fund |
|--|--|------------|-------------|-----------|-------------|-------------|--|
| | WATER | SEWER | SOLID WASTE | AIRPORT | FIBER OPTIC | TOTALS | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| OPERATING REVENUES: | | | | | | | |
| Charges for services | 15,243,117 | 12,474,736 | 12,549,221 | 2,576,497 | 42,619 | 42,886,190 | 12,281,989 |
| Total Operating Revenues | 15,243,117 | 12,474,736 | 12,549,221 | 2,576,497 | 42,619 | 42,886,190 | 12,281,989 |
| OPERATING EXPENSES: | | | | | | | |
| Costs of sales and services | 10,416,612 | 11,902,614 | 12,092,300 | 2,995,790 | 11,141 | 37,418,457 | 11,705,093 |
| Depreciation | 1,621,496 | 1,272,246 | 648,588 | 306,924 | 35,346 | 3,884,600 | - |
| Total Operating Expenses | 12,038,108 | 13,174,860 | 12,740,888 | 3,302,714 | 46,487 | 41,303,057 | 11,705,093 |
| Operating Income (Loss) | 3,205,009 | (700,124) | (191,667) | (726,217) | (3,868) | 1,583,133 | 576,896 |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | |
| Lease revenues | - | - | - | 681,700 | - | 681,700 | - |
| Grant revenues | 44,480 | 452,415 | 5,148 | 245,772 | - | 747,815 | - |
| Interest revenues | 105,390 | 199,430 | 42,170 | 5,358 | - | 352,348 | - |
| Interest expenses | - | - | (17,123) | (79,203) | - | (96,326) | - |
| Total Nonoperating Revenues (expenses) | 149,870 | 651,845 | 30,195 | 853,627 | - | 1,685,537 | - |
| Income Before Contributions and Transfers | 3,354,879 | (48,279) | (161,472) | 127,410 | (3,868) | 3,268,670 | 576,896 |
| Capital contributions - Connection fees | 212,573 | 97,960 | - | - | - | 310,533 | - |
| Transfers in | - | - | - | - | - | - | 35,958 |
| Transfers out | (29,018) | (188,440) | (47,612) | (5,045) | - | (270,115) | - |
| Changes in Net Position | 3,538,434 | (138,759) | (209,084) | 122,365 | (3,868) | 3,309,088 | 612,854 |
| Total Net Position- Beginning | 49,123,010 | 43,613,645 | 2,483,891 | 6,319,003 | 18,632 | 101,558,181 | (1,236,043) |
| Total Net Position - Ending | 52,661,444 | 43,474,886 | 2,274,807 | 6,441,368 | 14,764 | 104,867,269 | (623,189) |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | Business-type Activities - Enterprise Funds | | | | | Governmental Activities - Internal Service Fund |
|--|--|-------------|-------------|-------------|-------------|--|
| | WATER | SEWER | SOLID WASTE | AIRPORT | FIBER OPTIC | TOTALS |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | | | |
| Receipts from customers and users | 15,930,383 | 12,494,211 | 12,633,800 | 2,382,851 | 42,619 | 43,483,864 |
| Receipts from interfund services provided | - | - | - | - | - | - |
| Payments to suppliers | (5,461,714) | (2,115,122) | (4,997,163) | (2,093,343) | (50,885) | (14,718,227) |
| Payments to employees | (4,320,232) | (5,879,887) | (4,309,053) | (963,457) | - | (15,472,629) |
| Payment for interfund services used | (1,167,416) | (2,540,939) | (1,173,518) | (303,246) | - | (5,185,119) |
| Net cash provided (used) by operating activities | 4,981,021 | 1,958,263 | 2,154,066 | (977,195) | (8,266) | 8,107,889 |
| CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES | | | | | | |
| Grant revenue | 44,480 | 452,415 | 5,148 | 245,772 | - | 747,815 |
| Transfers from (to) other funds | (29,018) | (188,440) | (47,612) | (5,045) | - | (270,115) |
| Net cash provided (used) by noncapital financing activities | 15,462 | 263,975 | (42,464) | 240,727 | - | (270,115) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | | | |
| Acquisition of capital assets | (730,305) | (1,256,252) | (1,047,079) | (263,452) | - | (3,297,088) |
| Connection fees | 212,573 | 97,960 | - | - | - | 310,533 |
| Principal paid on long term debt | - | - | (225,584) | - | - | (225,584) |
| Interest paid on long term debt | - | - | (17,412) | (79,203) | - | (96,615) |
| Net cash provided (used) by capital and related financing activities | (517,732) | (1,158,292) | (1,290,075) | (342,655) | - | (3,308,754) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | | |
| Lease revenue | - | - | - | 681,700 | - | 681,700 |
| Interest received | 105,390 | 199,430 | 42,170 | 5,358 | - | 352,348 |
| Net cash provided (used) by investment activities | 105,390 | 199,430 | 42,170 | 687,058 | - | 1,034,048 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 4,584,141 | 1,263,376 | 863,697 | (392,065) | (8,266) | 6,310,883 |
| CASH AND CASH EQUIVALENTS, JULY 1 | 4,869,022 | 9,953,418 | 6,616,736 | 833,944 | 96,668 | 22,273,120 |
| CASH AND CASH EQUIVALENTS, JUNE 30 | 9,453,163 | 11,216,794 | 7,480,433 | 441,879 | 88,402 | 28,680,671 |
| Reconciliation of Statement of Net Position: | | | | | | |
| Cash and investments | 9,453,163 | 9,622,157 | 7,421,293 | 441,879 | 88,402 | 27,026,894 |
| Cash with fiscal agent | - | - | 18,678 | - | - | 18,678 |
| Restricted cash | - | 1,594,637 | 40,462 | - | - | 1,635,099 |
| | 9,453,163 | 11,216,794 | 7,480,433 | 441,879 | 88,402 | 28,680,671 |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Operating Income (loss) | 3,205,009 | (700,124) | (191,667) | (726,217) | (3,868) | 1,583,133 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Depreciation | 1,621,496 | 1,272,246 | 648,588 | 306,924 | 35,346 | 3,884,600 |
| (Increase) decrease in receivables | 227,706 | 88,658 | 27,980 | (16,780) | (39,744) | 287,820 |
| (Increase) decrease in inventories | (119,935) | - | (1,865) | 26,235 | - | (95,565) |
| (Increase) decrease in loans receivable | - | 71,543 | - | - | - | 71,543 |
| (Increase) decrease in due from other governments | - | 103,891 | (4,750) | (235,772) | - | (136,631) |
| (Increase) decrease in advance receivable | (110,586) | 168,112 | 61,349 | (360,908) | - | (242,033) |
| (Increase) decrease in deferred outflows | (91,810) | (787,723) | (88,535) | (40,812) | - | (1,008,880) |
| Increase (decrease) in pension liability | 700,783 | 1,977,212 | 1,444,873 | 214,699 | - | 4,337,567 |
| Increase (decrease) in accounts payable | (45,558) | (656,416) | 781,165 | (66,156) | - | 13,035 |
| Increase (decrease) in claims payable | - | - | - | - | - | - |
| Increase (decrease) in accrued personnel costs | (146,459) | (24,759) | 2,875 | 9,750 | - | (158,593) |
| Increase (decrease) in retentions payable | - | 76,975 | (15,571) | 6,835 | - | 68,239 |
| Increase (decrease) in loans payable | - | 452,415 | - | - | - | 452,415 |
| Increase (decrease) in unearned revenue | (2,372) | 67,647 | - | (14,760) | - | 50,515 |
| Increase (decrease) in customer deposits | 22,491 | - | 14,011 | - | - | 36,502 |
| Increase (decrease) in post retirement | 53,591 | 71,602 | 25,794 | 15,151 | - | 166,138 |
| Increase (decrease) in deferred inflows | (333,335) | (223,016) | (550,181) | (95,384) | - | (1,201,916) |
| Total adjustments | 1,776,012 | 2,658,387 | 2,345,733 | (250,978) | (4,398) | 6,524,756 |
| Net cash provided (used) by operating activities | 4,981,021 | 1,958,263 | 2,154,066 | (977,195) | (8,266) | 8,107,889 |
| NONCASH INVESTING ACTIVITIES: | | | | | | |
| Landfill postclosure liability amortization | - | - | \$154,583 | - | - | \$154,583 |
| Landfill usage amortization | - | - | \$50,830 | - | - | \$50,830 |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
SUCCESSION AGENCY PRIVATE PURPOSE TRUST FUND
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

| | |
|--|--------------------|
| ASSETS | \$ |
| Cash and Investments with Fiscal Agent | 1,718,750 |
| Restricted Cash | 5,007,051 |
| Receivables | |
| Notes | 353,431 |
| Total Assets | <u>7,079,232</u> |
| DEFERRED OUTFLOW OF RECOURSES | |
| Deferred Loss on Refunding | 232,058 |
| Total Deferred Outflow of Resources | <u>232,058</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | 5,023 |
| Salaries Payable | 1,311 |
| Interest Payable | 368,424 |
| Debt Payable | 56,260 |
| Notes Payable | 908,561 |
| Refunding Bonds Payable | 1,195,000 |
| Total Current Liabilities | <u>2,534,579</u> |
| Noncurrent liabilities: | |
| Net OPEB Liability | 64,461 |
| Notes Payable | 2,273,992 |
| Refunding Bonds Payable | 12,083,689 |
| Total Non Current liabilities | <u>14,422,142</u> |
| Total Liabilities | <u>16,956,721</u> |
| Net Position | |
| Unrestricted | (9,645,431) |
| Total Net Position | <u>(9,645,431)</u> |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 SUCCESSOR AGENCY PRIVATE PURPOSE TRUST FUND
 STATEMENT OF CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | |
|-----------------------------|---------------------------|
| ADDITIONS: | \$ |
| Intergovernment | 3,188,124 |
| Amortization | <u>87,830</u> |
| Total Additions | <u>3,275,954</u> |
| DEDUCTIONS: | |
| Administration | 102,406 |
| Interest | <u>502,076</u> |
| Total Deductions | <u>604,482</u> |
| Change in Net Position | 2,671,472 |
| Net Position, July 1, 2017 | <u>(12,316,903)</u> |
| Net Position, June 30, 2018 | <u><u>(9,645,431)</u></u> |

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting entity

The City of Watsonville, California was incorporated in 1868 as a charter city and operates under the Council-Manager form of government. The City provides the following services: public safety (police, fire and building inspections), highway and streets, water, sewer and solid waste services, airport, public improvements, planning and zoning, housing and general administration.

B. Government-wide and fund financial statements

The Government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government except for the Fiduciary fund type – Private Purpose Trust Fund. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among programs revenues are reported instead as general revenues. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and special purpose trust fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the government, except those required to be accounted for in another fund.

The Impact Fees Fund is assessed at the time of development and is used to mitigate certain increased costs incurred by the government as development occurs. These funds are then used to increase the capacity of roads, build fire stations, public safety equipment, or other governmental facilities. The receipt and disbursement of these fees are recorded in this fund.

The Housing Fund is used for low and moderate-income housing projects. The fund is funded by old 20% RDA housing loans monthly payments and with loan payoffs.

The Redevelopment and Housing Grants Fund provides assistance to low and moderate-income individuals via grants. These grants offer a number of housing programs to help low to moderate income Watsonville residents improve their housing condition.

The General Debt Service Fund receives funds for the payment of governmental debt of the government.

The government reports the following major proprietary funds:

The Water Fund records the receipts of revenues for water services and records the associated expenses or capital investment. The water service provides water to Watsonville and the surrounding communities, which has a service population of approximately 50,000.

The Sewer Fund records the activity of the government's wastewater treatment plant and collection system. The fund also provides waste treatment services to other local sanitary districts, namely Freedom, Salsipuedes, and Pajaro Utility Districts. Thus, the wastewater plant services some 55,000 residents.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

The Solid Waste Fund records the activities of refuse collection, recycling, and landfill operations. The landfill is located near the County landfill and is used only by the citizens of the City of Watsonville.

The Airport Fund represents the activities at the airport and the receipts of Federal Aviation Agency (FAA) grants. The fund is to be supported by the fees the airport collects from fuel sales and facility use fees. The FAA provides substantial grant income for general airport improvements.

The Fiber Optic Fund records the activities of the City's new fiber optic system installed. The fund receives payments for use of the system.

Additionally, the government reports the following fund types:

The Internal Service Fund is used to account for financing of insurance services (workers compensation, general liability and health benefits) provided to other government funds and departments on a cost reimbursement basis.

The Private Purpose Trust Fund is used to account for the transactions of the Successor Agency of the City of Watsonville Redevelopment Agency.

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water, sewer, and solid waste functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various foundations concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds principal ongoing operations. The principal operating revenues of the government's enterprise funds and of the government's internal service fund are charges to customers for sales and services. The government also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources, as they are needed.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

of Certified Public Accountants, require management to make assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts for revenues and expenses/expenditures.

D. Assets, liabilities, and net position or fund balance

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in the following types of investments:

- Securities of the US Government, or its agencies
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan institutions like institutions such as credit unions
- Local Agency Investment Fund (State Pool)
- Repurchase agreements (repos) for a term of one year or less
- Passbook Savings Account Demand Deposits
- Debt of the City of Watsonville
- Negotiable Certificates of Deposits
- Bankers' Acceptances

Investments for the government are reported at fair value. The State Treasurers Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The government has funds held by trustees or fiscal agents pledged to the payment or security of certain bonds and certificates of participation. The California Government Code provides that these funds, in absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments the trustees or fiscal agent may make.

Cash and cash equivalents

The cash flow statements require presentation of "cash and cash equivalents". For the purposes of the statement of cash flows, the government considers all proprietary funds pooled cash and investments and cash and investments with fiscal agent as "cash and cash equivalents".

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

business-type activities are reported in the government-wide financial statements as “internal balances.”

Property taxes are levied and collected by the County of Santa Cruz and paid upon collection to the various taxing entities including the City. Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. Unsecured taxes are due on July 1 and become delinquent on August 31. The City recognizes property tax revenues when they become measurable and available for the payment of claims in the current period.

3. Inventories

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

4. Land held for resale

Land held for resale is carried at the lower of cost or estimated realizable value.

5. Capital assets

Capital assets, which include property, plant and equipment, and infrastructure, (e.g., bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems), and construction in progress are recorded in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession agreement are valued at their estimated acquisition value on the date donated.

The costs for normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-------------------------|----------------|
| Infrastructure | 20 to 50 years |
| Buildings | 20 to 50 years |
| Improvements | 20 to 50 years |
| Machinery and Equipment | 3 to 10 years |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

6. Compensated absences

It is the government's policy to allow most employee groups to accumulate sick leave to a maximum of 1,000 hours. Sick leave accumulated above this maximum is paid to employees at 50% of such excess in December. The balance of such unused sick leave is lost and the sick leave accrual is reduced to 1,000 hours at January 1 of each year. Earned vacation time is accumulated up to two times the employee's annual accrual rate and unused vacation is paid at the employee's hourly rate upon termination.

The maximum accumulation, for fire-fighters on shift duty, of unused sick leave is 62.5 days (1,500 hours). Sick leave accumulation in any calendar year in excess of 1,500 hours shall be paid at the rate of 50% of such excess. The balance of such unused sick leave is lost and the sick leave accrual is reduced to 1,500 hours at January 1 of each year.

The City accrues for compensated absences in the government-wide and proprietary fund financial statements for which they are liable to make payment directly. The General fund, Inclusionary Housing fund, and all four of the five Enterprise funds incurred costs associated with compensated absences during the last fiscal year.

7. Interfund transactions

A description of the basic two types of the City's interfund transactions during the fiscal year and the related accounting policies are set forth as follows:

1. Transactions related directly to services rendered, or facilities provided, are recorded as revenues in the fund providing the service or facility and expenditures (or expenses) in the fund receiving them.
2. Transactions to allocate resources from one fund to another, not contingent on the occurrence of specific expenditures in the receiving fund, are recorded appropriately as transfers in and transfers out in the respective funds.

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

9. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,”* and GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities,”* the City recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The City has one item which qualifies for reporting; see Note V.E. for a detailed listing of the deferred outflows. In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the City that is applicable to a future reporting period. The City has one item which qualifies for reporting in this category; refer to Note V. E. for a detailed listing of the pension related deferred inflows of resources the City has recognized.

10. Fund balances

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the City’s governing board (ordinance). Committed amounts cannot be used for any purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purpose with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent maybe stipulated by the government board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purpose in accordance with the nature of their type or the fund’s primary purpose. An assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the City.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

funds might report a negative balance in this classification because of commitments made, which include future funding sources for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned or unassigned fund balance are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

11. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is *net investment in capital assets* consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. *Restricted net position* is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. *Unrestricted net position* consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

II. Stewardship, compliance, and accountability

A. Budgetary information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at fiscal year-end.

On or before March 31 of each fiscal year, all departments of the City of Watsonville are required to submit requests for appropriations to the government's management so that a budget may be prepared. Before May 31 the proposed budget is presented to the government's council for review. The council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, department, and division. The government department heads may make transfers of appropriations within a department. Transfers of appropriations between funds require the approval of the City Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The council made several supplemental budget appropriations during the fiscal year. The general fund budget was increased by \$1,347,857 during the fiscal year. The large portion of this was within the mid-year budget review for \$667,000. The remainders of the increase were grants that increased all four General Fund divisions. City also increased non major special revenue funds appropriations by \$917,050 during the year. The mid-year adjustment was for \$845,000 and the rest were grant increases.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at fiscal year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent fiscal year. Encumbrances were as follow at fiscal year-end: General Fund – \$1,100,122, Impact Fee Fund - \$111,861, Housing Fund - \$102,557, Redevelopment and Housing Grants Fund - \$22,082 and Other Governmental Funds - \$1,303,576.

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2018, expenditures exceeded appropriations in the following funds: Debt Service Fund by (\$880) and Retirement Tax Special Revenue Fund by (\$4,181). Both funds had excess fund balance to cover these costs.

C. Deficit fund equity

These special revenue funds had the following deficit fund balances: Redevelopment and Housing Fund by (\$146,705), Parking Garage Fund of (\$581,480), and Abandoned Vehicle Fund of (\$6,778). The Internal Service Fund had a deficit net position of (\$623,189) as of June 30, 2018. The special revenue funds will make these deficits up with future special revenue funds and the internal service fund will increase its charges to City users in the future.

III. Detailed notes on all funds

A. Cash and investments

Cash and investments at June 30, 2018, consisted of the following:

| | |
|--|---------------------|
| Total Pooled Deposits and Investments | \$71,172,844 |
| Cash and Investments with Fiscal Agent | <u>1,737,428</u> |
| Total Cash and Investments | <u>\$72,910,272</u> |

The City of Watsonville follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures and restricted cash.

Interest income earned on pooled cash and investments is allocated periodically to the various funds based on average cash balances. Interest income from cash and investments with fiscal agents and restricted cash is credited directly to the related fund.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

Cash and investments (including monies held by trustees and fiscal agents) as of June 30, 2018 were as follows:

Cash:

| | | |
|---------------------|----------------|-------------|
| Demand Deposits | \$ 7,448,241 | |
| Outstanding Checks | (1,612,622) | |
| Deposits in Transit | <u>351,412</u> | |
| Net Demand Deposits | 6,187,033 | |
| Petty Cash | <u>12,336</u> | |
| Cash Subtotal | | \$6,199,367 |

Investments:

| | | |
|---------------------------------|-------------------|---------------------|
| Assessment Bonds | 98,000 | |
| Guaranteed Investment Contracts | 1,737,428 | |
| Local Agency Investment Fund | <u>64,875,477</u> | |
| Investment Subtotal | | <u>66,710,905</u> |
| Total Cash and Investments | | <u>\$72,910,272</u> |

The disposition of these monies by major governmental funds business type activities and private purpose trust fund was as follows:

Governmental Funds:

| | |
|--------------------------------|-------------------|
| General | \$13,935,574 |
| Impact Fees | 5,027,663 |
| Housing Fund | 2,354,075 |
| Redevelopment & Housing Grants | 1,820,671 |
| Debt Service | 121,185 |
| Other Non-major Funds | <u>11,420,040</u> |
| | <u>34,679,208</u> |

Business-type Activities:

| | |
|--------------------------------|-------------------|
| Water | 9,453,163 |
| Sewer | 11,216,794 |
| Solid Waste | 7,480,433 |
| Airport | 441,879 |
| Fiber Optic | <u>88,402</u> |
| Total Business-type Activities | <u>28,680,671</u> |
| Internal Service Fund | <u>2,824,592</u> |
| Total Internal Service Fund | <u>2,824,592</u> |

| | |
|---------------------------------------|---------------------|
| Private Purpose Trust Fund | <u>6,725,801</u> |
| Total Private Purpose Trust Fund | <u>6,725,801</u> |
| Total Government Cash and Investments | <u>\$72,910,272</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

The City of Watsonville categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City of Watsonville has the following fair value measurements as of June 30, 2018:

| | | <u>Fair Value Measurement Using</u> | | |
|--|---------------------|---|---|--|
| | | Quoted Prices In Active Market For Identical <u>Assets</u> | Significant Other Observable <u>Inputs</u> | Significant Unobservable <u>Inputs</u> |
| <u>Investment by fair value level</u> | <u>Total</u> | <u>(Level 1)</u> | <u>(Level 2)</u> | <u>(Level 3)</u> |
| Assessment Bonds | \$98,000 | \$98,000 | \$ - | \$ - |
| Investments measured at amortized cost: | | | | |
| Guaranteed Investments | | | | |
| Contracts | 1,737,428 | | | |
| State Investment | | | | |
| Pool | <u>64,875,477</u> | | | |
| Total Investment | <u>\$66,710,905</u> | <u>\$98,000</u> | <u>\$ -</u> | <u>\$ -</u> |

POOLED DEPOSITS/CREDIT RISK:

The California Government Code requires California banks and savings and loan associations to secure a government's deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of a government's deposits. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the government's total deposit.

The government may waive collateral requirements for deposits, which are fully insured up to \$250,000 by federal depository insurance.

At June 30, 2018, the government carrying amount of deposits and cash on hand was \$6,199,367 and bank balances were \$7,448,241. Bank balances in excess of the FDIC insurance limitations are fully collateralized by the Bank by pledging identified U.S. Government securities.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

Investments Authorized by the California Government Code and the City's Investment Policy

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage Of * Portfolio</u> | <u>Maximum Investment In One Issuer</u> |
|---------------------------------------|-----------------------------|--|---|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Passbook Savings Acct Demand Deposit | N/A | None | None |
| Medium-Term Notes | 5 years | 30% | None |
| Debt of City of Watsonville | N/A | None | None |
| Money Market Mutual Funds | N/A | 20% | 10% |
| Local Agency Investment Fund (LAIF) | N/A | None | 65,000,000 |

*Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage Of * Portfolio</u> | <u>Maximum Investment In One Issuer</u> |
|---------------------------------------|-----------------------------|--|---|
| U.S. Treasury Obligations | None | None | None |
| U.S. Agency Securities | None | None | None |
| Banker's Acceptances | 180 days | None | None |
| Commercial Paper | 270 days | None | None |
| Money Market Mutual Funds | N/A | None | None |
| Investment Contracts | 30 years | None | None |

Disclosures Relating to Interest Rate Risk

| | | <u>Remaining Maturity (in Months)</u> | | | |
|-----------------------------|---------------------|---------------------------------------|----------------------------|-------------------------|--------------------------------|
| <u>Investment Type</u> | | <u>12 Months Or Less</u> | <u>13 to 24 Months</u> | <u>25-60 Months</u> | <u>More Than 60 Months</u> |
| State Investment Pool | \$64,875,477 | \$64,875,477 | \$ - | \$ - | \$ - |
| Debt of City of Watsonville | 98,000 | - | 49,000 | 49,000 | - |
| Guaranteed Inv. Contracts | <u>1,737,428</u> | - | - | - | <u>1,737,428</u> |
| Total | <u>\$66,710,905</u> | <u>\$64,785,477</u> | <u>\$49,000</u> | <u>\$49,000</u> | <u>\$1,737,428</u> |

Disclosures Relating to Credit Risk

| <u>Investment Type</u> | | <u>Minimum Legal Rating</u> | <u>Exempt From Disclosure</u> | <u>Rating as of Fiscal Year End</u> <u>AAA</u> | <u>Not Rated</u> |
|-----------------------------|---------------------|-------------------------------------|---------------------------------------|---|----------------------|
| State Investment Pool | \$ 64,875,477 | N/A | \$ - | \$ - | \$ 64,875,477 |
| Debt of City of Watsonville | 98,000 | N/A | - | - | 98,000 |
| Guaranteed Inv. Contracts | <u>1,737,428</u> | N/A | - | <u>1,737,428</u> | - |
| Total | <u>\$66,710,905</u> | | <u>\$ -</u> | <u>\$1,737,428</u> | <u>\$64,973,477</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

(1) The management of the State of California Pooled Money Investment Account (generally referred to as LAIF) has indicated to the government that as of June 30, 2018 the amortized cost value of the pool was \$88,964,875,827 and the estimated fair value of the pool was \$88,798,232,977. The reported value of the government's portion of LAIF is the same value as the fair value of LAIF shares. LAIF's (and the government's) exposure to risk (credit, market or legal) is not currently available. The State's Local Agency Investment Fund (LAIF) operates in accordance with appropriate state laws and regulations.

The government has funds held by trustees or fiscal agents pledged to the payment or security of certain bonds and certificates of participation. The California Government Code provides that these funds, in absence of specific statutory provisions governing the issuance of bonds or certificates, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments the trustees or fiscal agent may make.

B. Receivables

Unearned Revenue

Governmental funds report unearned revenue in connection with revenue recognition where resources have been received, but not yet earned or resources have not been received but have been earned. At the end of the current fiscal year, the various components of unearned revenue reported in the governmental funds are as follows:

| | <u>Unearned</u> |
|--|-------------------------|
| | \$ |
| Grants drawdowns prior to meeting availability requirements: | |
| General Fund | 530,985 |
| Redevelopment and Housing Fund | <u>752,970</u> |
| Total unearned revenue | <u><u>1,283,955</u></u> |

Loans Receivable

Loans receivable at June 30, 2018 are summarized as follows:

General Fund:

| | | |
|---------------------|------------------|-----------|
| Barbara Schutter | \$3,750 | |
| State of California | 75,136 | |
| Successor Agency | <u>3,146,803</u> | 3,225,689 |

Housing Fund:

| | |
|-----------------------------------|-----------|
| Pajaro Valley Affordable | |
| Housing Corporation | 350,186 |
| Pajaro Valley Housing Corporation | 512,000 |
| Barry Swenson | 346,741 |
| Pacific Terrace Assoc. | 225,000 |
| Mid Peninsula Pippin Associates | 1,000,000 |
| MP Transit Center Associates | 1,159,535 |
| South County Land Corporation | 584,946 |
| Evergreen Apartments | 1,000,000 |
| Down Payment Assistant Loans | 2,158,891 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

| | | |
|----------------------------------|----------------|---------------------|
| First Time Home Buyers | 20,000 | |
| Sunny Meadows | 2,250,784 | |
| Watsonville Pacific Associates | 1,200,000 | |
| Rental Rehab Loans | <u>912,935</u> | 11,751,018 |
| Redevelopment and Housing Funds: | | |
| Rental Rehab Loans | 4,426,159 | |
| Monarch Disabled Housing | 100,280 | |
| Eden Housing | 2,573,000 | |
| First Time Home Buyers | 6,104,984 | |
| Down Payment Assistant Loans | <u>30,000</u> | 13,234,423 |
| Other Governmental Funds | <u>751,066</u> | <u>751,066</u> |
| Total | | <u>\$28,962,196</u> |

Proprietary Funds:

Sewer Fund:

| | | |
|------------------------------|----------------|------------------|
| Pajaro Dunes (North) Project | \$203,470 | |
| Pajaro Dunes (South) Project | <u>531,615</u> | <u>735,085</u> |
| Total | | <u>\$735,085</u> |

C. Capital assets

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

Governmental activities:

| Capital Assets, not being depreciated: | Beginning Balance | Additions | Deletions | Reclass | Ending Balance |
|---|----------------------|-------------|-----------|-------------|----------------|
| | \$ | \$ | \$ | \$ | \$ |
| Land and Improvements | 13,970,752 | - | - | - | 13,970,752 |
| Construction in Progress | 5,214,402 | 256,338 | - | (1,225,161) | 5,470,740 |
| Total Capital Assets not depreciated | 19,185,154 | 256,338 | - | (1,225,161) | 19,441,492 |
| Capital Assets, being depreciated: | | | | | |
| Building and Improvements | 134,522,840 | 312,626 | - | 136,525 | 134,971,991 |
| Machinery and Equipment | 13,443,214 | 577,456 | (264,745) | - | 13,755,925 |
| Infrastructure | 29,538,372 | 32,860 | - | 1,088,636 | 30,659,868 |
| Total Capital Assets being depreciated | 177,504,426 | 922,942 | (264,745) | 1,225,161 | 179,387,784 |
| Less accumulated depreciation for: | | | | | |
| Buildings and Improvements | (48,260,584) | (3,832,872) | - | - | (52,093,456) |
| Machinery and Equipment | (9,833,540) | (349,781) | 264,745 | - | (9,918,576) |
| Infrastructure | (23,520,275) | (586,089) | - | - | (24,106,364) |
| Total Accumulated depreciation | (81,614,399) | (4,768,742) | 264,745 | - | (86,118,396) |
| Total Capital Assets being depreciated, net | 95,890,027 | (3,845,800) | - | - | 93,269,388 |
| Governmental activities, Capital Assets, net | 115,075,181 | (3,589,462) | - | - | 112,710,880 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

Business Type activities:

| Capital Assets, not being depreciated: | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|-------------|-----------|----------------|
| | \$ | \$ | \$ | \$ |
| Land and Improvements | 18,203,603 | 311,432 | - | 18,515,035 |
| Construction in Progress | 4,823,373 | 1,151,325 | - | 5,974,698 |
| Total Capital Assets not depreciated | 23,026,976 | 1,462,757 | - | 24,489,733 |
| Capital Assets, being depreciated: | | | | |
| Building and Improvements | 88,574,141 | 90,792 | - | 88,664,933 |
| Machinery and Equipment | 19,919,471 | 983,203 | (27,836) | 20,874,838 |
| Infrastructure | 55,810,874 | 758,016 | - | 56,568,890 |
| Total Capital Assets being depreciated | 164,304,486 | 1,832,011 | (27,836) | 166,108,661 |
| Less accumulated depreciation for: | | | | |
| Buildings and Improvements | (35,410,541) | (2,191,703) | - | (37,602,244) |
| Machinery and Equipment | (16,012,812) | (864,431) | 27,836 | (16,849,407) |
| Infrastructure | (39,251,369) | (828,466) | - | (40,079,835) |
| Total Accumulated depreciation | (90,674,722) | (3,884,600) | 27,836 | (94,531,486) |
| Total Capital Assets being depreciated, net | 73,629,764 | (2,052,589) | - | 71,577,175 |
| Business Type activities, Capital Assets, net | 96,656,740 | (589,832) | - | 96,066,908 |

Depreciation expenses were charged to functions/programs of the primary government as follows:

Government activities:

| | |
|--|--------------------|
| General government | \$845,572 |
| Public safety | 2,579,701 |
| Highways and streets | 589,087 |
| Culture and recreation | 754,382 |
| Total depreciation expense - governmental activities | <u>\$4,768,742</u> |

Business-type activities:

| | |
|---|--------------------|
| Water | \$1,621,496 |
| Sewer | 1,272,246 |
| Solid waste | 648,588 |
| Airport | 306,924 |
| Fiber optic | 35,346 |
| Total depreciation expense - business-type activities | <u>\$3,884,600</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

D. Interfund receivables, payables, and transfers

The composition of interfund activities as of June 30, 2018, is as follows:

Due from/to other funds

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. Due from/to other funds balances at June 30, 2018 were as follows:

| | <u>Due from other funds</u> | <u>Due to other funds</u> |
|----------------------------|---------------------------------|-------------------------------|
| Governmental Funds: | \$ | \$ |
| General | 1,053,310 | - |
| Nonmajor Funds | - | <u>603,311</u> |
| Total Governmental Funds | <u>1,053,310</u> | <u>603,311</u> |
| Enterprise Fund: | | |
| Airport | - | <u>450,000</u> |
| Total Enterprise Fund | - | <u>450,000</u> |
| Total Government | <u>1,053,310</u> | <u>1,053,310</u> |

The General fund covered the current cash shortfall for other non-major special revenue funds and enterprise funds.

Advances receivable/payable

Long-term interfund balances arise in the normal course of business and are not expected to be repaid during the next fiscal year. Advances receivable/payable funds balances at June 30, 2018 were as follows:

| | <u>Advances Receivable</u> | <u>Advances Payable</u> |
|----------------------------|--------------------------------|-----------------------------|
| Governmental Funds: | \$ | \$ |
| General | 2,562,993 | 5,574,351 |
| Impact Fees | 356,904 | - |
| Nonmajor Funds | <u>537,927</u> | - |
| Total Governmental Funds | <u>3,457,824</u> | <u>5,574,351</u> |
| Enterprise Funds: | | |
| Water | 4,022,240 | - |
| Sewer | 977,372 | - |
| Solid Waste | 263,698 | - |
| Airport | 21,465 | 2,461,319 |
| Fiber Optic | - | <u>706,929</u> |
| Total Enterprise Funds | <u>5,284,775</u> | <u>3,168,248</u> |
| Total Government | <u>8,742,599</u> | <u>8,745,599</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

With Council approval, resources may be transferred from one City fund to another. The government made various interfund transfers as follows:

| | Transfers In | | | | | Total |
|---|---------------------|----------------|---------------------|-----------------|---------------------|------------------|
| | General | Housing | Debt | Nonmajor | Internal | Transfer |
| Transfer Out | Fund | Fund | Service Fund | Funds | Service Fund | Out |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| General Fund | - | 56,061 | 123,054 | 53,483 | 24,292 | 256,890 |
| Impact Fee Fund | - | - | 23,354 | - | - | 23,354 |
| Redevelopment & Housing Fund | 147,966 | - | 142,220 | - | - | 290,186 |
| Nonmajor Funds | 2,632,188 | - | 27,843 | 59,488 | - | 2,719,519 |
| Water Fund | - | 71,559 | 20,593 | 5,056 | - | 97,208 |
| Sewer Fund | - | - | 152,636 | 5,056 | 5,713 | 163,405 |
| Airport Fund | - | - | - | 5,056 | - | 5,056 |
| Solid Waste Fund | - | - | 31,452 | 5,056 | 5,953 | 42,461 |
| Total Transfer In | <u>2,780,154</u> | <u>127,620</u> | <u>521,152</u> | <u>133,195</u> | <u>35,958</u> | <u>3,598,079</u> |

The government approved various interfund transfers within its budget for various reimbursements such as the transfer from the Retirement Fund to the General Fund for reimbursement of General Fund employee's retirement costs, the transfer from the CDBG Fund to the General Fund for the reimbursement of qualified recreations staff costs and reimbursement of debt payments to the Debt Service Fund. The General Fund also transferred 20% of its reimbursement from the Successor Agency to the Successor Agency Housing Fund as required by state law.

E. Leases

Operating lease

The government has entered into a non-cancellable operating lease for 911 and public safety dispatching services with Santa Cruz Consolidated Emergency Communications Center. Total cost for the lease was \$50,840 for the fiscal year ended June 30, 2018. The future minimum lease payments as of June 30, 2018 are as follows:

| Fiscal | |
|--------------------|---------------|
| Year Ending | |
| June 30, | Amount |
| | \$ |
| 2019 | 50,301 |
| 2020 | 50,384 |
| 2021 | 50,406 |
| 2022 | 50,331 |
| 2023 | 50,155 |
| 2024 | 50,755 |
| 2025 | 50,363 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

| | |
|-------|----------------|
| 2026 | 50,778 |
| 2027 | 50,193 |
| 2028 | 50,410 |
| 2029 | 50,546 |
| 2030 | 50,556 |
| 2031 | 50,435 |
| 2032 | 50,126 |
| 2033 | 50,611 |
| 2034 | <u>50,964</u> |
| Total | <u>807,314</u> |

F. Long-term debt

The government's long-term debt obligations are repaid by the following funds: Revenue Bonds from the Solid Waste Enterprise Fund; Capital Leases; the Airport Enterprise Fund; and the City's Debt Service Fund.

Revenue bonds

Revenue bonds constitute special obligations of the government solely secured by a lien on and pledge of the net revenues of the solid waste system. The revenue bonds are collateralized by the revenue of the solid waste system and the various special funds established by the bond ordinances. There is no defeased debt outstanding at June 30, 2018.

Solid Waste Revenue Refunding Bonds Series 2009 - On September 25, 2009, the government issued \$5,444,243 in Solid Waste Refunding Bonds with interest rates ranging from 4.1% to 4.3%. to refund \$2,345,000 of outstanding 1998 Solid Waste Revenue Bonds with interest rates ranging from 4.625% to 5.05%, \$2,075,000 of outstanding 1996 Solid Waste Revenue Bonds with interest rates ranging from 5.3% to 5.5% and to purchase land for \$1,988,518.

Revenue bonds payable at June 30, 2018 consist of the following individual issues:

| | <u>Amount</u> |
|---|----------------|
| | \$ |
| \$5,444,243, 2009 solid waste revenue refunding bonds due in annual principal installments ranging from \$216,188 to \$754,883 through May 2019, interest rate ranges from 4.1% to 4.3% | <u>235,388</u> |
| Total Revenue Bonds | <u>235,388</u> |

The respective amount due from each of the revenue bonds, with the applied interest is as follows on the next page:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

2009 Solid Waste Revenue Refunding Bonds

| <u>Fiscal</u> <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|------------------------------|------------------|-----------------|---------------------|
| | \$ | \$ | \$ |
| 2019 | <u>235,388</u> | <u>7,618</u> | <u>243,006</u> |
| Total | <u>235,388</u> | <u>7,618</u> | <u>243,006</u> |

Limited obligation bonds

Limited obligation bonds consist of bonds issued for improvements in special assessment districts and are secured by liens against the assessed property. The government has agreed to establish certain reserve funds and to act as agent for property owners with respect to payment of debt service. In the event of delinquency, however, the government is not obligated to retire bonds from available funds or to bring legal action against property holders.

Due to Governmental Accounting Standards Board Statement No. 6, the City must include its assessment bonds payable within the Government-wide Statements. However, the City of Watsonville has incurred no financial liability due to Assessment District Bonds. In the case of default, the government has authority to foreclose on the delinquent account.

Limited obligation bonds payable at June 30, 2018 consist of the following:

| | <u>Amount</u> |
|--|---------------|
| | \$ |
| \$738,448 Atkins Lane assessment district bonds due in annual principal installments ranging from \$944 to \$4,000 through September 2020, interest rate is 6.0%. | <u>98,000</u> |
| Total limited obligation bonds payable at June 30, 2018 | <u>98,000</u> |

The annual requirements to repay all limited obligation bonds outstanding as of June 30, 2018 are:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|--------------------|------------------|-----------------|---------------------|
| | \$ | \$ | \$ |
| 2019 | 49,000 | 6,370 | 55,370 |
| 2020 | <u>49,000</u> | <u>3,185</u> | <u>52,185</u> |
| Total | <u>98,000</u> | <u>9,555</u> | <u>107,555</u> |

Debt payable

On April 13, 2012, the government entered into a commercial term loan with Santa Cruz County Bank to finance the cost of installing solar panels through the City of Watsonville. The total amount for which the government is obligated under the loan was \$3,014,285. Installation of the solar panels was completed in the 2012/13 fiscal year.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

Interest rate for the loan is 5.29% with principal payments ranging from \$167,522 to \$282,376 through fiscal year 2027.

The annual requirements to amortize the loan outstanding as of June 30, 2018 is as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|--------------------|------------------|-----------------|---------------------|
| | \$ | \$ | \$ |
| 2019 | 185,962 | 107,666 | 293,628 |
| 2020 | 195,929 | 97,699 | 293,628 |
| 2021 | 206,431 | 87,197 | 293,628 |
| 2022 | 217,495 | 76,133 | 293,628 |
| 2023 | 229,153 | 64,475 | 293,628 |
| 2024 | 241,436 | 52,192 | 293,628 |
| 2025 | 254,377 | 39,251 | 293,628 |
| 2026 | 268,011 | 25,617 | 293,628 |
| 2027 | <u>282,376</u> | <u>11,252</u> | <u>293,628</u> |
| Total | <u>2,081,170</u> | <u>561,482</u> | <u>2,642,652</u> |

Notes payable

Section 108 Loan Payable –

The government entered into contract with the Secretary of U.S. Department of Housing and Urban Development. The contract is for loan guarantee assistance under Section 108 of the Housing and Community Development Act of 1974, as amended, 42 U.S.C. #5308. The promissory note, in the amount of \$2,530,000, is for the Downtown Parking Garage Project. The note is to be repaid with future Community Development Block Grant funds over a period of twenty years at an interest rate of 1.26%.

The annual requirements to amortize the Section 108 note outstanding as of June 30, 2018 is as follows:

| | | | |
|------------------|------------------|-----------------|---------------------|
| Maturity Date | | | |
| <u>August 1</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
| | \$ | \$ | \$ |
| 2018 | 126,000 | 22,771 | 148,771 |
| 2019 | 133,000 | 20,683 | 153,683 |
| 2020 | 140,000 | 18,047 | 158,047 |
| 2021 | 147,000 | 14,934 | 161,934 |
| 2022 | 155,000 | 11,308 | 166,308 |
| 2023 | 163,000 | 2,902 | 165,902 |
| 2024 | <u>170,000</u> | <u>2,423</u> | <u>172,423</u> |
| Total | <u>1,034,000</u> | <u>93,067</u> | <u>1,127,067</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

PG&E Loans

The City entered into several agreements with Pacific Gas & Electric Company (PG&E) to retrofit City lighting with qualified energy saving lights throughout the City. The notes are to be repaid with future energy savings over various periods at interest rates of 0%.

The annual requirements to repay the PG&E note outstanding as of June 30, 2018 are as follows:

Street Lights:

| <u>Fiscal Year</u> | <u>Principal</u> |
|--------------------|------------------|
| | \$ |
| 2019 | 30,298 |
| 2020 | 30,298 |
| 2021 | <u>15,149</u> |
| Total | <u>75,745</u> |

Beach Street Parking Garage Lights:

| <u>Fiscal Year</u> | <u>Principal</u> |
|--------------------|------------------|
| | \$ |
| 2019 | 6,825 |
| 2020 | <u>5,119</u> |
| Total | <u>11,944</u> |

City Buildings Lights:

| <u>Fiscal Year</u> | <u>Principal</u> |
|--------------------|------------------|
| | \$ |
| 2019 | 10,555 |
| 2020 | 10,555 |
| 2021 | 10,555 |
| 2022 | <u>8,795</u> |
| Total | <u>40,460</u> |

Waste Water System Lights:

| <u>Fiscal Year</u> | <u>Principal</u> |
|--------------------|------------------|
| | \$ |
| 2019 | 10,555 |
| 2020 | 10,555 |
| 2021 | 10,555 |
| 2022 | 10,555 |
| 2023 | <u>7,036</u> |
| Total | <u>49,256</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

State Water Resources Control Board Loan

On December 18, 2015 the city entered into an agreement with California State Water Resources Control Board for a Clean Water State Revolving Fund loan to finance the Manana Lanes Sewer project. The authorized amount of the loan is \$1,486,610. Interest rate for the 20 year loan is 1.6% with principal payments ranging from \$35,749 to \$74,392. As of 6/30/2018 only \$872,505 of the loan has been drawn down by the City. The loan repayment will start after the loan has been completed.

State of California Energy Commission

The City entered into an agreement with State of California Energy Commission to retrofit the City's owned street lights with qualified energy saving lights. The note is to be repaid with future energy savings over a period of eight years at an interest rate of 3%.

The annual requirements to amortize the State of California Energy Commission note outstanding as of June 30, 2018 are as on the following page:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|--------------------|------------------|-----------------|---------------------|
| | \$ | \$ | \$ |
| 2019 | 63,505 | 4,400 | 67,905 |
| 2020 | 65,420 | 2,486 | 67,906 |
| 2021 | <u>33,450</u> | <u>503</u> | <u>33,950</u> |
| Total | <u>162,375</u> | <u>7,389</u> | <u>169,764</u> |

Municipal landfill closure and post-closure liability and requirements

The government operates a landfill solely for the disposal of Watsonville resident's solid waste. The landfill is regulated by the California Integrated Waste Management Board, which requires that the government set aside certain funds for the landfill's eventual closure. As of June 30, 1998, the government's Solid Waste Division had completed the closure of the old landfill cell and recognized \$403,773 of expenditures to complete the closure. The government is now operating a new cell, which was expected to provide landfill capacity for 23 years with an estimated post-closure cost of \$1,538,306.

The government recognizes a portion of the closure and postclosure care costs in each operating period. The amount recognized each year to date for the new landfill is based on the landfill capacity used as of the balance sheet date. As of June 30, 2018, the new landfill cell had used 94.1% of its projected space. The estimated closure and post-closure costs were \$1,846,111 and \$1,538,306. The estimated remaining closure and postclosure costs are \$109,401 and \$91,161, which will be recognized as the remaining capacity is used (estimated to be 1.6 years). To date, the fund has \$419,410 for post closure costs for the closed phase I and II cells and has set aside closure costs of \$1,735,710 and post-closure costs of \$1,447,146 for the open phase III cell for a total of \$3,603,205. The estimated costs of closure and postclosure care are subject to changes such as the effects of inflation, revision of laws and other variables.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

NET OPEB LIABILITY

Starting July 1, 2015, the City ceased to pay cash subsidies for retirees. The retirees pay the full amount of their CSAC IEA premiums. The medical/drug implicit subsidy was the only source of liability related for OPEB. Since there is no cash subsidy, as of June 30, 2018, the net OPEB liability was calculated to be immaterial for GASB#75 presentation purposes. However, the net OPEB liabilities of \$1,901,953 is still reflected as part of the long-term liabilities in the City's State of Net Position.

Changes in long-term liabilities

Long-term liability activity for the fiscal year ended June 30, 2018, was as following on the next page:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|-------------------|--------------------|---------------------------|--------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Governmental type activities: | | | | | |
| General Obligation Debt: | | | | | |
| Debt payable | 2,257,875 | - | (176,705) | 2,081,170 | 185,962 |
| Notes payable | <u>1,560,856</u> | <u>-</u> | <u>(236,332)</u> | <u>1,324,524</u> | <u>237,183</u> |
| Subtotal | 3,818,731 | - | (413,037) | 3,405,694 | 423,145 |
| Bonds payable: | | | | | |
| Special assessment debt with government commitment | 149,000 | - | (51,000) | 98,000 | 49,000 |
| Other liabilities: | | | | | |
| Compensated absences | 1,902,699 | 1,048,980 | (1,185,358) | 1,766,321 | 105,979 |
| Net OPEB liability | 3,294,292 | - | (1,392,339) | 1,901,953 | - |
| Net pension | <u>50,535,991</u> | <u>12,351,341</u> | <u>(5,830,701)</u> | <u>57,056,631</u> | <u>-</u> |
| Governmental activity | | | | | |
| Long-term Liabilities | <u>59,700,713</u> | <u>13,400,321</u> | <u>(8,872,435)</u> | <u>64,228,599</u> | <u>578,124</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|----------------------------------|----------------------|------------------|--------------------|-------------------|------------------------|
| Business-type activities: | \$ | \$ | \$ | \$ | \$ |
| Bonds payable: | | | | | |
| Revenue bonds | <u>460,972</u> | <u>-</u> | <u>(225,584)</u> | <u>235,388</u> | <u>235,388</u> |
| Total bonds payable | <u>460,972</u> | <u>-</u> | <u>(225,584)</u> | <u>235,388</u> | <u>235,388</u> |
| State Water Resources | | | | | |
| Control Board loan | 420,090 | 452,415 | - | 872,505 | - * |
| Notes Payable | 161,553 | - | (112,297) | 49,256 | 10,555 |
| Compensated absences | 738,772 | 603,752 | (627,670) | 714,854 | 42,891 |
| Net OPEB liabilities | 1,265,147 | 166,138 | - | 1,431,285 | - |
| Net pension liabilities | 16,844,505 | 7,163,676 | (2,826,109) | 21,182,072 | - |
| Landfill closure/ postclosure | <u>3,571,909</u> | <u>90,796</u> | <u>(59,500)</u> | <u>3,603,205</u> | <u>59,500</u> |
| Business-type activity | | | | | |
| Long-term liabilities | <u>23,462,948</u> | <u>8,476,777</u> | <u>(3,851,160)</u> | <u>28,088,565</u> | <u>348,334</u> |

General Fund, Library Fund Sewer Fund, Water Fund, Airport Fund and Solid Waste Fund all were required to pay their portion of costs related to other Net OPEB Liabilities and Pension Liabilities. *State Water Resources Control Board Loan is in process, no current repayment schedule is available at June 30, 2018.

G. Deferred Inflows of Resources

At June 30, 2018, deferred inflows of resources, reported in the governmental fund financial statements, consisted of the following:

| | GENERAL | HOUSING | REDEVELOPMENT AND HOUSING GRANTS | DEBT SERVICE | OTHER GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--------------------------------------|-----------|------------|--|-----------------|--------------------------------|--------------------------------|
| Deferred Inflow s of Resources | \$ | \$ | \$ | \$ | \$ | \$ |
| Unavailable revenue | 3,281,616 | 12,474,336 | 15,489,514 | 49,000 | 2,073,149 | 33,367,615 |
| Total Deferred Inflow s of Resources | 3,281,616 | 12,474,336 | 15,489,514 | 49,000 | 2,073,149 | 33,367,615 |

H. Nonspendable fund balances

In the fund financial statements, nonspendable segregate portions of fund balance that are not available. The nonspendable fund balance established as of June 30, 2018 was as follows:

| | |
|--------------------|-----------------|
| | General Fund |
| Inventories | \$24,729 |
| Advance Receivable | \$2,562,993 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

IV. Other information

A. Risk management

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government also provides health insurance coverage to employees. There have been no significant reductions in insurance coverage for any risk of loss in the past fiscal year, and settled claims have not exceeded the commercial coverage in any of the past three fiscal years. The government has established a risk management fund to account for and finance its uninsured risks of loss.

The government's risk management programs provide coverage for up to a maximum of \$150,000 for each Workers' Compensation claim; \$500,000 for each General Liability claim. The government purchases commercial insurance for claims in excess of coverage provided by the self-insurance programs. There have been no significant changes in insurance coverage as compared to last fiscal year.

All funds of the government participate in the self-insurance programs. The employee health insurance program is funded by contributions of a flat rate per employee to the self-insurance fund. Other self-insurance programs are funded by budgeted appropriations. Funding is estimated to provide amounts needed to pay prior and current fiscal year claims and to establish reserves for catastrophic losses.

Liabilities in the self-insurance fund at June 30, 2018 totaled \$3,826,517 as follows: Health Benefits \$103,962; General Liability \$617,161; and Workers' Compensation \$3,105,394.

The basis for estimating incurred but not reported claims is based on the statute of limitation on accepting claims as follows:

Health Benefits are estimated at 2 times the current fiscal year's average monthly cost, General Liability is estimated at 6 months of current fiscal year's average monthly claim cost, and Workers' Compensation is estimated by using the last two weeks of current fiscal year's average monthly claim cost.

| | <u>2016-17</u> | <u>2017-18</u> |
|-----------------------------------|-----------------------|-----------------------|
| Claims incurred but not reported: | \$ | \$ |
| Beginning | 603,900 | 568,469 |
| Incurred claims | 7,109,098 | 7,739,769 |
| Claims paid | <u>(7,144,529)</u> | <u>(7,587,115)</u> |
| Ending | <u>568,469</u> | <u>721,123</u> |
| Claims payable: | | |
| Beginning | 3,567,685 | 2,500,983 |
| Incurred claims | 304,897 | 1,623,369 |
| Claims paid | <u>(1,362,779)</u> | <u>(1,054,900)</u> |
| Ending | <u>2,500,983</u> | <u>3,069,452</u> |
| Total claims | <u>3,069,452</u> | <u>3,105,394</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

B. Public entity risk pool

In November 1994, the government became a member of the Public Agency Risk Sharing Authority of California (PARSAC), formerly known as California Municipal Insurance Authority (CMIA). PARSAC, a consortium of 36 California cities, which was established in May 1986 to pool resources, share risks, purchase excess insurance, and to share costs for professional risk management and claims administration. The Authority's governing board consists of one appointed official and an alternate from participating cities.

General liability

The City is self-insured for general liability claims up to \$500,000 (effective November 11, 1994) for each occurrence. Coverage for individual losses in excess of \$500,000, up to \$10,000,000 is provided through the Public Risk Sharing Authority of California (PARSAC). Under this program, members share in losses between the members' individual self-insured retention and \$1,000,000 under a risk sharing pool program; and from \$1,000,000 to \$10,000,000, coverage is provided by another risk pool, CARMA.

Estimates for all liabilities have been accrued in the Self-Insurance Internal Service Fund, which included an estimate for incurred but not reported claims. At June 30, 2018, total estimated claims payable for General Liability were \$209,148.

C. Commitments and Contingencies

Litigation

Various claims and lawsuits are pending against the government. In the opinion of government management, the potential claims loss will not be significant to the government's financial statements.

Grant audits

The government receives grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could result in a request for reimbursement by the grantor for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowance, if any, will not be significant.

Contingency

Proposition 218, which was approved by the voters in November 1996, regulates the government's ability to impose, increase and extend taxes, assessments and fees. Any new, increased or extended taxes, assessments, and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future by the voters. Therefore, the government's ability to finance the services for which the taxes, assessments and fees were imposed may be significantly impaired. Certain language in the initiative is unclear as to the scope and impact of the proposition. Future court rulings or state legislation may clarify these issues. At this time it is uncertain as to the effect that Proposition 218 will have on the government's ability to maintain or increase the revenue it receives from taxes, assessments and fees, or its effect on interfund payments in lieu of taxes and transfers of surplus funds from enterprise funds to the general fund. Also unclear is the extent to

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

which a 1995 California Supreme Court ruling (the *Guardino* case) upholding the voter approval requirements of a previously enacted state initiative (Proposition 62) is applicable to prior periods. However, because the City of Watsonville is a Charter City, management believes that the *Guardino* ruling does not apply to its general law application in the cited case.

Subsequent Event

The City entered into an agreement with the Watsonville Pilot Association in July of 2018 to remove an Advance Payable from the Airport Fund payable to the City's General Fund in the amount of \$2,461,319. This will reduce the City's General Fund balance by \$2,461,319.

D. Post-employment health care benefits

Retiree benefits - COBRA benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government provides health care benefits to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium plus a 2% administration fee is paid in full by the insured on or before the tenth day of the month for the actual month covered. This program is offered for a duration between 18 and 36 months, after the termination date, depending on circumstances related to eligibility to Medicare, death or divorce. During the last fiscal year two former employees participated in the program.

E. Defined benefit pension plans

1. CALPERS miscellaneous employees plan

A. General Information about the Miscellaneous Pension Plan

Plan Description

All qualified permanent and probationary miscellaneous employees are eligible to participate in the City's Miscellaneous Employee Pension Plan, agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employees. Benefit provisions under the Plan is established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

| | | <u>Miscellaneous</u> | |
|--|--------------------------|-----------------------|--------------------------|
| Hire Date | Prior to July 1, 2011 | After July 1, 2011 | After January 1, 2013 |
| Benefit Formula | 2% @ 55 | 2% @ 60 | 2% @ 62 |
| Benefit vesting schedule | 5 years of service | 5 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 55 | 60 | 62 |
| Monthly benefits, as a % of eligible compensation | 1.43% to 2.42% | 1.09% to 2.42% | 1% to 2.5% |
| Required employee contribution rates | 7% | 7% | 6.25% |
| Required employer contribution rates | 6.448% | 6.448% | 6.448% |
| Employees Covered – At June 30, 2018, the following employees were covered by the benefit terms for the Plan | | | |

| | <u>Miscellaneous</u> |
|--|----------------------|
| Inactive employees or beneficiaries currently receiving benefits | 274 |
| Inactive employees entitled to but not yet receiving benefits | 265 |
| Active employees | <u>283</u> |
| Total | <u>822</u> |

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the City were \$3,444,847 for the fiscal year ended June 30, 2018.

B. Net Pension Liability

The City's net pension liability for the plan is measured as the total pension liability less the pension plan's fiduciary net pension. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

Actuarial Assumptions – The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| | <u>Miscellaneous</u> |
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Payroll Growth | Varies by Entry Age & Service |
| Projected Salary Increase | 3.3% - 14.2 (1) |
| Investment Rate of Return | 7.5 % (2)2 |
| Mortality | Derived using CALPERS Membership Data for all funds |

(1) Depending on age, service and type of employee

(2) Net pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, valuation were based on the results of a 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

GASB No. 68, paragraph 68 states that the long term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expenses. The discount rate was changed from 7.650% (net of administrative expenses in 2014) to 7.15% as of June 30, 2017 to correct the adjustment which previously reduced the discount rate for administrative expenses

Change in Assumption:

In 2017, the accounting discount rate was reduced from 7.65% to 7.15%.

Discount Rate:

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| <u>Asset Class</u> | <u>New Strategic Allocation</u> | <u>Real Return Years 1-10(a)</u> | <u>Real Return Years 11+(b)</u> |
|-------------------------------|---------------------------------|----------------------------------|---------------------------------|
| Global Equity | 47% | 4.90% | 5.38% |
| Global Fixed Income | 19 | 0.80 | 2.27 |
| Inflation Sensitive | 6 | 0.60 | 1.39 |
| Private Equity | 12 | 6.60 | 6.63 |
| Real Estate | 11 | 2.80 | 5.21 |
| Infrastructure and Forestland | 3 | 3.90 | 5.36 |
| Liquidity | 2 | (.40) | (0.90) |

(a) An expected inflation of 2.5% was used for this period.

(b) An expected inflation of 3.0% was used for this period.

C. Changes in the Net Pension Liability

The changes in the Net Pension Liability for the Plan as follows:

Miscellaneous Plan:

| | <u>Increase (Decrease)</u> | | |
|--|--------------------------------|------------------------------------|--------------------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Liability (Asset)</u> |
| Balance at June 30, 2016 | \$ 126,440,709 | \$ 92,603,903 | \$ 33,836,806 |
| Change in the year: | | | |
| Service cost | 2,616,009 | - | 2,616,009 |
| Interest on the total pension Liability | 9,502,933 | - | 9,502,933 |
| Change of Assumptions | 8,126,558 | - | 8,126,558 |
| Differences between Expected And Actual Experience | (160,738) | - | (160,738) |
| Net Plan to Plan Resource Movement | - | (2,203) | 2,203 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

| | | | |
|--------------------------|-----------------------|----------------------|----------------------|
| Contributions – employer | - | 2,856,260 | (2,856,260) |
| Contributions – employee | - | 1,265,745 | (1,265,745) |
| Net investment income | - | 10,269,390 | (10,269,390) |
| Benefit payments | (5,612,765) | (5,612,765) | - |
| Administrative Expense | - | (136,723) | 136,723 |
| Net change | <u>14,471,997</u> | <u>8,639,704</u> | <u>5,832,293</u> |
| Balance at June 30, 2017 | <u>\$ 140,912,706</u> | <u>\$101,243,607</u> | <u>\$ 39,669,099</u> |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for the Plan, calculated using the discount rate for the Plan, as well as what the City’s net pension liability would be if it were calculated using a discount rate that is 1-percent point lower or 1-percent point higher than the current rate:

| | |
|-----------------------|----------------------|
| | <u>Miscellaneous</u> |
| 1% Decrease | 6.15% |
| Net pension liability | \$ 59,428,772 |
| Current Discount Rate | 7.15% |
| Net pension liability | \$ 39,669,099 |
| 1% Increase | 8.15% |
| Net pension liability | \$ 23,401,849 |

Pension Plan Fiduciary Net Pension – Detailed information about the pension plan’s fiduciary net position is available in the separate issued CalPERS financial report.

F. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension

For the fiscal year ended June 30, 2018, the City recognized pension expense of \$5,355,338. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$3,444,847 | \$ - |
| Changes in assumptions | 5,869,181 | (415,098) |
| Difference between expected and actual experience | | (882,239) |
| Net difference between projected and actual earnings on plan investments | <u>1,379,160</u> | <u>-</u> |
| Total | <u>\$ 10,693,188</u> | <u>\$(1,297,337)</u> |

The amount of \$3,444,847 was reported as deferred outflows of resources related to contributions subsequent to the measurement date of the net pension liability/collective net pension liability but before the end of the employer’s governmental nonemployer contribution

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

entity's reporting period will be recognized as a reduction of the net pension liability/collective net pension liability in the subsequent fiscal period rather than in the current fiscal period. Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized as pension expense as follows:

| Fiscal Year ended <u>June 30</u> | Deferred Outflows/(Inflows) of <u>Resources</u> |
|--|---|
| 2018 | \$1,185,732 |
| 2019 | \$3,604,690 |
| 2020 | \$1,904,362 |
| 2021 | \$ (743,780) |

G. Payable to Pension Plan

At June 30, 2018, the City had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2018.

2. CALPERS safety (police & fire) employees plan

A. General Information about the Pension Plan

Plan Descriptions

All qualified public safety permanent and probationary employees are eligible to participate in the City's Safety Employee Pension Plan, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues

publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for nonduty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows on the next page:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

| | Safety | | |
|--|--------------------|--------------------|--------------------|
| | Prior to | After | After |
| Hire Date | July 1, 2011 | July 1, 2011 | January 1, 2013 |
| Benefit Formula | 3% @ 50 | 3% @ 55 | 2.7% @ 57 |
| Benefit vesting schedule | 5 years of service | 5 years of service | 5 years of service |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50 | 55 | 57 |
| Monthly benefits, as a % of eligible compensation | 2% to 2.7% | 2% to 2.7% | 1% to 2.5% |
| Required employee contribution rates | 9% | 9% | 11.5% |
| Required employer contribution rates | 19.723% | 16.842% | 11.99% |

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the fiscal year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Contributions to the pension plan from the City were \$3,606,866 for the fiscal year ended June 30, 2018.

**B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of
Resources Related to Pensions**

At June 30, 2018, the City reported a liability of \$38,569,604 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the

projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2017, the City's proportion was 0.669%, which decreased by .017% from its proportion measured as of June 30, 2016.

For the fiscal year ended June 30, 2018, the City recognized pension expense of \$5,453,014 together with \$5,355,338 for Miscellaneous plan, the total pension expense for the City is \$10,808,352. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits.

At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources on the next page:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| City contribution subsequent to the measurement date | \$3,606,866 | \$ - |
| Difference between actual and expected experience | 408,947 | (106,624) |
| Changes in assumptions | 5,903,765 | (455,024) |
| Net difference between projected and actual earnings on plan investments | 1,293,139 | - |
| Changes to proportion | 289,260 | (170,575) |
| Difference between City contributions and proportionate share of contribution | - | (399,352) |
| Total | <u>\$11,528,977</u> | <u>\$(1,131,575)</u> |

The amount of \$3,606,866 was reported as deferred outflows of resources related to contributions subsequent to the measurement date of the net pension liability/collective net pension liability but before the end of the employer's governmental nonemployer contribution entity's reporting period will be recognized as a reduction of the net pension liability/collective net pension liability in the subsequent fiscal period rather than in the current fiscal period.

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

Change in Assumption:

GASB No. 68, paragraph 68 states that the long term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expenses. The discount rate was changed from 7.65% (net of administrative expenses in 2014) to 7.15% as of June 30, 2017 to correct the adjustment which previously reduced the discount rate for administrative expenses.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

| Fiscal Year ended <u>June 30</u> | <u>Safety Plan</u> Deferred Outflows/(Inflows) <u>of Resources</u> | <u>Miscellaneous Plan</u> Deferred Outflows/(Inflows) <u>of Resources</u> | <u>Total</u> Deferred Outflows/(Inflows) <u>of Resources</u> |
|--|---|--|---|
| 2019 | \$1,576,148 | \$1,185,732 | \$2,761,880 |
| 2020 | 3,684,507 | 3,604,690 | 7,289,197 |
| 2021 | 2,286,542 | 1,904,362 | 4,190,904 |
| 2022 | <u>(756,661)</u> | <u>(743,780)</u> | <u>(1,500,441)</u> |
| Total | <u>\$6,790,536</u> | <u>\$5,951,004</u> | <u>\$12,741,540</u> |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | |
|--------------------------------------|---|
| | <u>Safety</u> |
| Valuation date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.15% |
| Inflation Rate | 2.75% |
| Salary Increase | Varies by Entry Age and Service |
| Investment Rate of Return | 7.5% Net Pension Plan Investment And Administrative Expenses: Includes Inflation |
| Mortality | Derived using CalPERS' Membership Data for all Funds (1) |
| Post-Retirement Benefits Increase | Contact COLA up to 2.75% until Purchase Power Protection Allowance Floor on Purchasing Power applies: 2.75% thereafter |

- (1) The mortality table used was developed based on CalPERS' specific date. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

Change in Assumption:

In 2017, the accounting discount rate was reduced from 7.65% to 7.15%.

Discount Rate:

The discount rate used to measure the total pension liability was 7.15% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

| <u>Asset Class</u> | <u>New Strategic Allocation</u> | <u>Real Return Years 1-10(a)</u> | <u>Real Return Years 11+(b)</u> |
|-------------------------------|---|--------------------------------------|-------------------------------------|
| Global Equity | 47% | 4.90% | 5.38% |
| Global Fixed Income | 19 | 0.80 | 2.27 |
| Inflation Sensitive | 6 | 0.60 | 1.39 |
| Private Equity | 12 | 6.60 | 6.63 |
| Real Estate | 11 | 2.80 | 5.21 |
| Infrastructure and Forestland | 3 | 3.90 | 5.36 |
| Liquidity | 2 | (.40) | (.90) |

(a) An expected inflation of 2.5% was used for this period.

(b) An expected inflation of 3.0% was used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in Discount Rate

The following represents the City's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.15 percent) or 1- percentage point higher (8.15 percent) than the current rate:

| | |
|-----------------------|----------------------|
| | <u>Public Safety</u> |
| 1% Decrease | 6.15% |
| Net pension liability | \$58,162,393 |
| Current Discount Rate | 7.15% |
| Net pension liability | \$38,569,604 |
| 1% Increase | 8.15% |
| Net pension liability | \$22,553,477 |

Pension Plan Fiduciary Net Position

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to Pension Plan

At June 30, 2018, the City had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2018.

F. New Accounting Pronouncements

New Pronouncements

In 2018, the City will be adopting new accounting and reporting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 75 - In June 2015, GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Statement 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in statement 75 are effective for fiscal years beginning after June 15, 2017. The City has determined the impact was immaterial and no additional disclosure is considered necessary.

GASB Statement No. 81 – In March 2016, the GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements

of this Statement are effective for financial statements for periods beginning after December 15, 2016 and should be applied retroactively. This Statement had no impact on the City's financial statements.

GASB Statement No. 85 – In March 2017, the GASB issued Statement No. 85, Omnibus 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The City has determined the impact was immaterial and no additional disclosure is considered necessary.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

GASB Statement No. 86 – In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The City has not determined its effect on the financial statements.

Future Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 83 – In November 2017, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. This statement has no impact on the City's financial statements.

GASB Statement No. 84 – In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The City has not determined its effect on the financial statements.

GASB Statement No. 87 – In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The City has not determined its effect on the financial statements.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

G. Successor Agency Private-Purpose Trust Fund for Assets of former Redevelopment Agency of the City of Watsonville.

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Watsonville that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or other unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local governments. On January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City.

Resolution Number 4-12.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence as the date of the dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

Successor agencies are allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the state Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City’s position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

The following is a schedule of long-term liabilities for the fiscal year ended June 30, 2018:

| | <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> | <u>One Year</u> |
|--------------------------------|-------------------|------------------|--------------------|-------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Refunding tax allocation bonds | 13,065,000 | - | (1,170,000) | 11,895,000 | 1,195,000 |
| Add: | | | | | |
| Bond Premium | <u>1,471,519</u> | <u>-</u> | <u>(87,830)</u> | <u>1,383,689</u> | <u>-</u> |
| Total Bonds | 14,536,519 | - | (1,257,830) | 13,278,689 | 1,195,000 |
| Debt payable | 110,879 | - | (54,619) | 56,260 | 56,260 |
| Net OPEB liability | 64,461 | - | - | 64,461 | - |
| Notes payable | <u>4,225,520</u> | <u>-</u> | <u>(1,042,967)</u> | <u>3,182,553</u> | <u>900,000</u> |
| Total | <u>18,973,379</u> | <u>-</u> | <u>(2,355,416)</u> | <u>16,581,963</u> | <u>2,151,260</u> |

Tax allocation refunding bonds

In June of 2004 the former Redevelopment Agency of the City of Watsonville issued tax allocation bonds in three series as follows:

1. Series A - \$19,000,000
2. Series B-1 - \$2,310,000
3. Series B-2 - \$4,635,000

In April of 2016 the Successor Agency issued \$11,790,000 2016 Tax Allocation Refunding Bonds, Series A and \$2,420,000 2016 Tax Allocation Refunding Bonds, Taxable Series B for a current refunding of the \$14,190,000 2004 Tax Allocation Bonds Series A and B-1 and \$2,720,000 Tax Allocation Taxable Series B-2 Bonds. The Series A refunding bonds had \$2,965,772 of additional funding and Series B had \$410,577 of additional funding. The refunding was done to reduce future debt service payments. The transaction resulted in an economic gain of \$3,269,616 and a reduction of \$3,856,103 in future debt service payments and accounting loss of \$232,058 which is shown as a deferred outflow of resources to be amortized over the life of the bonds.

The annual requirements to amortize the loan outstanding as of June 30, 2018 is as follows:

Series A:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|--------------------|------------------|-----------------|---------------------|
| | \$ | \$ | \$ |
| 2019 | 375,000 | 468,825 | 843,825 |
| 2020 | 1,225,000 | 444,825 | 1,669,825 |
| 2021 | 1,265,000 | 394,825 | 1,659,825 |
| 2022 | 1,325,000 | 330,075 | 1,655,075 |
| 2023 | 1,390,000 | 262,200 | 1,652,200 |

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

| | | | |
|-------|-------------------|------------------|-------------------|
| 2024 | 1,465,000 | 190,825 | 1,655,825 |
| 2025 | 945,000 | 130,575 | 1,075,575 |
| 2026 | 295,000 | 99,575 | 394,575 |
| 2027 | 305,000 | 84,575 | 389,575 |
| 2028 | 325,000 | 73,294 | 398,294 |
| 2029 | 330,000 | 65,719 | 395,719 |
| 2030 | 340,000 | 55,000 | 395,000 |
| 2031 | 350,000 | 41,200 | 391,200 |
| 2032 | 370,000 | 28,650 | 398,650 |
| 2033 | 380,000 | 17,400 | 397,400 |
| 2034 | <u>390,000</u> | <u>5,850</u> | <u>395,850</u> |
| Total | <u>11,075,000</u> | <u>2,693,413</u> | <u>13,768,413</u> |

Series B:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|--------------------|------------------|-----------------|---------------------|
| | \$ | \$ | \$ |
| 2019 | <u>820,000</u> | <u>8,200</u> | <u>828,200</u> |
| Total | <u>820,000</u> | <u>8,200</u> | <u>828,200</u> |

Debt payable

The County of Santa Cruz discovered overpayment of tax increment allocations error in fiscal year 2008/09, which resulted in the former Agency receiving \$494,292 in excess revenues in prior fiscal years. The former Agency agreed to repay the County of Santa Cruz over a ten year period. The loan has a 0% imputed interest rate.

| <u>Fiscal Year</u> | <u>Principal</u> |
|--------------------|------------------|
| | \$ |
| 2019 | <u>56,260</u> |
| Total | <u>56,260</u> |

Net OPEB Liability

As of the transfer of the former Agency assets to the Successor Agency, the Net OPEB liability was \$64,461. This amount will be reduced by an allocation of future costs incurred by the City from former staff members of the former Agency.

Notes Payable

The City and former Agency had several notes payable from the former Agency to the City for various costs and fees associated with the construction of the Civic Plaza as follows:

| | |
|--|-------------|
| Parking Garage Loan for Construction Costs | \$3,236,651 |
|--|-------------|

The State of California deemed these notes as non-enforceable obligation, and the city could not be paid back until a finding of completion was received from the State's Department of Finance, which the City received on February 21, 2014 and the Successor Agency's oversight board

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 (Continued)

made a finding that the notes were for legitimate redevelopment purpose. The Oversight Board also made the finding for all the above notes. The Department of Finance again deemed the notes as non-enforceable. During the last fiscal year the City won the litigation and the above notes will be paid back when funds become available. The notes are allowed to add interest based on the State of California Local Agency Investment Fund's (LAIF) monthly interest rate. Interest has been projected for the debt service at the most recent rate available.

Debt Payable Recap:

Parking Garage Loan

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Debt Service</u> |
|--------------------|------------------|-----------------|---------------------|
| | \$ | \$ | \$ |
| 2019 | 900,000 | 8,561 | 908,561 |
| 2020 | 900,000 | 6,178 | 906,178 |
| 2021 | 900,000 | 3,772 | 903,772 |
| 2022 | <u>482,553</u> | <u>1,366</u> | <u>483,919</u> |
| Total | <u>3,182,553</u> | <u>19,877</u> | <u>3,202,430</u> |

Required Supplementary Information

CITY OF WATSONVILLE, CALIFORNIA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST 4 FISCAL YEARS*
JUNE 30, 2018

The following table provides required supplementary information regarding the City's Miscellaneous Pension Plan:

| | 2015 | 2016 | 2017 | 2018 |
|--|---------------|---------------|---------------|---------------|
| TOTAL PENSION LIABILITY | \$ | \$ | \$ | \$ |
| Service Cost | 2,348,593 | 2,251,567 | 2,250,229 | 2,616,009 |
| Interest | 8,369,558 | 8,741,399 | 9,093,428 | 9,502,933 |
| Changes of Assumptions | - | (2,194,095) | - | 8,126,558 |
| Difference between Expected and Actual Experience | - | (1,088,430) | (1,307,204) | (160,738) |
| Benefit Payments, Including Refunds of Employee Contributions | (4,554,651) | (4,874,482) | (5,292,339) | (5,612,765) |
| Net Change in Total Pension Liability | 6,163,500 | 2,835,959 | 4,744,114 | 14,471,997 |
| Total Pension Liability - Beginning | 112,697,136 | 118,860,636 | 121,696,595 | 126,440,709 |
| Total Pension Liability - Ending (a) | 118,860,636 | 121,696,595 | 126,440,709 | 140,912,706 |
| PLAN FIDUCIARY NET POSITION | | | | |
| Contributions - Employer | 1,750,491 | 1,881,144 | 2,288,840 | 2,856,260 |
| Contributions - Employee | 1,087,253 | 1,064,147 | 1,145,223 | 1,265,745 |
| Net Investment Income (2) | 14,090,974 | 2,081,010 | 501,726 | 10,269,390 |
| Benefit Payments, Including Refunds of Employee Contributions | (4,554,651) | (4,874,482) | (5,292,339) | (5,612,765) |
| Net Plan to Plan Resource Movement | - | - | - | (2,203) |
| Administrative Expense | - | (105,873) | (57,299) | (136,723) |
| Net Change in Fiduciary Net Position | 12,374,067 | 45,946 | (1,413,849) | 8,639,704 |
| Plan Fiduciary Net position - Beginning | 81,597,739 | 93,971,806 | 94,017,752 | 92,603,903 |
| Plan Fiduciary Net position - Ending (b) | 93,971,806 | 94,017,752 | 92,603,903 | 101,243,607 |
| Plan Net Pension Liability/(Asset) - Ending (a) - (b) | 24,888,830 | 27,678,843 | 33,836,806 | 39,669,099 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 79.06% | 77.26% | 73.24% | 71.85% |
| Covered payroll | \$ 17,390,545 | \$ 17,452,658 | \$ 17,680,742 | \$ 18,366,981 |
| Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll | 143.12% | 158.59% | 191.38% | 215.98% |

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2016.

This applies for voluntary benefits changes as well as any offers of Two Years

Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions: Change in Discount Rate Assumptions from 7.65% to 7.15%.

(2) Net of administrative expenses.

* Fiscal year 2015 was the 1st year of implementation. Years will be added until 10 years of data is reached.

CITY OF WATSONVILLE, CALIFORNIA
SCHEDULE OF CONTRIBUTIONS
LAST 4 FISCAL YEARS*
JUNE 30, 2018

The following table provides required supplementary information regarding the City's Miscellaneous Pension Plan.

| | 2015 | 2016 | 2017 | 2018 |
|--|-------------|-------------|-------------|-------------|
| | \$ | \$ | \$ | \$ |
| Contractually required contribution (actuarially determined) | 1,769,613 | 2,299,823 | 2,288,840 | 2,856,260 |
| Contribution in relation to the actuarially determined contributions | (1,769,613) | (2,299,823) | (2,288,840) | (2,856,260) |
| Contribution deficiency (excess) | - | - | - | - |
| Covered payroll | 17,452,658 | 17,680,742 | 18,366,981 | 18,917,990 |
| Contributions as a percentage of covered payroll | 10.14% | 13.01% | 12.46% | 15.10% |

Notes to Schedule

Valuation Date: 6/30/2016

Methods and assumptions used to determine contribution rates:

Discount Rate 7.15% @ 6/30/2017
7.65% @ 6/30/2016
7.65% @ 6/30/2015
7.50% @ 6/30/2014

Inflation 2.75%

Salary Increases Varies by Entry Age and Service

Investment Rate of Return 7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation

Mortality Rate Table (1) Derived using CalPERS' Membership Data for all Funds

Post Retirement Benefit Increase Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

* Fiscal Year 2015 was 1st year of implementation. Years will be added until 10 years of data is reached.

CITY OF WATSONVILLE, CALIFORNIA
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
LAST 4 FISCAL YEARS*
JUNE 30, 2018

The following table provides required supplementary information regarding the City's Safety Pension Plan.

| | 2015 | 2016 | 2017 | 2018 |
|---|-------------------|-------------------|-------------------|-------------------|
| Proportion of the net pension liability | 0.358953% | 0.379737% | 0.387650% | 0.388914% |
| Proportionate share of the net pension liability | \$ 22,335,737 | \$ 26,064,837 | \$ 33,543,690 | \$ 38,569,604 |
| Covered payroll | \$ 10,541,326 | \$ 9,190,095 | \$ 9,792,080 | \$ 11,557,360 |
| Proportionate share of the net pension liability as percentage of covered payroll | 211.89% | 283.62% | 342.56% | 333.72% |
| Plan's total pension liability | \$ 30,829,966,631 | \$ 31,771,217,402 | \$ 18,961,274,094 | \$ 21,144,800,930 |
| Plan's fiduciary net position | \$ 24,607,502,515 | \$ 24,907,305,871 | \$ 13,782,056,004 | \$ 15,169,595,595 |
| Plan fiduciary net position as a percentage of the total pension liability | 79.82% | 78.40% | 72.69% | 71.74% |

* Fiscal year 2015 was the 1st year of implementation. Years will be added until 10 years of data is reached.

CITY OF WATSONVILLE, CALIFORNIA
SCHEDULE OF CONTRIBUTIONS
LAST 4 FISCAL YEARS*
JUNE 30, 2018

The following table provides required supplementary information regarding the City's Safety Pension Plan.

| | 2015 | 2016 | 2017 | 2018 |
|--|--------------|--------------|---------------|---------------|
| | \$ | \$ | \$ | \$ |
| Contractually required contribution (actuarially determined) | 2,648,853 | 2,921,288 | 3,364,471 | 3,606,866 |
| Contribution in relation to the actuarially determined contributions | (2,648,853) | (2,921,288) | (3,364,471) | (3,606,866) |
| Contribution deficiency (excess) | - | - | - | - |
| Covered payroll | \$ 9,190,095 | \$ 9,792,080 | \$ 11,557,360 | \$ 11,496,504 |
| Contributions as a percentage of covered payroll | 28.82% | 29.83% | 29.11% | 31.37% |

Notes to Schedule

Valuation Date: 6/30/2016

Methods and assumptions used to determine contribution rates:

Discount Rate 7.15% @ 6/30/2017
7.65% @ 6/30/2016
7.65% @ 6/30/2015
7.50% @ 6/30/2014

Inflation 2.75%

Salary Increases Varies by Entry Age and Service

Investment Rate of Return 7.5% Net of Pension Plan Investment and Administrative Expenses; includes Inflation

Mortality Rate Table (1) Derived using CalPERS' Membership Data for all Funds

Post Retirement Benefit Increase Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table please refer to the 2014 experience study report.

*Fiscal year 2015 was the 1st year of implementation. Years will be added until 10 years of data is reached.

City of Watsonville, California

Nonmajor Governmental Funds

Special Revenue Funds

Gas Tax

The City of Watsonville receives various revenues from taxes imposed on the sale of gasoline. These funds are to be used for maintaining and improving Watsonville's roads and transportation system.

Narcotics Assets Seizure

Federal and State law authorize the seizure of assets used in the sale of illegal drugs. The proceeds from these seizures are to be used to further Police enforcement. These monies are accounted for in this fund.

Business Development

This fund collects a business license surcharge and downtown property tax assessment which is then remitted to the Chamber of Commerce and Economic Development for their respective purposes.

Economic Development

Funds held for economic development. The fund receives interest income and loan payoffs that are used to support economic development.

Library

The Library Fund receives sales tax, grants, donations and state subventions for the advancement of the Library in Watsonville. This fund receives such revenues and records their expenditures.

Parks Development

This fund's revenues are grants, park development impact fees and 1972 Landscape and Lighting Assessment fees. These funds are used to acquire, improve and maintain the government's parks.

Retirement Tax

The City of Watsonville participates in the California Public Employees Retirement System. The government's contribution for General Fund employees is funded by a voter approved property tax override. The tax is collected in this fund and then used to pay for appropriate retirement expenses.

(Continued)

City of Watsonville, California

Nonmajor Governmental Funds

Special Revenue Funds

Parking Garage

This fund is used to record operating costs used to maintain the government's parking garage downtown.

Measure G

This fund was established in 2014, the Citizens of Watsonville approved an additional sales tax of .5% for seven years to increase funding for public safety.

Abandoned Vehicle

The government has assigned a Watsonville Police Department Service Specialist to aggressively enforce all State laws and City of Watsonville Ordinances pertaining to the abatement of all abandoned, wrecked, dismantled, inoperative vehicles or parts from any and all private or public properties. This fund collects State and County funds used to pay for these services.

Inclusionary Housing

The government levies an impact fee on all market rate housing development, which either requires a specified number of below market housing units be created or the payment of a fee. This fund collects those fees and uses them to create low-income housing.

SB 1 Gas Tax

This fund was established in 2017, which increased the gas tax by \$0.12 per gallon, increased the diesel fuel tax by \$0.20 per gallon, increased the sales tax on diesel fuels by an additional 4 percentage points, created an annual transportation improvement fee, and created an annual zero-emission vehicles fee.

Measure D

This fund was established in 2017, Measure D is a comprehensive and inclusive package of transportation improvements passed in November 2016 by over 2/3 of Santa Cruz County voters. This ½-cent sales tax guarantees every city and the county a steady, direct source of local funding for local streets and road maintenance, bicycle and pedestrian projects (especially near schools), safety projects, and transit and paratransit service, as well as numerous essential transportation projects and programs throughout the county.

(Concluded)

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

| | Special Revenue Funds | | | | | | |
|---|-----------------------|--------------------------------|-------------------------|-------------------------|------------------|----------------------|-------------------|
| | GAS TAX | NARCOTICS ASSETS SEIZURE | BUSINESS DEVELOPMENT | ECONOMIC DEVELOPMENT | LIBRARY | PARKS DEVELOPMENT | RETIREMENT TAX |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| ASSETS: | | | | | | | |
| Cash and investments | 1,650,245 | 214,949 | 48,847 | 18,939 | 917,139 | 1,889,528 | 884,504 |
| Receivables: | | | | | | | |
| Interest | - | - | - | 35,770 | - | - | - |
| Taxes | - | - | - | - | 318,661 | 9,212 | - |
| Accounts | 7,020 | - | 1,784 | - | - | - | 151,160 |
| Intergovernmental | 1,177,783 | - | - | - | - | - | - |
| Advances receivable | - | - | - | - | 278,021 | 94,000 | - |
| Loans receivable | - | - | - | 58,581 | - | - | - |
| Total Assets | <u>2,835,048</u> | <u>214,949</u> | <u>50,631</u> | <u>113,290</u> | <u>1,513,821</u> | <u>1,992,740</u> | <u>1,035,664</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES: | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | 832,903 | - | - | - | - | 7,931 | - |
| Accrued personnel costs | 8,536 | - | - | - | - | 2,660 | - |
| Retention | 26,195 | - | - | - | - | - | - |
| Due to other funds | - | - | - | - | - | - | - |
| Deposits | - | 103,046 | - | - | - | - | - |
| Total Liabilities | <u>867,634</u> | <u>103,046</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,591</u> | <u>-</u> |
| Deferred Inflows of Resources | | | | | | | |
| Unavailable revenue | <u>1,177,783</u> | <u>-</u> | <u>2,901</u> | <u>94,351</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Deferred Inflows of Resources | <u>1,177,783</u> | <u>-</u> | <u>2,901</u> | <u>94,351</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>2,045,417</u> | <u>103,046</u> | <u>2,901</u> | <u>94,351</u> | <u>-</u> | <u>10,591</u> | <u>-</u> |
| Fund Balances: | | | | | | | |
| Restricted for: | | | | | | | |
| Gas tax | 789,631 | - | - | - | - | - | - |
| Assets seizure | - | 111,903 | - | - | - | - | - |
| Business development | - | - | 47,730 | - | - | - | - |
| Economic Development | - | - | - | 18,939 | - | - | - |
| Library | - | - | - | - | 1,513,821 | - | - |
| Parks development | - | - | - | - | - | 1,982,149 | - |
| Retirement tax | - | - | - | - | - | - | 1,035,664 |
| Measure G | - | - | - | - | - | - | - |
| Inclusionary housing | - | - | - | - | - | - | - |
| SB1 Gas Tax | - | - | - | - | - | - | - |
| Measure D | - | - | - | - | - | - | - |
| Unassigned | - | - | - | - | - | - | - |
| Total Fund Balances | <u>789,631</u> | <u>111,903</u> | <u>47,730</u> | <u>18,939</u> | <u>1,513,821</u> | <u>1,982,149</u> | <u>1,035,664</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>2,835,048</u> | <u>214,949</u> | <u>50,631</u> | <u>113,290</u> | <u>1,513,821</u> | <u>1,992,740</u> | <u>1,035,664</u> |

Continued

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018

| | Special Revenue Funds | | | | | | |
|--|-----------------------|------------------|----------------------|-------------------------|-----------------|----------------|-------------------|
| | PARKING GARAGE | MEASURE G | ABANDONED VEHICLE | INCLUSIONARY HOUSING | SB 1 GAS TAX | MEASURE D | TOTAL |
| | \$ | \$ | \$ | \$ | \$ | | \$ |
| ASSETS: | | | | | | | |
| Cash and investments | 9,834 | 2,812,223 | - | 1,962,731 | 259,270 | 751,831 | 11,420,040 |
| Receivables: | | | | | | | |
| Interest | - | - | - | 84,158 | - | - | 119,928 |
| Taxes | - | 616,656 | 13,323 | - | 112,335 | 88,371 | 1,158,558 |
| Accounts | 25,549 | - | - | - | - | - | 185,513 |
| Intergovernmental | - | 21,471 | - | - | - | - | 1,199,254 |
| Advances receivable | - | - | - | 165,906 | - | - | 537,927 |
| Loans receivable | - | - | - | 692,485 | - | - | 751,066 |
| Total Assets | 35,383 | 3,450,350 | 13,323 | 2,905,280 | 371,605 | 840,202 | 15,372,286 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES: | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | 26,486 | 63,299 | - | 10,511 | - | 8,000 | 949,130 |
| Accrued personnel costs | 342 | 163,740 | - | 8,201 | - | - | 183,479 |
| Retention | - | - | - | - | - | - | 26,195 |
| Due to other funds | 583,210 | - | 20,101 | - | - | - | 603,311 |
| Deposits | - | - | - | - | - | - | 103,046 |
| Total Liabilities | 610,038 | 227,039 | 20,101 | 18,712 | - | 8,000 | 1,865,161 |
| Deferred Inflows of Resources | | | | | | | |
| Unavailable revenue | - | 21,471 | - | 776,643 | - | - | 2,073,149 |
| Total Deferred Inflows of Resources | - | 21,471 | - | 776,643 | - | - | 2,073,149 |
| Total Liabilities and Deferred Inflows of Resources | 610,038 | 248,510 | 20,101 | 795,355 | - | 8,000 | 3,938,310 |
| Fund Balances: | | | | | | | |
| Restricted for: | | | | | | | |
| Gas tax | - | - | - | - | - | - | 789,631 |
| Assets seizure | - | - | - | - | - | - | 111,903 |
| Business development | - | - | - | - | - | - | 47,730 |
| Economic Development | - | - | - | - | - | - | 18,939 |
| Library | - | - | - | - | - | - | 1,513,821 |
| Parks development | - | - | - | - | - | - | 1,982,149 |
| Retirement tax | - | - | - | - | - | - | 1,035,664 |
| Measure G | - | 3,201,840 | - | - | - | - | 3,201,840 |
| Inclusionary housing | - | - | - | 2,109,925 | - | - | 2,109,925 |
| SB1 Gas Tax | - | - | - | - | 371,605 | - | 371,605 |
| Measure D | - | - | - | - | - | 832,202 | 832,202 |
| Unassigned | (574,655) | - | (6,778) | - | - | - | (581,433) |
| Total Fund Balances | (574,655) | 3,201,840 | (6,778) | 2,109,925 | 371,605 | 832,202 | 11,433,976 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | 35,383 | 3,450,350 | 13,323 | 2,905,280 | 371,605 | 840,202 | 15,372,286 |
| | | | | | | | Concluded |

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Special Revenue Funds

| | GAS TAX | NARCOTICS ASSETS SEIZURE | BUSINESS DEVELOPMENT | ECONOMIC DEVELOPMENT | LIBRARY | PARKS DEVELOPMENT | RETIREMENT TAX |
|--|------------------|--------------------------------|-------------------------|-------------------------|------------------|----------------------|--------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUES: | | | | | | | |
| Taxes | 1,048,488 | - | - | - | 3,332,201 | - | 3,162,794 |
| Licenses, permits and fees | - | - | 81,477 | - | 47,047 | 520,705 | - |
| Intergovernmental | 922,972 | - | - | - | 40,459 | - | - |
| Interest | 16,919 | 1,263 | 1,426 | - | 13,700 | 23,512 | - |
| Miscellaneous | 20,704 | 31,768 | 6,000 | 45,267 | 1,689 | - | - |
| Total revenues | <u>2,009,083</u> | <u>33,031</u> | <u>88,903</u> | <u>45,267</u> | <u>3,435,096</u> | <u>544,217</u> | <u>3,162,794</u> |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General government | - | - | 83,846 | - | - | - | 4,181 |
| Public safety | - | - | - | - | - | - | - |
| Housing | - | - | - | - | - | - | - |
| Streets | 2,129,263 | - | - | - | - | - | - |
| Culture and recreation | - | - | - | - | 3,150,665 | 162,077 | - |
| Total expenditures | <u>2,129,263</u> | <u>-</u> | <u>83,846</u> | <u>-</u> | <u>3,150,665</u> | <u>162,077</u> | <u>4,181</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(120,180)</u> | <u>33,031</u> | <u>5,057</u> | <u>45,267</u> | <u>284,431</u> | <u>382,140</u> | <u>3,158,613</u> |
| OTHER FINANCING SOURCES (USES): | | | | | | | |
| Transfers in | - | - | - | - | - | - | - |
| Transfers out | <u>(108,759)</u> | <u>-</u> | <u>(24,900)</u> | <u>-</u> | <u>(91,543)</u> | <u>-</u> | <u>(3,418,234)</u> |
| Total other financing sources (uses) | <u>(108,759)</u> | <u>-</u> | <u>(24,900)</u> | <u>-</u> | <u>(91,543)</u> | <u>-</u> | <u>(3,418,234)</u> |
| Net change in fund balances | <u>(228,939)</u> | <u>33,031</u> | <u>(19,843)</u> | <u>45,267</u> | <u>192,888</u> | <u>382,140</u> | <u>(259,621)</u> |
| Fund balances, July 1 | <u>1,018,570</u> | <u>78,872</u> | <u>67,573</u> | <u>(26,328)</u> | <u>1,320,933</u> | <u>1,600,009</u> | <u>1,295,285</u> |
| Fund balances, June 30 | <u>789,631</u> | <u>111,903</u> | <u>47,730</u> | <u>18,939</u> | <u>1,513,821</u> | <u>1,982,149</u> | <u>1,035,664</u> |

Continued

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | Special Revenue Funds | | | | | | |
|--|-----------------------|-----------|----------------------|-------------------------|-----------------|-----------|-------------|
| | PARKING GARAGE | MEASURE G | ABANDONED VEHICLE | INCLUSIONARY HOUSING | SB 1 GAS TAX | MEASURE D | TOTALS |
| | \$ | \$ | \$ | \$ | \$ | | \$ |
| REVENUES: | | | | | | | |
| Taxes | - | 3,826,188 | - | - | 370,884 | 874,413 | 12,614,968 |
| Licenses, permits and fees | 160,476 | - | 58,731 | 191,101 | - | - | 1,059,537 |
| Intergovernmental | - | 93,940 | - | - | - | - | 1,057,371 |
| Interest | - | 38,674 | - | 26,875 | 721 | 3,989 | 127,079 |
| Miscellaneous | 71 | - | - | 58,132 | - | - | 163,631 |
| Total revenues | 160,547 | 3,958,802 | 58,731 | 276,108 | 371,605 | 878,402 | 15,022,586 |
| EXPENDITURES: | | | | | | | |
| Current: | | | | | | | |
| General government | 127,555 | - | - | - | - | - | 215,582 |
| Public safety | - | 3,677,699 | 82,912 | - | - | - | 3,760,611 |
| Housing | - | - | - | 262,281 | - | - | 262,281 |
| Streets | - | - | - | - | - | 46,200 | 2,175,463 |
| Culture and recreation | - | - | - | - | - | - | 3,312,742 |
| Total expenditures | 127,555 | 3,677,699 | 82,912 | 262,281 | - | 46,200 | 9,726,679 |
| Excess (deficiency) of revenues over (under) expenditures | 32,992 | 281,103 | (24,181) | 13,827 | 371,605 | 832,202 | 5,295,907 |
| Transfers in | 92,988 | - | 40,000 | - | - | - | 132,988 |
| Transfers out | (12,837) | - | - | (4,074) | - | - | (3,660,347) |
| Total other financing sources (uses) | 80,151 | - | 40,000 | (4,074) | - | - | (3,527,359) |
| Net change in fund balances | 113,143 | 281,103 | 15,819 | 9,753 | 371,605 | 832,202 | 1,768,548 |
| Fund balances, July 1 | (687,798) | 2,920,737 | (22,597) | 2,100,172 | - | - | 9,665,428 |
| Fund balances, June 30 | (574,655) | 3,201,840 | (6,778) | 2,109,925 | 371,605 | 832,202 | 11,433,976 |

Concluded

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | GAS TAX | | | | NARCOTICS ASSETS SEIZURE | | | |
|--------------------------------------|------------------|-----------|-----------|---|--------------------------|-----------|---------|---|
| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
| | Original | Final | | | Original | Final | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUES: | | | | | | | | |
| Taxes | 898,900 | 898,900 | 1,048,488 | 149,588 | - | - | - | - |
| Intergovernmental | 6,528,936 | 6,539,936 | 922,972 | (5,616,964) | - | - | - | - |
| Interest | 6,000 | 6,000 | 16,919 | 10,919 | 2,500 | 2,500 | 1,263 | (1,237) |
| Miscellaneous | - | - | 20,704 | 20,704 | 10,000 | 10,000 | 31,768 | 21,768 |
| Total revenues | 7,433,836 | 7,444,836 | 2,009,083 | (5,435,753) | 12,500 | 12,500 | 33,031 | 20,531 |
| EXPENDITURES: | | | | | | | | |
| Public safety | - | - | - | - | 130,000 | 130,000 | - | 130,000 |
| Streets | 7,302,325 | 7,313,325 | 2,129,263 | 5,184,062 | - | - | - | - |
| Total expenditures | 7,302,325 | 7,313,325 | 2,129,263 | 5,184,062 | 130,000 | 130,000 | - | 130,000 |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers out | (108,759) | (108,759) | (108,759) | - | - | - | - | - |
| Total other financing sources (uses) | (108,759) | (108,759) | (108,759) | - | - | - | - | - |
| Net change in fund balances | 131,511 | 131,511 | (228,939) | (251,691) | (117,500) | (117,500) | 33,031 | 150,531 |
| Fund balances, July 1 | 1,018,570 | 1,018,570 | 1,018,570 | - | 78,872 | 78,872 | 78,872 | - |
| Fund balances, June 30 | 1,150,081 | 1,150,081 | 789,631 | (251,691) | (38,628) | (38,628) | 111,903 | 150,531 |

CITY OF WATSONVILLE, CALIFORNIA

NONMAJOR SPECIAL REVENUE FUNDS

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

| | BUSINESS DEVELOPMENT | | | | ECONOMIC DEVELOPMENT | | | |
|--|----------------------|----------|----------|---|----------------------|-----------|----------|---|
| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
| | Original | Final | | | Original | Final | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUES: | | | | | | | | |
| Licenses, permits and fees | 79,000 | 79,000 | 81,477 | 2,477 | - | - | - | - |
| Interest | 900 | 900 | 1,426 | 526 | - | - | - | - |
| Miscellaneous | 10,000 | 10,000 | 6,000 | (4,000) | - | - | 45,267 | 45,267 |
| Total revenues | 89,900 | 89,900 | 88,903 | (997) | - | - | 45,267 | 45,267 |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General government | 65,000 | 126,050 | 83,846 | 42,204 | 83,380 | 83,380 | | 83,380 |
| Total expenditures | 65,000 | 126,050 | 83,846 | 42,204 | 83,380 | 83,380 | - | 83,380 |
| Excess (deficiency) of revenues over (under) expenditures | 24,900 | (36,150) | 5,057 | 41,207 | 83,380 | 83,380 | 45,267 | 128,647 |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers out | (24,900) | (24,900) | (24,900) | - | - | - | - | - |
| Total other financing sources (uses) | (24,900) | (24,900) | (24,900) | - | - | - | - | - |
| Net change in fund balances | - | (61,050) | (19,843) | 41,207 | (83,380) | (83,380) | 45,267 | 128,647 |
| Fund balances, July 1 | 67,573 | 67,573 | 67,573 | - | (26,328) | (26,328) | (26,328) | - |
| Fund balances, June 30 | 67,573 | 6,523 | 47,730 | 41,207 | (109,708) | (109,708) | 18,939 | 128,647 |

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | LIBRARY | | | | PARKS DEVELOPMENT | | | |
|--|------------------|-----------|-----------|---|-------------------|-----------|-----------|---|
| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
| | Original | Final | | | Original | Final | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUES: | | | | | | | | |
| Taxes | 3,430,000 | 3,430,000 | 3,332,201 | (97,799) | - | - | - | - |
| Licenses, permits and fees | 53,500 | 53,500 | 47,047 | (6,453) | 288,641 | 288,641 | 520,705 | 232,064 |
| Intergovernmental | 46,000 | 46,000 | 40,459 | (5,541) | - | - | - | - |
| Interest | 6,000 | 6,000 | 13,700 | 7,700 | 2,500 | 2,500 | 23,512 | (2,500) |
| Miscellaneous | 7,000 | 7,000 | 1,689 | (5,311) | - | - | - | - |
| Total revenues | 3,542,500 | 3,542,500 | 3,435,096 | (107,404) | 291,141 | 291,141 | 544,217 | 229,564 |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| Culture and recreation | 3,386,505 | 3,386,505 | 3,150,665 | 235,840 | 534,913 | 534,913 | 162,077 | 372,836 |
| Total expenditures | 3,386,505 | 3,386,505 | 3,150,665 | 235,840 | 534,913 | 534,913 | 162,077 | 372,836 |
| Excess (deficiency) of revenues over (under) expenditures | 155,995 | 155,995 | 284,431 | 128,436 | (243,772) | (243,772) | 382,140 | 602,400 |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers out | (91,543) | (91,543) | (91,543) | - | - | - | - | - |
| Total other financing sources (uses) | (91,543) | (91,543) | (91,543) | - | - | - | - | - |
| Net change in fund balances | 64,452 | 64,452 | 192,888 | 128,436 | (243,772) | (243,772) | 382,140 | 602,400 |
| Fund balances, July 1 | 1,320,933 | 1,320,933 | 1,320,933 | - | 1,600,009 | 1,600,009 | 1,600,009 | - |
| Fund balances, June 30 | 1,385,385 | 1,385,385 | 1,513,821 | 128,436 | 1,356,237 | 1,356,237 | 1,982,149 | 602,400 |

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | RETIREMENT TAX | | | | PARKING GARAGE | | | |
|--|------------------|-------------|-------------|---|------------------|-----------|-----------|---|
| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
| | Original | Final | | | Original | Final | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUES: | | | | | | | | |
| Taxes | 3,251,800 | 3,251,800 | 3,162,794 | (89,006) | - | - | - | - |
| Licenses, permits, and fees | - | - | - | - | 154,000 | 154,000 | 160,476 | 6,476 |
| Miscellaneous | - | - | - | - | 56,000 | 56,000 | 71 | (55,929) |
| Total revenues | 3,251,800 | 3,251,800 | 3,162,794 | (89,006) | 210,000 | 210,000 | 160,547 | (49,453) |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| General government | - | - | 4,181 | (4,181) | 218,509 | 218,509 | 127,555 | 90,954 |
| Total expenditures | - | - | 4,181 | (4,181) | 218,509 | 218,509 | 127,555 | 90,954 |
| Excess (deficiency) of revenues over (under) expenditures | 3,251,800 | 3,251,800 | 3,158,613 | (93,187) | (8,509) | (8,509) | 32,992 | 41,501 |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers in | - | - | - | - | 92,988 | 92,988 | 92,988 | - |
| Transfers out | (3,418,234) | (3,418,234) | (3,418,234) | - | (12,837) | (12,837) | (12,837) | - |
| Total other financing sources (uses) | (3,418,234) | (3,418,234) | (3,418,234) | - | 80,151 | 80,151 | 80,151 | - |
| Net change in fund balances | (166,434) | (166,434) | (259,621) | (93,187) | 71,642 | 71,642 | 113,143 | 41,501 |
| Fund balances, July 1 | 1,295,285 | 1,295,285 | 1,295,285 | - | (687,798) | (687,798) | (687,798) | - |
| Fund balances, June 30 | 1,128,851 | 1,128,851 | 1,035,664 | (93,187) | (616,156) | (616,156) | (574,655) | 41,501 |

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | MEASURE G | | | | ABANDONED VEHICLE | | | |
|--|------------------|-------------|-----------|---|-------------------|----------|----------|---|
| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
| | Original | Final | | | Original | Final | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUES: | | | | | | | | |
| Taxes | 3,712,706 | 3,712,706 | 3,826,188 | 113,482 | - | - | - | - |
| Intergovernmental | - | - | 93,940 | 93,940 | - | - | - | - |
| Licenses, permits and fees | - | - | - | - | 60,000 | 60,000 | 58,731 | (1,269) |
| Interest | 2,440 | 2,440 | 38,674 | 36,234 | - | - | - | - |
| Total revenues | 3,715,146 | 3,715,146 | 3,958,802 | 243,656 | 60,000 | 60,000 | 58,731 | (1,269) |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| Public safety | 4,110,533 | 4,925,533 | 3,677,699 | 1,247,834 | 82,912 | 82,912 | 82,912 | - |
| Total expenditures | 4,110,533 | 4,925,533 | 3,677,699 | 1,247,834 | 82,912 | 82,912 | 82,912 | - |
| Excess (deficiency) of revenues over (under) expenditures | (395,387) | (1,210,387) | 281,103 | 1,491,490 | (22,912) | (22,912) | (24,181) | (1,269) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers in | - | - | - | - | 40,000 | 40,000 | 40,000 | - |
| Total other financing sources (uses) | - | - | - | - | 40,000 | 40,000 | 40,000 | - |
| Net change in fund balances | (395,387) | (1,210,387) | 281,103 | 1,491,490 | 17,088 | 17,088 | 15,819 | (1,269) |
| Fund balances, July 1 | 2,920,737 | 2,920,737 | 2,920,737 | - | (22,597) | (22,597) | (22,597) | - |
| Fund balances, June 30 | 2,525,350 | 1,710,350 | 3,201,840 | 1,491,490 | (5,509) | (5,509) | (6,778) | (1,269) |

CITY OF WATSONVILLE, CALIFORNIA
NONMAJOR SPECIAL REVENUE FUNDS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | INCLUSIONARY HOUSING | | | | SB 1 - GAS TAX | | | |
|--|----------------------|-----------|-----------|---|------------------|---------|---------|---|
| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
| | Original | Final | | | Original | Final | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUES: | | | | | | | | |
| Licenses, permits and fees | 82,000 | 82,000 | 191,101 | 109,101 | 600,000 | 600,000 | 370,884 | (229,116) |
| Interest | 10,000 | 10,000 | 26,875 | 16,875 | - | - | 721 | - |
| Miscellaneous | 5,000 | 5,000 | 58,132 | 53,132 | - | - | - | - |
| Total revenues | 97,000 | 97,000 | 276,108 | 179,108 | 600,000 | 600,000 | 371,605 | (229,116) |
| EXPENDITURES: | | | | | | | | |
| Current: | | | | | | | | |
| Housing | 619,367 | 649,367 | 262,281 | 387,086 | - | - | - | - |
| Total expenditures | 619,367 | 649,367 | 262,281 | 387,086 | - | - | - | - |
| Excess (deficiency) of revenues over (under) expenditures | (522,367) | (552,367) | 13,827 | 566,194 | 600,000 | 600,000 | 371,605 | (229,116) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Transfers out | (50,000) | (50,000) | (4,074) | 45,926 | - | - | - | - |
| Total other financing sources (uses) | (50,000) | (50,000) | (4,074) | 45,926 | - | - | - | - |
| Net change in fund balance | (572,367) | (602,367) | 9,753 | 612,120 | 600,000 | 600,000 | 371,605 | (229,116) |
| Fund balance, July 1 | 2,100,172 | 2,100,172 | 2,100,172 | - | - | - | - | - |
| Fund balance, June 30 | 1,527,805 | 1,497,805 | 2,109,925 | 612,120 | 600,000 | 600,000 | 371,605 | (229,116) |

CITY OF WATSONVILLE, CALIFORNIA**NONMAJOR SPECIAL REVENUE FUNDS****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

| | MEASURE D | | |
|--|------------------|---------|------------------------------|
| | Budgeted Amounts | | Variance With |
| | Original | Final | Final Budget - |
| | \$ | \$ | Positive (Negative) \$ |
| REVENUES: | | | |
| Taxes | 750,000 | 750,000 | 874,413 |
| Interest | - | - | 3,989 |
| Total revenues | 750,000 | 750,000 | 878,402 |
| EXPENDITURES: | | | |
| Current: | | | |
| Streets | 200,000 | 200,000 | 46,200 |
| Total expenditures | 200,000 | 200,000 | 46,200 |
| Excess (deficiency) of revenues over (under) expenditures | 550,000 | 550,000 | 832,202 |
| Net change in fund balance | 550,000 | 550,000 | 832,202 |
| Fund balance, July 1 | - | - | - |
| Fund balance, June 30 | 550,000 | 550,000 | 832,202 |

CITY OF WATSONVILLE, CALIFORNIA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

| | Budgeted Amounts | | Actual | Variance With Final Budget - Positive (Negative) |
|--|------------------|-----------|-----------|---|
| | Original | Final | | |
| | \$ | \$ | \$ | \$ |
| REVENUES: | | | | |
| Intergovernmental | 38,719 | 38,719 | 36,049 | (2,670) |
| Special assessment | 60,685 | 60,685 | 58,096 | (2,589) |
| Total revenues | 99,404 | 99,404 | 94,145 | (5,259) |
| EXPENDITURES: | | | | |
| Debt service: | | | | |
| Principal | 463,833 | 463,833 | 462,663 | 1,170 |
| Interest and fiscal charges | 157,247 | 157,247 | 161,449 | (4,202) |
| Total expenditures | 621,080 | 621,080 | 624,112 | (3,032) |
| Excess (deficiency) of revenues over (under) expenditures | (521,676) | (521,676) | (529,967) | (8,291) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 521,676 | 521,676 | 521,677 | 1 |
| Total other financing sources (uses) | 521,676 | 521,676 | 521,677 | 1 |
| Net change in fund balance | - | - | (8,290) | (8,290) |
| Fund balance, July 1 | 131,101 | 131,101 | 131,101 | - |
| Fund balance, June 30 | 131,101 | 131,101 | 122,811 | (8,290) |

STATISTICAL SECTION

This part of the City of Watsonville’s comprehensive annual financial report presents detailed information as a context for the understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government’s overall financial health.

| Contents | Page |
|--|-------------|
| Financial Trends | 109 |
| These schedules contain trend information to help the reader understand how the city’s financial performance and well-being have changed over time. | |
| Revenue Capacity | 114 |
| These schedules contain information to help the reader assess the City’s most significant local revenue source, the property tax. | |
| Debt Capacity | 119 |
| These schedules present information to help the reader assess the affordability of the city’s current levels of outstanding debt and the city’s ability to issue additional debt in the future. | |
| Demographic and Economic Information | 123 |
| These schedules offer the demographic and economic indicators to help the reader understand the environment within which the city’s financial activities take place. | |
| Operating Information | 126 |
| These schedules contain service and infrastructure data to help the reader understand how the information in the city’s financial report relates to the services the city provides and the activities it performs. | |

SOURCE: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

CITY OF WATSONVILLE, CALIFORNIA

Net Position By Component
Last Ten Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|---|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Governmental activities | | | | | | | | | | |
| Net investment in capital assets | 116,232 | 114,050 | 112,462 | 128,634 | 121,354 | 118,302 | 114,148 | 110,806 | 111,256 | 108,892 |
| Restricted | 23,467 | 31,320 | 46,586 | 39,086 | 41,689 | 42,945 | 44,188 | 16,754 | 16,496 | 19,849 |
| Unrestricted | 14,074 | 2,737 | (18,060) | (7,011) | (4,812) | (2,634) | (39,888) | (7,184) | (3,294) | 475 |
| Total governmental activities net position | <u>153,773</u> | <u>148,107</u> | <u>140,988</u> | <u>160,709</u> | <u>158,231</u> | <u>158,613</u> | <u>118,448</u> | <u>120,376</u> | <u>124,458</u> | <u>129,216</u> |
| Business-type activities | | | | | | | | | | |
| Net investment in capital assets | 95,129 | 98,788 | 101,914 | 99,867 | 100,375 | 99,277 | 98,484 | 94,655 | 96,034 | 95,782 |
| Restricted | - | - | 2,834 | - | - | - | - | - | - | - |
| Unrestricted | 21,837 | 16,476 | 4,612 | 8,671 | 6,562 | 10,865 | (2,581) | 2,587 | 5,524 | 9,085 |
| Total business-type activities net position | <u>116,966</u> | <u>115,264</u> | <u>109,360</u> | <u>108,538</u> | <u>106,937</u> | <u>110,142</u> | <u>95,903</u> | <u>97,242</u> | <u>101,558</u> | <u>104,867</u> |
| Primary government | | | | | | | | | | |
| Net investment in capital assets | 211,361 | 212,838 | 214,376 | 228,501 | 221,729 | 217,579 | 212,632 | 205,461 | 207,290 | 204,674 |
| Restricted | 23,467 | 31,320 | 49,420 | 39,086 | 41,689 | 42,945 | 44,188 | 16,754 | 16,496 | 19,849 |
| Unrestricted | 35,911 | 19,213 | (13,448) | 1,660 | 1,750 | 8,231 | (42,469) | (4,597) | 2,230 | 9,560 |
| Total primary government net position | <u>270,739</u> | <u>263,371</u> | <u>250,348</u> | <u>269,247</u> | <u>265,168</u> | <u>268,755</u> | <u>214,351</u> | <u>217,618</u> | <u>226,016</u> | <u>234,083</u> |

CITY OF WATSONVILLE, CALIFORNIA

Changes In Net Position
Last Ten Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|---|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Expenses: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| General government | 10,777 | 9,100 | 8,010 | 7,729 | 7,140 | 11,773 | 5,494 | 7,151 | 8,257 | 7,032 |
| Public safety | 24,161 | 22,752 | 22,258 | 18,888 | 21,249 | 23,020 | 25,716 | 27,751 | 27,382 | 30,972 |
| Housing | 1,413 | 8,734 | 6,118 | 3,091 | 1,543 | 820 | 1,298 | 1,389 | 2,318 | 1,158 |
| Highways and streets | 4,686 | 6,656 | 7,775 | 8,926 | 7,110 | 6,708 | 4,697 | 3,043 | 6,348 | 5,974 |
| Culture and recreation | 5,509 | 7,393 | 7,498 | 7,510 | 7,511 | 7,334 | 7,916 | 8,613 | 7,817 | 8,591 |
| Interest on long term debt | 3,384 | 3,269 | 3,089 | 1,153 | 346 | 189 | 132 | 112 | 146 | 158 |
| Total government activities | 49,930 | 57,904 | 54,748 | 47,297 | 44,899 | 49,844 | 45,253 | 48,059 | 52,268 | 53,885 |
| Business-type activities: | | | | | | | | | | |
| Water | 13,871 | 11,483 | 11,187 | 11,213 | 11,249 | 11,001 | 11,583 | 15,537 | 13,851 | 12,038 |
| Sewer | 8,886 | 9,335 | 9,342 | 9,842 | 9,863 | 9,298 | 10,741 | 10,731 | 10,272 | 13,175 |
| Solid Waste | 8,873 | 8,460 | 8,165 | 8,583 | 8,557 | 8,699 | 10,136 | 9,181 | 10,976 | 12,758 |
| Airport | 2,863 | 2,364 | 2,520 | 2,539 | 3,347 | 2,888 | 2,580 | 2,225 | 2,684 | 3,382 |
| Fiber Optic | - | - | - | - | - | - | - | 8 | 41 | 46 |
| Total business-type activities | 34,493 | 31,642 | 31,214 | 32,177 | 33,016 | 31,886 | 35,040 | 37,682 | 37,824 | 41,399 |
| Total primary government | 84,423 | 89,546 | 85,962 | 79,474 | 77,915 | 81,730 | 80,293 | 85,741 | 90,092 | 95,284 |
| Program Revenues: | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| General government | 3,894 | 4,768 | 4,177 | 3,095 | 3,489 | 9,249 | 5,488 | 5,524 | 8,426 | 8,285 |
| Public safety | 2,068 | 1,793 | 1,556 | 1,703 | 1,623 | 1,549 | 1,396 | 1,853 | 1,780 | 1,875 |
| Housing | 477 | 512 | 3,612 | 903 | 97 | 1,619 | 391 | - | 675 | 289 |
| Highways and streets | 2,779 | 2,757 | 3,586 | 16 | 1,579 | 2,501 | 1,585 | 1,858 | 2,284 | 2,663 |
| Culture and recreation | 3,632 | 1,029 | 697 | 1,165 | 739 | 827 | 1,330 | 833 | 952 | 1,189 |
| Operating grants and contributions | 5,220 | 5,311 | 3,443 | 6,906 | 4,926 | 2,657 | 2,393 | 3,590 | 3,310 | 2,772 |
| Capital grants and contributions | 1,737 | 2,732 | 2,546 | 962 | - | - | - | - | - | - |
| Total governmental activities program revenues | 19,807 | 18,902 | 19,617 | 14,750 | 12,453 | 18,402 | 12,583 | 13,658 | 17,427 | 17,073 |
| Business-type activities: | | | | | | | | | | |
| Charges for services: | | | | | | | | | | |
| Water | 12,884 | 9,089 | 8,513 | 10,119 | 9,964 | 12,363 | 12,075 | 12,756 | 14,617 | 15,243 |
| Sewer | 6,449 | 7,557 | 10,140 | 8,782 | 9,128 | 10,864 | 10,046 | 14,307 | 12,069 | 12,475 |
| Solid Waste | 7,798 | 7,890 | 8,521 | 8,712 | 8,952 | 9,580 | 10,471 | 10,746 | 11,225 | 12,549 |
| Airport | 2,239 | 2,057 | 1,973 | 2,229 | 2,254 | 1,844 | 1,956 | 2,159 | 1,937 | 2,576 |
| Fiber Optic | - | - | - | - | - | - | - | 23 | 44 | 43 |
| Operating grants and contributions | 669 | 1,046 | 1,828 | 990 | 784 | 603 | 901 | 759 | 1,373 | 1,430 |
| Capital grants and contributions | 1,393 | 2,018 | 128 | 172 | 994 | 1,156 | 590 | 659 | 1,104 | 311 |
| Total business-type activities program revenues | 31,432 | 29,657 | 31,103 | 31,004 | 32,076 | 36,410 | 36,039 | 41,409 | 42,369 | 44,627 |

Continued

CITY OF WATSONVILLE, CALIFORNIA

**Changes In Net Position
Last Ten Fiscal Years**
(accrual basis of accounting)
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Net (expense) / revenue | | | | | | | | | | |
| Governmental activities | (30,318) | (39,001) | (35,132) | (32,547) | (32,448) | (31,442) | (32,670) | (34,401) | (34,840) | (37,564) |
| Business-type activities | (1,985) | (1,985) | (111) | (1,174) | (939) | 4,525 | 999 | 3,727 | 4,544 | 3,227 |
| Total primary government net expense | <u>(32,303)</u> | <u>(40,986)</u> | <u>(35,243)</u> | <u>(33,721)</u> | <u>(33,387)</u> | <u>(26,917)</u> | <u>(31,671)</u> | <u>(30,674)</u> | <u>(30,296)</u> | <u>(34,337)</u> |
| General Revenues and Other Changes in Net Position | | | | | | | | | | |
| Governmental activities: | | | | | | | | | | |
| Taxes | | | | | | | | | | |
| Property taxes | 20,759 | 18,082 | 17,380 | 13,825 | 12,383 | 12,090 | 11,868 | 12,846 | 13,300 | 13,436 |
| Sales taxes | 9,969 | 9,207 | 10,101 | 9,774 | 9,276 | 11,436 | 13,988 | 16,693 | 16,083 | 18,393 |
| Utility users taxes | 2,775 | 2,711 | 2,938 | 2,934 | 3,068 | 3,029 | 3,437 | 3,183 | 3,679 | 4,019 |
| Franchise taxes | 159 | 401 | 606 | 365 | 417 | 365 | 404 | 456 | 471 | 436 |
| Other taxes | 977 | 961 | 1,075 | 708 | 1,069 | 1,120 | 1,295 | 1,457 | 1,792 | 2,060 |
| Intergovernmental revenue not restricted | 1,051 | 1,299 | 1,803 | 1,255 | 1,235 | 1,686 | 1,475 | 1,120 | 1,009 | 1,048 |
| Transfers | - | - | - | - | 171 | 211 | 226 | 232 | 308 | 270 |
| Unrestricted investment earnings | 1,126 | 1,245 | 873 | 2,190 | 2,173 | 1,890 | 1,916 | 2,098 | 2,218 | 2,660 |
| Total governmental activities | <u>36,816</u> | <u>33,906</u> | <u>34,776</u> | <u>31,051</u> | <u>29,792</u> | <u>31,827</u> | <u>34,609</u> | <u>38,085</u> | <u>38,860</u> | <u>42,322</u> |
| Business-type activities: | | | | | | | | | | |
| Transfers | - | - | - | - | (171) | (211) | (226) | (231) | (308) | (270) |
| Unrestricted investment earnings | 3,780 | 455 | 1,116 | 724 | 291 | 263 | 269 | 201 | 206 | 352 |
| Total business-type activities | <u>3,780</u> | <u>455</u> | <u>1,116</u> | <u>724</u> | <u>120</u> | <u>52</u> | <u>43</u> | <u>-30</u> | <u>(102)</u> | <u>82</u> |
| Total primary government | <u>40,596</u> | <u>34,361</u> | <u>35,892</u> | <u>31,775</u> | <u>29,912</u> | <u>31,879</u> | <u>34,652</u> | <u>38,055</u> | <u>38,758</u> | <u>42,404</u> |
| Change in net position before extraordinary item | | | | | | | | | | |
| Governmental activities | 6,498 | (5,095) | (356) | (1,496) | (2,656) | 385 | 1,939 | 3,683 | 4,020 | 4,758 |
| Business-type activities | 1,795 | (1,530) | 1,005 | (450) | (819) | 4,577 | 1,043 | 3,696 | 4,442 | 3,309 |
| Total primary government | <u>8,293</u> | <u>(6,625)</u> | <u>649</u> | <u>(1,946)</u> | <u>(3,475)</u> | <u>4,962</u> | <u>2,982</u> | <u>7,379</u> | <u>8,462</u> | <u>8,067</u> |
| Extraordinary items | | | | | | | | | | |
| Governmental activities | - | - | - | 21,010 | - | - | - | - | - | - |
| Total primary government | <u>-</u> | <u>-</u> | <u>-</u> | <u>21,010</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | | | | | | | | | | |
| Governmental activities | 6,498 | (5,095) | (356) | 19,514 | (2,656) | 385 | 1,939 | 3,683 | 4,020 | 4,758 |
| Business-type activities | 1,795 | (1,530) | 1,005 | (450) | (819) | 4,577 | 1,043 | 3,696 | 4,442 | 3,309 |
| Total primary government | <u>8,293</u> | <u>(6,625)</u> | <u>649</u> | <u>19,064</u> | <u>(3,475)</u> | <u>4,962</u> | <u>2,982</u> | <u>7,379</u> | <u>8,462</u> | <u>8,067</u> |

Concluded

CITY OF WATSONVILLE, CALIFORNIA

Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| General fund | | | | | | | | | | |
| Nonspendable | N/A | N/A | 69 | 44 | 65 | 56 | 35 | 3,365 | 2,965 | 2,588 |
| Restricted | 2,749 | 2,749 | - | - | - | - | - | - | - | - |
| Unassigned | 72 | (852) | 1,530 | 4,305 | 4,428 | 1,881 | 4,595 | 4,228 | 6,057 | 10,342 |
| Total general fund | <u>2,821</u> | <u>1,897</u> | <u>1,599</u> | <u>4,349</u> | <u>4,493</u> | <u>1,937</u> | <u>4,630</u> | <u>7,593</u> | <u>9,022</u> | <u>12,930</u> |
| All other governmental funds | | | | | | | | | | |
| Restricted, reported in | | | | | | | | | | |
| Special revenue funds | 15,281 | 11,757 | 10,483 | 12,158 | 12,069 | 12,021 | 14,566 | 18,216 | 17,880 | 20,926 |
| Debt service funds | 8,118 | 6,394 | 3,064 | 932 | 87 | 79 | 72 | 125 | 131 | 123 |
| Unassigned | - | - | (4,110) | (1,967) | (1,021) | (910) | (1,069) | (770) | (740) | (728) |
| Total all other governmental funds | <u>23,399</u> | <u>18,151</u> | <u>13,547</u> | <u>11,123</u> | <u>11,135</u> | <u>11,190</u> | <u>13,569</u> | <u>17,571</u> | <u>17,271</u> | <u>20,321</u> |

CITY OF WATSONVILLE, CALIFORNIA

Net Change in Fund Balances of Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|---|--------------------|----------------|----------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenues | | | | | | | | | | |
| Taxes | 35,781 | 32,660 | 33,903 | 28,860 | 27,448 | 29,725 | 32,466 | 35,754 | 36,198 | 39,392 |
| Licenses, permits, and fees | 4,221 | 2,970 | 3,506 | 3,272 | 2,757 | 4,855 | 5,248 | 5,795 | 5,885 | 6,642 |
| Intergovernmental | 8,889 | 5,608 | 4,461 | 7,670 | 4,530 | 3,032 | 2,458 | 3,336 | 3,410 | 3,455 |
| Charges for services | 3,581 | 4,326 | 5,243 | 4,773 | 4,704 | 2,447 | 2,458 | 2,945 | 2,770 | 3,224 |
| Fines | 666 | 984 | 757 | 804 | 588 | 622 | 552 | 690 | 737 | 723 |
| Interest | 1,783 | 1,650 | 1,127 | 2,344 | 2,309 | 2,084 | 2,076 | 2,168 | 2,435 | 2,869 |
| Special assessment | 144 | 147 | 112 | 172 | 229 | 92 | 91 | 77 | 60 | 58 |
| Miscellaneous | 3,519 | 1,929 | 449 | 956 | 475 | 825 | 1,995 | 2,810 | 1,871 | 2,491 |
| Total revenues | <u>58,584</u> | <u>50,274</u> | <u>49,558</u> | <u>48,851</u> | <u>43,040</u> | <u>43,682</u> | <u>47,344</u> | <u>53,575</u> | <u>53,366</u> | <u>58,854</u> |
| Expenditures | | | | | | | | | | |
| Current: | | | | | | | | | | |
| General government | 10,924 | 7,567 | 6,021 | 5,594 | 6,407 | 10,447 | 5,574 | 6,989 | 7,556 | 7,978 |
| Public safety | 20,807 | 21,738 | 20,250 | 18,473 | 20,353 | 20,406 | 22,707 | 24,860 | 24,271 | 26,744 |
| Housing | 1,244 | 8,720 | 5,919 | 3,191 | 1,566 | 820 | 1,298 | 1,389 | 2,318 | 1,158 |
| Streets | 3,913 | 6,084 | 6,844 | 8,598 | 6,509 | 5,972 | 4,252 | 1,672 | 5,772 | 5,385 |
| Culture and recreation | 4,162 | 6,039 | 5,745 | 6,152 | 6,051 | 6,505 | 7,172 | 7,090 | 7,079 | 7,837 |
| Capital outlay | 8,997 | 417 | 1,877 | 3,929 | 1,134 | 1,581 | 817 | 3,286 | 4,833 | 2,404 |
| Debt service: | | | | | | | | | | |
| Principal | 1,877 | 1,993 | 8,549 | 2,139 | 1,381 | 439 | 495 | 429 | 478 | 463 |
| Interest and fiscal charges | 3,436 | 3,259 | 3,086 | 1,267 | 299 | 195 | 159 | 183 | 173 | 161 |
| Total expenditures | <u>55,360</u> | <u>55,817</u> | <u>58,291</u> | <u>49,343</u> | <u>43,700</u> | <u>46,365</u> | <u>42,474</u> | <u>45,898</u> | <u>52,480</u> | <u>52,130</u> |
| Excess (deficiency) of revenues over (under) expenditures | 3,224 | (5,543) | (8,733) | (492) | (660) | (2,683) | 4,870 | 7,677 | 886 | 6,724 |
| Other financing sources (uses) | | | | | | | | | | |
| Bond/note proceeds | - | - | - | 3,014 | 695 | 191 | - | - | - | - |
| Transfers in | 7,169 | 9,460 | 18,321 | 5,883 | 4,388 | 3,238 | 3,340 | 3,692 | 3,562 | 4,464 |
| Transfers out | (7,169) | (9,460) | (18,321) | (5,883) | (4,217) | (3,309) | (3,150) | (3,496) | (3,290) | (4,230) |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,014</u> | <u>866</u> | <u>120</u> | <u>190</u> | <u>196</u> | <u>272</u> | <u>234</u> |
| Net change in fund balances before extraordinary items | 3,224 | (5,543) | (8,733) | 2,522 | 206 | (2,563) | 5,060 | 7,873 | 1,158 | 6,958 |
| Extraordinary items | - | - | - | -228 | - | - | - | - | - | - |
| Net change in fund balances | <u>3,224</u> | <u>(5,543)</u> | <u>(8,733)</u> | <u>2,294</u> | <u>206</u> | <u>(2,563)</u> | <u>5,060</u> | <u>7,873</u> | <u>1,158</u> | <u>6,958</u> |
| Debt service as a percentage of noncapital expenditures | 12.9% | 10.5% | 26.0% | 8.1% | 4.1% | 1.4% | 1.6% | 1.5% | 1.4% | 1.3% |

** Capital Outlay reconciliation amount was used for the percentage calculation. It reduced noncapital expenditures.

CITY OF WATSONVILLE, CALIFORNIA

General Governmental Tax Revenues By Source

Last Ten Fiscal Years

(modified accrual basis of accounting)

(amounts expressed in thousands)

| Fiscal Year | Property Tax | Sales Tax | Franchise Tax | Utility User Tax | Other Tax | Total |
|--------------------|---------------------|------------------|----------------------|-------------------------|------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| 2009 | 20,850 | 9,969 | 159 | 2,775 | 977 | 34,730 |
| 2010 | 18,082 | 9,207 | 401 | 2,711 | 961 | 31,362 |
| 2011 | 13,825 | 9,774 | 9,276 | 12,383 | 3,068 | 48,326 |
| 2012 | 12,383 | 9,276 | 417 | 3,068 | 1,069 | 26,213 |
| 2013 | 12,090 | 11,436 | 365 | 3,029 | 1,120 | 28,040 |
| 2014 | 12,090 | 11,436 | 365 | 3,029 | 1,120 | 28,040 |
| 2015 | 11,868 | 13,988 | 404 | 3,437 | 1,295 | 30,992 |
| 2016 | 12,846 | 16,693 | 455 | 3,183 | 1,457 | 34,634 |
| 2017 | 13,300 | 16,083 | 471 | 3,679 | 1,793 | 35,326 |
| 2018 | 13,436 | 18,393 | 436 | 4,019 | 3,108 | 39,392 |

Source: City of Watsonville Finance Department

CITY OF WATSONVILLE, CALIFORNIA

**Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years**
(amounts expressed in thousands)

| Fiscal Year Ended June 30 | Residential Property | Commercial Property | Industrial Property | Other Property | Unsecured Property | Less: Tax Exempt Property | Taxable Assessed Value | Total Direct Tax Rate (1) | Estimated Actual Taxable Value | Assessed Value as a % of Actual Taxable Value |
|--|---------------------------------|--------------------------------|--------------------------------|---------------------------|-------------------------------|--|---------------------------------------|--|---|--|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | \$ | % |
| 2009 | 2,526,547 | 555,128 | 106,765 | 335,411 | 243,733 | 156,713 | 3,610,871 | 1.13 | 3,610,871 | 1.00 |
| 2010 | 2,105,051 | 572,622 | 111,366 | 333,863 | 233,020 | 146,407 | 3,209,515 | 1.14 | 3,209,515 | 1.00 |
| 2011 | 2,060,427 | 570,451 | 109,662 | 330,169 | 220,499 | 162,368 | 3,128,840 | 1.14 | 3,128,840 | 1.00 |
| 2012 | 2,072,140 | 566,131 | 104,236 | 332,645 | 211,702 | 169,521 | 3,117,333 | 1.15 | 3,117,333 | 1.00 |
| 2013 | 2,025,747 | 565,486 | 102,758 | 336,060 | 217,213 | 177,934 | 3,069,330 | 1.15 | 3,069,330 | 1.00 |
| 2014 | 2,091,245 | 544,645 | 103,080 | 329,813 | 212,372 | 171,985 | 3,109,170 | 1.18 | 3,109,170 | 1.00 |
| 2015 | 2,316,558 | 548,165 | 106,401 | 350,110 | 231,586 | 185,687 | 3,367,133 | 1.18 | 3,367,133 | 1.00 |
| 2016 | 2,456,187 | 563,026 | 115,344 | 361,791 | 235,517 | 200,675 | 3,531,190 | 1.18 | 3,531,190 | 1.00 |
| 2017 | 2,606,044 | 626,252 | 135,130 | 394,814 | 229,211 | 229,936 | 3,761,515 | 1.16 | 3,761,515 | 1.00 |
| 2018 | 2,757,691 | 609,505 | 168,676 | 435,526 | 259,425 | 252,874 | 3,977,950 | 1.17 | 3,977,950 | 1.00 |

Notes:

Source: County Assessor Data, MuniServices LLC
Source: 2005-06 and Prior, Previously published CAFR Reports
Source: (-) Data Unavailable
*Other value contains unitary amount of \$31,120
**Unsecured value includes aircraft

CITY OF WATSONVILLE, CALIFORNIA

**Property Tax Rates - Direct
and Overlapping
(Per \$100 of Assessed Value)
Last Ten Years**

| Year | Basic Countywide Levy | School Districts | Retirement | Total |
|-------------|--------------------------------------|-----------------------------|-------------------|--------------|
| 2009 | 1.000 | 0.060 | 0.077 | 1.137 |
| 2010 | 1.000 | 0.066 | 0.077 | 1.143 |
| 2011 | 1.000 | 0.066 | 0.077 | 1.143 |
| 2012 | 1.000 | 0.071 | 0.077 | 1.148 |
| 2013 | 1.000 | 0.075 | 0.077 | 1.152 |
| 2014 | 1.000 | 0.109 | 0.077 | 1.186 |
| 2015 | 1.000 | 0.098 | 0.077 | 1.175 |
| 2016 | 1.000 | 0.101 | 0.077 | 1.178 |
| 2017 | 1.000 | 0.086 | 0.077 | 1.163 |
| 2018 | 1.000 | 0.094 | 0.077 | 1.171 |

Source: City of Watsonville - Accounts Payable Department/MuniServices, LLC

CITY OF WATSONVILLE, CALIFORNIA
Principal Property Taxpayers
June 30, 2018
(amounts expressed in thousands)

| | 2018 | | | 2009 | | |
|--------------------------------|---------------------------------------|-------------|---|---------------------------------------|-------------|---|
| | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value | Taxable Assessed Value | Rank | Percentage of Total Taxable Assessed Value |
| | \$ | | % | \$ | | % |
| Watsonville Hospital Corp. | 60,931 | 1 | 1.53 | 59,008 | 1 | 1.63 |
| Ow George Jr Trustee | 51,853 | 2 | 1.30 | 16,259 | 6 | 0.45 |
| S. Martinelli Co. | 40,063 | 3 | 1.01 | 29,275 | 2 | 0.08 |
| Granite Construction Co. | 29,945 | 4 | 0.75 | 20,743 | 3 | 0.57 |
| Freedom Assoc LLC | 23,186 | 5 | 0.58 | | | |
| Harvest Drive Properties, LLC | 20,079 | 6 | 0.52 | | | |
| Del Mar Food Products Corp. | 20,421 | 7 | 0.51 | | | |
| Hd Development of Maryland Inc | 19,883 | 8 | 0.50 | 17,832 | 4 | 0.49 |
| Tkg Iii Watsonville LLC | 19,686 | 9 | 0.49 | | | |
| Wri Freedom Center LP | 17,804 | 10 | 0.45 | 15,731 | 7 | 0.44 |
| Deutsche Bank National Trust | | | | 17,009 | 5 | 0.47 |
| Albertsons Inc. | | | | 15,594 | 8 | 0.43 |
| Watsonville Square Llc | | | | 14,544 | 9 | 0.4 |
| Meadows Mobile Manor Llc | | | | 13,888 | 10 | 0.38 |
| Totals | <u>303,851</u> | | <u>7.64</u> | <u>219,883</u> | | <u>5.34</u> |

Source: MBIA Muni Services Company

CITY OF WATSONVILLE, CALIFORNIA

Property Tax Collection Last Ten Fiscal Years

| Fiscal Year | Total * Tax Levy | Current Tax * Collections | Percent of Levy Collected | Supplemental Tax Collections | Delinquent Tax * Collections | Total Tax Collections |
|--------------------|-----------------------------|--------------------------------------|--|---|---|----------------------------------|
| | \$ | \$ | | \$ | \$ | \$ |
| 2009 | 7,431,394 | 7,431,394 | 100% | 100,385 | - | 7,531,779 |
| 2010 | 6,621,626 | 6,621,626 | 100% | 32,949 | - | 6,654,575 |
| 2011 | 6,314,307 | 6,314,307 | 100% | 37,941 | - | 6,352,248 |
| 2012 | 6,445,789 | 6,445,789 | 100% | 59,830 | - | 6,505,619 |
| 2013 | 7,125,579 | 7,125,579 | 100% | 30,475 | - | 7,156,054 |
| 2014 | 8,242,044 | 8,242,044 | 100% | 69,092 | - | 8,311,136 |
| 2015 | 7,837,187 | 7,837,187 | 100% | 112,079 | - | 7,949,266 |
| 2016 | 7,801,004 | 7,801,004 | 100% | 177,264 | - | 7,978,268 |
| 2017 | 8,615,411 | 8,615,411 | 100% | 200,484 | - | 8,815,895 |
| 2018 | 8,605,570 | 8,605,570 | 100% | 225,296 | - | 8,830,866 |

Source: City of Watsonville

* Property tax collection equals property tax collected due to agreement with the County of Santa Cruz.

With this agreement the City does not receive any Delinquent tax collection.

CITY OF WATSONVILLE, CALIFORNIA

**Ratio of Outstanding Debt By Type
Last Ten Fiscal Years**

(amounts expressed in thousands, except per capita amount)

| Fiscal Year | Governmental Activities | | | Business-Type Activities | | | Total Primary Government | Percentage of Personal Income | Per Capita |
|------------------------|--|--|---------------------------|---------------------------------|------------------------------|---------------------------|---|--|-----------------------|
| | General Obligation Debt | Special Assessment Debt | Capital Leases | Revenue Bonds | Loans & Notes | Capital Leases | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | | |
| 2009 | 25,984 | 868 | 3,934 | 39,247 | - | 1,726 | 71,759 | 8.63% | 1.392 |
| 2010 | 25,003 | 773 | 3,017 | 37,937 | - | 1,400 | 68,130 | 8.36% | 1.322 |
| 2011 | 24,658 | 674 | 2,070 | 33,311 | 3,519 | - | 64,232 | 8.01% | 1.253 |
| 2012* | 4,800 | 575 | 1,087 | 32,237 | 2,606 | - | 41,305 | 5.95% | 0.800 |
| 2013 | 5,241 | 467 | 86 | 31,064 | 5,321 | - | 42,179 | 5.81% | 0.817 |
| 2014 | 5,082 | 379 | - | 30,313 | 8,181 | - | 43,955 | 4.90% | 0.852 |
| 2015 | 4,676 | 290 | - | 29,057 | 11,124 | - | 45,147 | 5.22% | 0.875 |
| 2016** | 4,254 | 214 | - | 677 | 347 | - | 5,492 | 0.00% | 0.104 |
| 2017 | 3,818 | 149 | - | 461 | 582 | - | 5,010 | 0.00% | 0.092 |
| 2018 | 3,406 | 98 | - | 235 | 922 | - | 4,661 | 0.47% | 0.090 |

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

1 See the Schedule of Demographic and Economic Statistics on page 128 for the personal income and population data.

* Redevelopment Bonds were removed on 1/31/2012.

** Water Revenue Bonds were removed on 6/30/2016

CITY OF WATSONVILLE, CALIFORNIA

**Ratio of Net General Obligation Debt Outstanding
Last Ten Fiscal Years**
(amounts expressed in thousands, except per capita amount)

| <u>Fiscal Year</u> | <u>General Obligation Debt</u> \$ | <u>Less: Amounts Available in Debt Service Fund</u> \$ | <u>Total</u> \$ | <u>Percentage of Estimated Actual Taxable Value of Property</u> | <u>Per Capita</u> \$ |
|---------------------------|---|--|---------------------------|--|------------------------------------|
| 2009 | 25,003 | 887 | 24,116 | 0.67% | 214 |
| 2010 | 24,658 | 894 | 23,764 | 0.74% | 218 |
| 2011 | 4,800 | 915 | 3,885 | 0.12% | 1,319 |
| 2012 | 5,241 | 932 | 4,309 | 0.14% | 1,198 |
| 2013 | 5,082 | 87 | 4,995 | 0.16% | 1,033 |
| 2014 | 4,676 | 79 | 4,597 | 0.15% | 1,123 |
| 2015 | 4,676 | 72 | 4,604 | 0.15% | 1,121 |
| 2016 | 4,254 | 125 | 4,129 | 0.14% | 1,250 |
| 2017 | 3,818 | 131 | 3,687 | 0.10% | 1,438 |
| 2018 | 3,406 | 123 | 3,283 | 0.08% | 1,615 |

Note: Detail of the City's outstanding debt can be found in the notes to the financial statements.

See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 123 for estimated actual property value data.

Population data can be found in the Schedule of Demographic and Economic Statistics on page 131.

CITY OF WATSONVILLE, CALIFORNIA

**Legal Debt Margin Information
Last Ten Fiscal Years**
(amounts expressed in thousands)

| | Fiscal Year | | | | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Debt limit | 135,408 | 120,357 | 117,333 | 122,989 | 121,772 | 123,043 | 133,232 | 139,945 | 149,679 | 158,656 |
| Total net debt applicable to limit | 25,984 | 25,003 | 24,658 | 4,800 | 5,241 | 5,082 | 4,676 | 4,129 | 3,687 | 3,283 |
| Legal debt margin | <u>109,873</u> | <u>94,356</u> | <u>90,605</u> | <u>117,136</u> | <u>114,555</u> | <u>118,367</u> | <u>128,556</u> | <u>135,816</u> | <u>145,992</u> | <u>155,373</u> |
| Total net debt applicable to the limit as a percentage of debt limit | 19.189% | 20.774% | 21.015% | 3.903% | 4.304% | 4.130% | 3.510% | 2.950% | 2.463% | 2.069% |

Legal Debt Margin Calculation for Fiscal Year 2018

| | |
|--|--------------------------|
| Assessed value | \$ 3,977,950 |
| Add back: exempt real property | <u>252,874</u> |
| Total assessed value | 4,230,824 |
| Debt Limit = 3.75% of assessed valuation | 158,656 |
| Debt applicable to limit | 3,406 |
| Less: Amount set aside for repayment of general obligation debt | <u>123</u> |
| Total net debt applicable to limit | <u>3,283</u> |
| Legal debt margin | <u><u>\$ 155,373</u></u> |

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

Computation of Direct and Overlapping Bonded Debt June 30, 2018

(amounts expressed in thousands, except per capita amount)

| Jurisdiction | Total Debt Outstanding \$ | Percentage Applicable | Estimated Share of Overlapping Debt \$ |
|---|------------------------------------|--------------------------|--|
| Direct Debt: | | | |
| City of Watsonville | | 100% | 658 |
| Total of Direct Debt | | | 658 |
| Overlapping Tax Debt: | | | |
| Cabrillo Joint Community College District | 106,581 | 9.22% | 9,822 |
| Pajaro Valley Unified School District | 179,710 | 26.68% | 47,952 |
| Santa Cruz County Certificates of Participations | 71,964 | 9.29% | 6,681 |
| Santa Cruz County Office of Education | 8,862 | 9.29% | 823 |
| Successor Agency | 11,895 | 100.00% | 11,895 |
| Total Overlapping Debt | 379,012 | | 77,173 |
| Total Direct and Overlapping Bonded Debt | | | 77,831 |

Percentage of overlapping agency's assessed valuation located within boundaries of the city.
Share of Santa Cruz County Emergency Communications Center obligations.
Excludes postretirement liability.

Source: California Municipal Statistics, Inc.

CITY OF WATSONVILLE, CALIFORNIA

**Demographic and Economic Statistics
Last Ten Fiscal Years**

| <u>Fiscal Year</u> | <u>Population (1)</u> | <u>Personal (2) Income (amounts expressed in thousands) \$</u> | <u>Per Capita Personal Income \$</u> | <u>Median Age (3)</u> | <u>School (4) Enrollment</u> | <u>Unemployment Rate (5)</u> |
|---------------------------|------------------------------|---|---|----------------------------------|---|---|
| 2009 | 51,555 | 886,385 | 17.193 | 28.9 | 21,024 | 21.6% |
| 2010 | 51,916 | 889,425 | 17.132 | 27.3 | 19,381 | 23.4% |
| 2011 | 51,243 | 887,062 | 17.311 | 27.3 | 19,542 | 22.4% |
| 2012 | 51,611 | 859,308 | 16.650 | 29.9 | 19,914 | 20.5% |
| 2013 | 51,612 | 873,974 | 16.934 | 29.2 | 20,001 | 19.4% |
| 2014 | 52,508 | 896,824 | 17.080 | 29.7 | 20,362 | 19.3% |
| 2015 | 52,087 | 864,719 | 16.601 | 29 | 20,438 | 19.2% |
| 2016 | 52,891 | 934,271 | 17.664 | 29.9 | 20,354 | 19.2% |
| 2017 | 53,015 | 981,527 | 18.514 | 30.1 | 20,400 | 19.2% |
| 2018 | 53,434 | 1,052,216 | 19.692 | 29.7 | 20,279 | 19.3% |

Source: MuniServices, LLC

- 1.) Population Projections are provided by the California Department of Finance Projections.
- 2.) Income Data is derived from previous income adjusted for inflation.
- 3.) Unemployment Data is provided by the EDD's Bureau of Labor Statistics Department.
- 4.) Data provided by the United States Census Data Sets Tables.

CITY OF WATSONVILLE, CALIFORNIA

**Principal Employers
Current Fiscal Year and Ten Years Ago**

| | 2018 | | | 2009 | | |
|---------------------------------------|---------------------|-------------|--|---------------------|-------------|--|
| | <u>Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> | <u>Employees</u> | <u>Rank</u> | <u>Percentage of Total City Employment</u> |
| Pajaro Valley Unified School District | 4,175 | 1 | 14.86% | 2,057 | 1 | 11.82% |
| Monterey Mushrooms Inc. | 922 | 2 | 3.28% | | | |
| Watsonville Community Hospital | 573 | 3 | 2.04% | 714 | 2 | 4.10% |
| Granite Construction | 427 | 4 | 1.52% | 200 | 8 | 1.15% |
| City of Watsonville * | 413 | 5 | 1.47% | 392 | 4 | 2.25% |
| Salud Para La Gente | 403 | 6 | 1.43% | | | |
| Fox Factory | 370 | 7 | 1.32% | 400 | 3 | 2.30% |
| West Marine Products | 300 | 8 | 1.07% | 357 | 5 | 2.05% |
| S Martinelli & Co. | 275 | 9 | 0.98% | 240 | 6 | 1.38% |
| Smith & Vandiver | 260 | 10 | 0.93% | | | |
| Target | | | | 211 | 7 | 1.21% |
| Couch Distributing | | | | 170 | 9 | 0.98% |
| Home Depot | | | | 160 | 10 | 0.92% |
| Total | <u><u>8,118</u></u> | | <u><u>28.90%</u></u> | <u><u>4,901</u></u> | | <u><u>28.17%</u></u> |

Source: Orange County Assessor data, MuniServices, LLC

Source: 2008-09 previously published CAFR

* Includes Certificated, classified & Admin.

**Includes contractors.

(1) Total City Labor Force provided by EDD Labor Force Data.

CITY OF WATSONVILLE, CALIFORNIA

Full-time Equivalent City Government Employees by Function Last Ten Fiscal Years

| Function | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------------|------|------|------|------|------|------|------|------|------|------|
| General Government | 7 | 6 | 6 | 7 | 6 | 6 | 7 | 7 | 7 | 17 |
| City Clerk | 4 | 4 | 4 | 4 | 3 | 3 | 3 | 3 | 4 | 3 |
| Community Development | 16 | 16 | 15 | 16 | 13 | 14 | 13 | 11.5 | 12 | 15 |
| Finance | 25 | 24 | 22 | 22 | 22 | 17 | 16 | 16 | 16 | 8 |
| Fire | 40 | 36 | 36 | 36 | 36 | 35 | 41 | 41 | 40 | 42 |
| Police: | | | | | | | | | | |
| Officers | 75 | 74 | 70 | 70 | 73 | 68 | 64 | 67.2 | 66 | 75 |
| Civilians | 21 | 19 | 16 | 18 | 19 | 17 | 22 | 26 | 30 | 22 |
| Library | 25 | 25 | 24 | 24 | 29 | 29 | 29 | 27.4 | 27 | 25 |
| Parks & Community Services | 37 | 33 | 28 | 30 | 27 | 27 | 27 | 25.9 | 27 | 31 |
| Public Works | 24 | 22 | 17 | 17 | 16 | 16 | 16 | 14 | 14 | 13 |
| Airport | 7 | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 9 | 10 |
| LLMAD | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Parking Garage | 3 | 3 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Redevelopment and Housing | 8 | 8 | 7 | 10 | 4 | 4 | 4 | 5.2 | 5 | 4 |
| Solid Waste | 36 | 35 | 34 | 34 | 37 | 38 | 36 | 44 | 46 | 48 |
| Wastewater | 38 | 41 | 42 | 41 | 44 | 46 | 47 | 49 | 53 | 55 |
| Water | 27 | 28 | 30 | 30 | 27 | 31 | 34 | 35 | 37 | 40 |
| | 394 | 383 | 362 | 368 | 366 | 361 | 369 | 382 | 394 | 409 |

* Information Services and Geological Information Services Divisions were transferred out of the Fire Department to the General Government Department.

**City Clerk Department was created by City Council and staff moved out of General Government.

Source: City of Watsonville's Biennial Budget documents.

CITY OF WATSONVILLE, CALIFORNIA

**Operating Indicators by Function
Last Ten Fiscal Years**

| Function | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| General Government: | | | | | | | | | | |
| City Council meetings | 27 | 23 | 24 | 25 | 24 | 22 | 27 | 19 | 21 | 25 |
| Resolutions processed | 232 | 186 | 209 | 158 | 169 | 153 | 181 | 199 | 187 | 192 |
| Recruitments | 25 | 12 | 21 | 36 | 29 | 52 | 46 | 59 | 66 | 41 |
| Community Development: | | | | | | | | | | |
| Planning application reviews | 451 | 373 | 341 | 289 | 332 | 259 | 393 | 361 | 369 | 423 |
| Construction inspections | 3,344 | 2,470 | 1,508 | 1,459 | 1,784 | 1,851 | 1,725 | 1,165 | 2,933 | 3,828 |
| Building Permits | 1032 | 1,757 | 1,175 | 766 | 852 | 625 | 768 | 817 | 862 | 1,034 |
| Finance: | | | | | | | | | | |
| Payroll checks issued | 13,446 | 13,344 | 13,575 | 12,784 | 12,336 | 12,203 | 12,327 | 12,511 | 12,547 | 13,323 |
| Utility accounts | 14,546 | 15,980 | 14,833 | 14,684 | 14,618 | 14,685 | 15,023 | 15,024 | 14,985 | 15,043 |
| A/P checks issued | 8,697 | 8,859 | 7,879 | 7,634 | 7,484 | 7,460 | 7,313 | 7,517 | 7,644 | 7,588 |
| Fire: | | | | | | | | | | |
| Field incidents dispatched | 3,552 | 3,896 | 4,590 | 4,734 | 4,092 | 4,123 | 4,282 | 4,282 | 4,997 | 5,070 |
| Library: | | | | | | | | | | |
| Items used/checked out | 397,428 | 257,195 | 327,961 | 231,384 | 259,986 | 262,929 | 411,234 | 411,234 | 439,234 | 272,468 |
| Parks & Community Services: | | | | | | | | | | |
| Registered Participatns | 420 | 739 | 856 | 807 | 628 | 506 | 549 | 475 | 479 | 413 |
| Police: | | | | | | | | | | |
| Moving and Parking Citations | 15,807 | 16,709 | 10,599 | 12,161 | 11,204 | 9,876 | 10,524 | 11,105 | 12,747 | 9,600 |
| Service Calls Dispatch | 81,303 | 61,643 | 57,651 | 62,047 | 62,126 | 61,239 | 65,288 | 69,668 | 67,632 | 65,635 |
| URC Crime Rate | 43 | 42 | 32 | 32 | 27 | 25 | 39 | 40 | 43 | 38 |
| (# crimes/1,000 population, calendar years) | | | | | | | | | | |
| Wastewater: | | | | | | | | | | |
| Annual volume of septage treated (in million gallons) | 7.17 | 7.45 | 7.12 | 6.65 | 6.98 | 7.70 | 7.81 | 3.39 | 3.49 | 4.38 |
| Water: | | | | | | | | | | |
| Water production (acre feet) | 8,806 | 8,834 | 7,300 | 7,758 | 7,761 | 8,133 | 7,163 | 6,597 | 6,648 | 7,102 |
| Solid Waste: | | | | | | | | | | |
| Refuse handled (tons) | 31,484 | 35,179 | 32,936 | 32,812 | 32,995 | 32,607 | 40,204 | 41,389 | 36,028 | 34,286 |
| Recycled material (tons) | 6,016 | 6,023 | 4,006 | 6,258 | 5,847 | 6,041 | 4,946 | 7,466 | 7,081 | 8,188 |

Source: City of Watsonville departments

CITY OF WATSONVILLE, CALIFORNIA

**Capital Assets Statistics by Function
Last Ten Fiscal Years**

| Function | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Fire: | | | | | | | | | | |
| Stations | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Police: | | | | | | | | | | |
| Stations | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Patrol units | 19 | 18 | 18 | 18 | 18 | 18 | 17 | 17 | 17 | 22 |
| Patrol motorcycles | 2 | 6 | 6 | 6 | 6 | 6 | 4 | 5 | 5 | 5 |
| Library: | | | | | | | | | | |
| Buildings | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Parks & Community Services: | | | | | | | | | | |
| Parks | 21 | 21 | 21 | 21 | 21 | 21 | 26 | 26 | 26 | 26 |
| Acreage of parks | 85.0 | 85.0 | 85.0 | 85.0 | 85.0 | 85.0 | 143.0 | 143.0 | 143.0 | 143.0 |
| Community Centers | 6 | 6 | 6 | 6 | 6 | 6 | 5 | 5 | 5 | 5 |
| Public Works: | | | | | | | | | | |
| Miles of streets | 96 | 96 | 96 | 96 | 96 | 96 | 89 | 89 | 89 | 89 |
| Airport: | | | | | | | | | | |
| Runways | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Wastewater: | | | | | | | | | | |
| Treatment plants | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Capacity of treatment plant* | 16.5 | 16.5 | 16.5 | 12.1 | 12.1 | 12.1 | 12.1 | 12.1 | 12.1 | 12.1 |
| *(gallons per day in millions) | | | | | | | | | | |
| Water: | | | | | | | | | | |
| Maximum pumping capacity* | 18.7 | 18.7 | 18.7 | 18.7 | 18.7 | 18.7 | 19.1 | 19.1 | 19.1 | 19.1 |
| Average consumption* | 6.3 | 6.3 | 6.3 | 6.3 | 6.3 | 6.3 | 6.1 | 5.9 | 5.9 | 5.9 |
| *(gallons per day in millions) | | | | | | | | | | |
| Solid Waste: | | | | | | | | | | |
| Collection trucks | 20 | 20 | 20 | 19 | 16 | 16 | 16 | 19 | 19 | 20 |

Source: City of Watsonville departments

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RESOLUTION NO. _____ (CM)

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
WATSONVILLE COMMITTING \$1,500,000 OF AVAILABLE FUND
BALANCE TO THE EMERGENCY RESERVE**

WHEREAS, on or about February 27, 2018, the Council adopted by Resolution No. 35-18 (CM), the City's Financial Reserve Policy and committed \$1,650,000 as initial funding to an emergency reserve; and

WHEREAS, the purpose of the Financial Reserve Policy is to establish a target minimum level of unrestricted reserves in the General Fund; and

WHEREAS, the recommended policy shall maintain an unrestricted fund balance in the City's General Fund of no less than 20% of general fund operating expenses which is inclusive of Section 1112 of the Charter of the City of Watsonville currently set at \$2,450,000; and

WHEREAS, within that 20% commitment, the City should have a goal of committing 10% of the value of operating expenditures to an emergency reserve that can only be used with City Council approval for disasters, revenue shortfall, retirement cost increases and asset failure; and

WHEREAS, staff is recommending \$1,500,000 be committed to the Emergency Reserve.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY
OF WATSONVILLE, CALIFORNIA, AS FOLLOWS:**

That the City Council hereby commits \$1,500,000 to the Emergency Reserve.

RESOLUTION NO. _____ (CM)

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
WATSONVILLE APPROVING ADVANCE PAYABLES (LONG TERM
INTERFUND LOANS) IDENTIFIED IN THE AUDITED FINANCIAL
STATEMENTS IN ACCORDANCE WITH CITY'S INTERFUND LOAN
AND TRANSFER POLICY**

WHEREAS, the City's Interfund Loan and Transfer Policy gives the authority to the City's Chief Financial Officer to approve short-term loans for cash flow purposes, and long term loans are approved by the City Council in the form of resolution.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY
OF WATSONVILLE, CALIFORNIA, AS FOLLOWS:**

That the City Council hereby approves the Advance Payables (Long Term Interfund Loans) identified in the Audited Financial Statements in accordance with the City's Interfund Loan and Transfer Policy, as fully described on Exhibit "A," attached hereto and incorporated herein.

**City of Watsonville
6/30/2018**

Advance Payables (Long Term Loans)

| Lending Fund | Advances Receivable (Loan Amount) | Advance Payable (Paying Fund) | Reason | Notes |
|----------------------|--|--|---------------------------|---|
| General Fund | \$ 2,461,319 | Airport | Long Term Cash Deficiency | Previously Approved by Resolution CM 100-16 |
| General Fund | \$ 293,901 | Fiber Optic | Fiber Optic Project | Previously Approved by Resolution CM 47-17 |
| Impact Fees | \$ 356,904 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Inclusionary Housing | \$ 165,906 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Library | \$ 85,794 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Parks Development | \$ 94,000 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Airport | \$ 21,465 | Fiber Optic | Fiber Optic Project | Previously Approved by Resolution CM 47-17 |
| Sewer | \$ 198,223 | Fiber Optic | Fiber Optic Project | Previously Approved by Resolution CM 47-17 |
| Sewer | \$ 779,149 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Solid Waste | \$ 263,698 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Water | \$ 193,340 | Fiber Optic | Fiber Optic Project | Previously Approved by Resolution CM 47-17 |
| Water | \$ 660,009 | General Fund | Side Fund Loan | Previously Approved by Resolution CM 121-11 |
| Water | \$ 3,168,891 | General Fund | RDA Loan | Previously Approved by Resolution CM 147-13 |
| Totals | \$ 8,742,599 | | | |

RESOLUTION NO. _____ (CM)

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
WATSONVILLE AMENDING THE 2018-2019 BUDGET FOR FISCAL
YEAR 2018-2019 TO AUTHORIZE CERTAIN BUDGET
APPROPRIATIONS**

Amends Resolution No. 103-18 (CM)

WHEREAS, on June 26, 2018, the City Council adopted Resolution No. 103-18 (CM) adopting the Final Budget for the City of Watsonville for fiscal year 2018-2019.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY
OF WATSONVILLE, CALIFORNIA, AS FOLLOWS:**

That the City Council hereby authorizes certain budget appropriations for fiscal year 2018-2019, as fully described on Exhibit "A," attached hereto and incorporated herein for fiscal year ending June 30, 2019.

Fiscal Year 2018-19 Operating Appropriation Adjustments

| Fund Name | Department | Appropriation | Reason |
|---------------------------------|-------------------|----------------------|---|
| General Fund | Public Works | \$ 7,551 | 3 new Utility Workers for Traffic Control |
| General Fund | Public Works | \$ 200,000 | PG&E Loans |
| General Fund | City Manager | \$ 5,000 | Increase for new membership dues |
| General Fund | City Manager | \$ 191,000 | Study plan for new bond issue |
| General Fund | Non Department | \$ 3,297,055 | Airport Settlement |
| General Fund | Library | \$ 95,000 | Increase in Sales Tax Revenue |
| General Fund | Library | \$ (95,000) | Transfer out to Library Fund |
| Library | Library | \$ 95,000 | Increase in Sales Tax Revenue |
| Gas Tax | Public Works | \$ 42,474 | 3 new Utility Workers for Traffic Control |
| Successor Agency Administration | Finance | \$ 18,338 | Increase Administration costs up to allowable amount due to increased staff time. |
| Water Fund | | \$ 12,742 | |
| Solid Waste | Public Works | \$ 12,742 | 3 new Utility Workers for Traffic Control |

**City of Watsonville
City Attorney's Office**



M E M O R A N D U M

DATE: February 20, 2019

TO: Matthew D. Huffaker, City Manager

FROM: Alan J. Smith, City Attorney

SUBJECT: Attachment of Atkinson Lane/ Pippin Reorganization (LAFCO No. 963) to City Council District No. 6

AGENDA ITEM: February 26, 2019 **City Council**

RECOMMENDATION:

Staff recommends introducing an uncodified ordinance adding the Atkinson Lane/ Pippin Reorganization Territory described in Santa Cruz County Local Agency Formation Commission Certificate of Completion No. 963 (LAFCO No. 963] to City Council District No. 6, now represented by Councilmember Trina Coffman-Gomez. All districts will be re-evaluated after the 2020 Census results are available. Santa Cruz LAFCO recorded the Certificate of Completion on November 7, 2018 as Document 2018-0033508 which places the area within City limits.

DISCUSSION:

On November 7, 2018, the Atkinson Lane/ Pippin Reorganization territory became part of the City of Watsonville upon recording the Certificate of Completion. Per the Charter, the City is divided into seven (7) City Council electoral districts. When land is added to the City, the added land must be placed in one of the districts. The subject property is surrounded on three sides and contiguous on two sides to District 6. Staff recommends the Atkinson Lane/Pippin Reorganization Territory be added to District No. 6 and adjusted as necessary. District boundaries will be reviewed after the 2020 Census results are available.

FINANCIAL IMPACT:

There is no material financial impact related to adopting the proposed ordinance.

STRATEGIC PLAN:

Not applicable.

ALTERNATIVES:

Table or continue to a date certain.

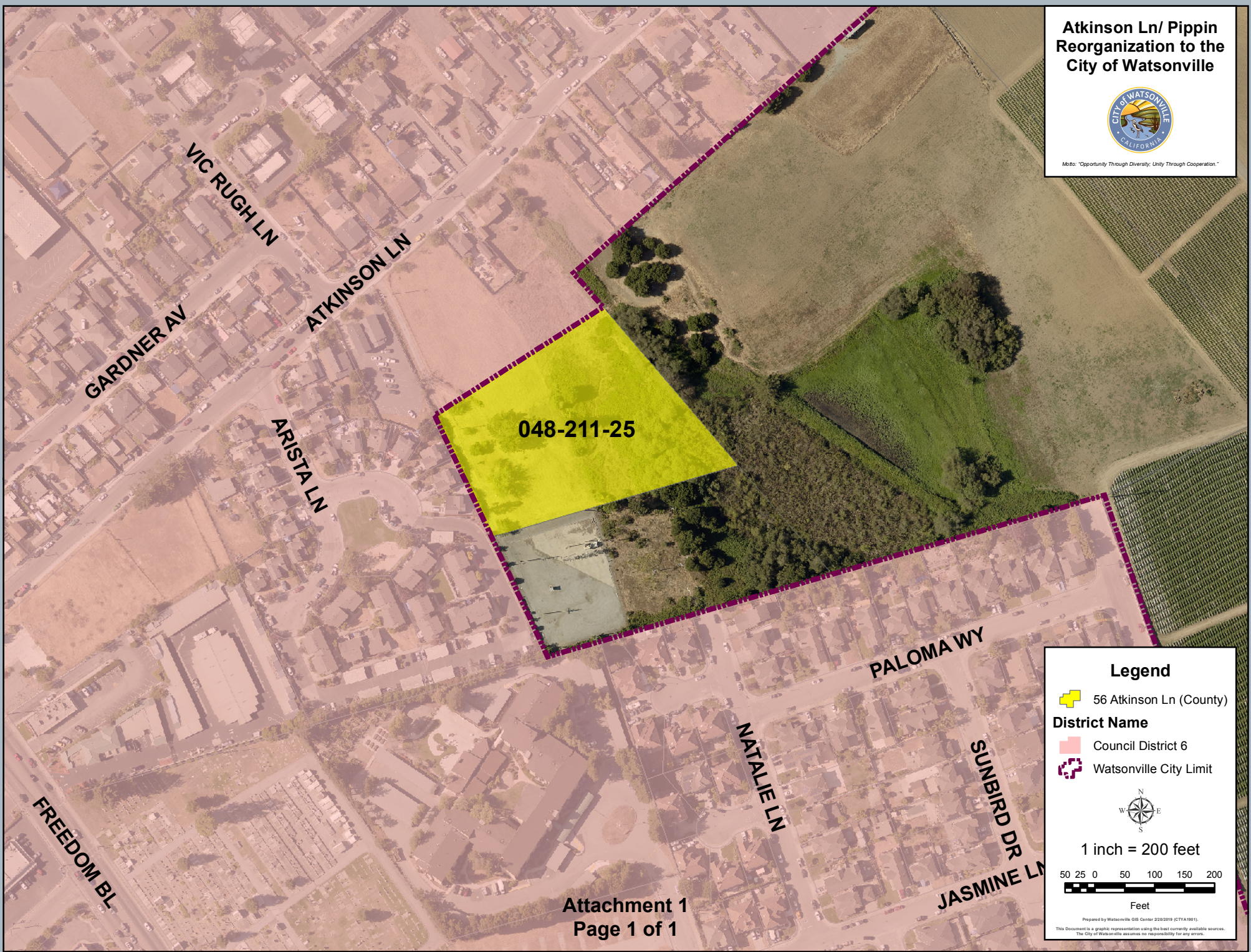
ATTACHMENTS:

1) Parcel area diagram of 56 Atkinson Lane

Atkinson Ln/ Pippin
Reorganization to the
City of Watsonville



Motto: "Opportunity Through Diversity; Unity Through Cooperation."




Legend

 56 Atkinson Ln (County)

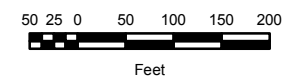
District Name

 Council District 6

 Watsonville City Limit



1 inch = 200 feet



Feet

Prepared by Watsonville GIS Center 2/20/2019 (CTYA1901).
This document is a graphic representation using the best currently available sources.
The City of Watsonville assumes no responsibility for any errors.

ORDINANCE NO. Introduction (CM)

AN UNCODIFIED ORDINANCE OF THE CITY COUNCIL OF THE CITY OF WATSONVILLE ADDING THE ATKINSON LANE/PIPPIN REORGANIZATION TERRITORY DESCRIBED IN THE SANTA CRUZ LOCAL AGENCY FORMATION COMMISSION CERTIFICATE OF COMPLETION NO. 963 (LAFCO RESOLUTION NO. 963) TO CITY COUNCIL DISTRICT NO. 6

WHEREAS, on or about August 1, 2018, the Local Agency Formation Commission of Santa Cruz County (LAFCO) adopted Resolution No. 963 ordering the Atkinson Lane/Pippin Reorganization to Watsonville; and

WHEREAS, a Certificate of Completion was recorded November 7, 2018, as Document No. 2018-0033508, thereby adding such territory to the City limits of the City of Watsonville; and

WHEREAS, Section 413 (District Boundaries) of the Charter of the City of Watsonville provides, in pertinent part that any territory annexed to the City but not included within a District shall, before or concurrently with completion of the proceedings therefore, be added to an adjacent District or Districts by the Council by Ordinance, which shall become effective at the expiration of thirty (30) days after adoption and shall apply to all elections held on or after its effective date; and

WHEREAS, said territory is described as the Atkinson Lane/Pippin Reorganization to the City of Watsonville approved by LAFCO Resolution No. 963.

NOW, THEREFORE, BE IT RESOLVED, THE CITY COUNCIL OF THE CITY OF WATSONVILLE, CALIFORNIA, DOES HEREBY ORDAIN AS FOLLOWS:

SECTION 1: REZONING.

1. That all that territory designated as the "Atkinson Lane/Pippin Reorganization to Watsonville, LAFCO Resolution No. 963," which territory is situated in

the City of Watsonville, Santa Cruz County, State of California, and identified by metes and bounds description, attached hereto and marked as Exhibit "A", is hereby added to Council District No. 6.

2. That the City Clerk of the City of Watsonville is hereby authorized and directed to make the change shown upon that portion of the official "District Map of the City of Watsonville" and to designate the ordinance number and effective date of the ordinance authorizing the change.

SECTION 2. PUBLICATION.

This ordinance shall be published in the Watsonville Register-Pajaronian and/or Santa Cruz Sentinel in compliance with the provisions of the Charter of the City of Watsonville.

SECTION 3. EFFECTIVE DATE.

This ordinance shall take effect thirty (30) days after its final adoption.

Recorded at the
request of:

LAFCO

When recorded,
mail to:

Local Agency
Formation Commission
701 Ocean Street
Room 318 D
Santa Cruz CA 95060



2018-0033508 11/07/2018 08:07:35 AM

OFFICIAL RECORDS OF Santa Cruz County

Sean Saldavia Recorder

RECORDING FEE: \$0.00

COUNTY TAX: \$0.00

CITY TAX: \$0.00



NCOM

5 PGS

RCD152

FREE RECORDING

(Space above for Recorder's use only)

In accordance with Government
Code Sections 6103 and 27383

CERTIFICATE OF COMPLETION

Pursuant To Government Code Section 57200, this Certificate is issued by the Executive Officer of the Local Agency Formation Commission of Santa Cruz County, California.

1. Short-form designation, as designated by LAFCO is:

Atkinson Lane / Pippin Reorganization LAFCO No. 963

2. The name of the districts involved in this reorganization and the kind or type of reorganization ordered for this district is as follows:

| <u>City or District</u> | <u>Type of Change of Organization</u> |
|--|---|
| City of Watsonville | Annexation |
| County Service Area 9, Parks | Detachment |
| County Service Area 11, Public Works | Detachment |
| County Service Area 38, Sheriff's Patrol | Detachment |
| Pajaro Valley Fire Protection District | Detachment |
| Santa Cruz County Resource Conservation District | Detachment |

3. The above listed districts are located within Santa Cruz County.
4. A description of the boundaries of the above cited reorganization is shown on the attached map and legal description, marked Exhibits A and B and by reference incorporated herein.

5. The territory involved in this reorganization is uninhabited.
6. This reorganization has been approved subject to the following terms and conditions:
 - a) The proponent shall provide a legal map, description, and fees to meet State Board of Equalization requirements.
 - b) The proponent city shall be responsible to pay any fees required to comply with Fish and Game Code Section 711.4 (Fish and Game Fees required when notices of environmental decisions are filed).
 - c) The proponent city shall pay any remaining processing fees as set in this Commission's Schedule of Fees and Deposits.
 - d) Prior to issuance of a Certificate of Completion for this reorganization, the proponent city shall deliver an executed Indemnification Agreement that is in a form acceptable to this Commission and suitable for recordation.
 - e) The Executive Officer shall not record the Certificate of Completion, finalizing this reorganization, during the time period between the closing of the precinct maps and a subsequent election directly involving any measure of the City of Watsonville.

November 7, 2018

Date

Patrick M. McCormick

Patrick M. McCormick

Executive Officer

Santa Cruz Local Agency Formation Commission

I, Patrick McCormick, say that I am the Executive Officer of the Santa Cruz Local Agency Formation Commission (LAFCO), and as such make this verification on behalf of Santa Cruz LAFCO; that I have read the above Notice of Completion, and know the contents thereof, and that the facts stated therein are true. I declare under penalty of perjury that the foregoing is true and correct.

Executed on October 25, 2018 at Santa Cruz
Date:

By: Patrick M. McCormick
Patrick McCormick

cc: Tom Sharp, City of Watsonville
Mid-Pen Housing

EXHIBIT B, LAFCO NO. 963

ATKINSON LANE/PIPPIN REORGANIZATION

BEING that certain property located in Rancho Bolsa Del Pajaro, County of Santa Cruz, State of California, more particularly described as follows:

BEGINNING at a station on the boundary of the City of Watsonville from which the intersection of the centerlines of Atkinson Lane and Vic Rugh Lane bear North 25°33'00" West 258.80 feet and South 47°58'00" West 80.22 feet distant; thence from said point of beginning and along said boundary of the City of Watsonville

1. North 57°26'25" East 334.59 feet; thence leaving said City boundary
2. South 40°58'00" East 345.59 feet; thence
3. South 73°29'09" West 429.29 feet to the aforesaid City boundary; thence along said City boundary thereof
4. North 25°33'00" West 224.90 feet to the point of beginning.

CONTAINING 2.407 acres of land, more or less.

**City of Watsonville
City Manager's Office**



M E M O R A N D U M

DATE: February 21, 2019

TO: Matthew D. Huffaker, City Manager

FROM: Tamara Vides, Deputy City Manager
Elizabeth Padilla, Senior Administrative Analyst

SUBJECT: Social and Community Service Grants Program Update

AGENDA ITEM: February 26, 2019 City Council

RECOMMENDATION:

Staff recommends that the:

1. City Council, by motion, accept the proposed form of application to be used for consideration of funding Social Service Programs during the period of FY 2019/2020 and FY 2020/2021; and
2. Mayor appoint a three member Ad Hoc Committee to review the Social and Community Service grant applications and bring funding recommendations to the Council for FY 19-20 and FY 20-21.

DISCUSSION

Background:

For over twelve years, several ad hoc committees of the Watsonville City Council have been responsible for reviewing and recommending to the City Council the process by which the City funds social and community service agencies and the level of funding to be awarded to each agency. This process has helped ensure that the funding process remains focused on agencies that support and serve the Watsonville community and for programs that support the City Council strategic priorities.

In 2017, the City Council adopted a new application and reporting process to fund social services agencies. That Ad Hoc committee worked with staff between February and May of 2017, on designing a new and streamlined application process, reviewing applications received and making funding recommendations to the Council. The new process adopted by the Council was intended to be user-friendly and also established clear performance standards.

During the last budget cycle, the City provided \$259,500 in funding for social service agencies serving Watsonville residents. It is estimated that for the next funding cycle, there will be \$219,500 available in funding from the General Fund and Measure M combined.

In January of 2019, as we approach the end of the first funding cycle using a new application process, staff conducted a satisfaction survey of funded social service agencies to learn about their experience with the new application process. We heard back from 12 of 31 funded agencies. The feedback received is listed below:

- 92% felt the new application format was “very easy” to “somewhat easy” to complete;
- 75% felt the new semi-annual and annual reporting templates were “very easy” or “somewhat easy” to complete;
- 100% felt that grant payments were paid in a timely manner;
- 82% felt the City was very responsive to their concerns and questions;
- 92% of the agencies report that the funding received by the City is significantly impactful to their organizations.

We also requested input on further process improvement. Most of the input was related to technological challenges with the use of the forms. As result of the feedback received, we have updated our forms to make sure all fields on the application and templates are fillable and have revised the application to make it less burdensome to the applicants.

Social and Community Service Report Highlights FY 18-19:

Semi-annual reports for FY 18-19 were recently submitted by funded agencies reporting on services provided to Watsonville residents from July - December 2018 (not all programs are included in these highlights). The table below summarizes the impact of the funding distributed by the City Council during the last funding cycle. The funded programs impacted several areas of our community including those that were priorities to the City Council: art & culture, agriculture, education, health and nutrition, homelessness, immigration and resources.

| | |
|---|---|
| Youth 2,185 youth served | |
| | 1,370 youth engaged in art & leadership classes offered by Mariposa Arts |
| | 515 youth received training in substance abuse and suicide prevention offered by Family Services Agency and Pajaro Valley Prevention and Student Assistance |
| | 196 youth experiencing abuse/ neglect were provided with weekly services by CASA |
| | 48 students are currently enrolled; 35 middle school students on a daily basis attend Youth Now and receive homework assistance; 1-on-1 tutoring and recreation and enrichment programs |
| | 56 high school students enrolled in Youth Now and took advantage of the free homework assistance, pro-social events and activities offered |
| Seniors 2,030 Seniors served | |
| | 107 prepared meals were delivered to homebound seniors by Meals on Wheels |
| | 126,594 pounds of groceries were delivered to 577 low-income residents by Grey Bears |

| | |
|--|---|
| | 1,346 seniors were connected with services (housing placement; Medicare; medical appointments; energy assistance, case management) offered by Senior Network Services |
| Adults 154 Adults served | |
| | 143 day workers were connected with 1,773 job matches to date |
| | 11 uninsured adults received mental health counseling services |
| Families 17,115 families Served | |
| | 7,989 adults and youths enjoyed several art exhibits focused on the City's sesquicentennial celebration offered by PV Arts Council |
| | 1,200 individuals were served through a community garden providing healthy food options for residents by Mesa Verde Gardens |
| | 16 families were provided with rental assistance preventing eviction |
| | 8,000 nights of shelter were provided to Watsonville homeless families with children by Pajaro Valley Shelter Services |
| | 102 individuals participated in parenting workshops; prevention & education |
| | 1,717 individuals were connected with 3,363 services (Medi-Cal, CalFresh, HEAP and unemployment) |
| | 529 residents were supported with legal immigration services by the Santa Cruz County Immigration Project |
| | 20,857 patients who were uninsured, underinsured, & vulnerable were offered health care services at Salud Para La Gente |

Consistent with past practice, staff recommends that an Ad Hoc Committee be appointed by the Mayor to review and recommend agencies to be funded by the City Council for FY 19-20 and FY 20-21.

The application for the next funding cycle is attached to this report for City Council review. The application for funding will be as follows:

1. Application will open Monday, March 4, 2019.
2. Host applicant workshop to answer any questions about the application Monday, March 18, 2019.
3. Applications will be due Wednesday, April 10, 2019.
4. Ad Hoc Committee will review applications in early May and bring funding recommendation to the City Council on Tuesday, May 14, 2019.

FINANCIAL IMPACT:

There is \$209,500 allocated in the General Fund in account 150-282-7367 and it is estimated that \$10,000 will be available from Measure M funding. The total estimated allocation for next year will be \$219,500.

ATTACHMENTS:

- 1) Social and Community Services Grant Application

cc: City Attorney



SOCIAL SERVICES/COMMUNITY SERVICES

GRANT APPLICATION

FISCAL YEAR 2019 - 2021

Select **ONE** group area that more accurately represents this grant request.

- ☐ **Children** (0-5)
- ☐ **Youth** (5-17)
- ☐ **Adults** (18+)
- ☐ **Seniors** (65+)
- ☐ **Family** (all - more than 1 member of the household is served)
- ☐ **Other:** _____

Select **ONE** program area that more accurately represents this grant request.

- ☐ **Art & Culture**
- ☐ **Agriculture**
- ☐ **Education / E.C.E.**
- ☐ **Health & Nutrition**
- ☐ **Homeless**
- ☐ **Immigration**
- ☐ **Resources**
- ☐ **Other:** _____

Please select a funding source.
(Two sources may be selected)

- ☐ **General Tax Fund**
- ☐ **New Measure M Tax Fund**

APPLICATION INSTRUCTIONS

The City of Watsonville intends to fund Social Service Agencies and Community Service Programs during the next budget cycle for FY 2019-2021.

During this cycle, there will be two funding sources available. Agencies applying for funding will be able to apply under both funding sources as long as their program meets the eligibility criteria established for each funding:

General Tax Fund – This funding has traditionally been available to fund a variety of agencies offering services to the Watsonville community. Programs serving children, youth, adults and seniors are all eligible under this funding source. The minimum request amount that agencies can apply for under this funding is \$2,500 per year.

Measure M Tax - During the November 2016 election, Watsonville voters approved the Cannabis Business Tax Measure. The Cannabis Business Tax Measure would impose a tax on cannabis businesses in the City of Watsonville. As approved by the voters, 12% of the revenue generated by this measure shall be used to fund non-profit Social and Community Service programs. This new funding source is available to fund programs and services with an emphasis on providing prevention, intervention and pro-social/developmental activities for youth in the Watsonville Community.

Agencies providing services to Watsonville residents may apply for funding under the General Tax Fund and Measure M Tax if their program meets the eligibility under both funding sources. A minimum funding request of \$2,500 is also applicable under measure M.

When applying for funding, please select one or both funding sources listed on the application. Additional questions must be filled out if applying for Measure M funds.

Agencies applying for funding for multiple programs must complete one application for each program.

Application due by Wednesday April 10, 2019 by 5:00pm

Please submit the application to:
social.services@cityofwatsonville.org

NOTE:

Please comply with the word limits for each question. Only the set amount of text will be reviewed.

For questions please contact:

Elizabeth Padilla

Sr. Administrative Analyst

831.768.3018

elizabeth.padilla@cityofwatsonville.org

Attachment 1

1 of 9



Organization

Organization Name: _____

Legal Name of the Organization: _____

Tax ID Number: _____

Address: _____

Phone Number: _____ Website Address: _____

Year Established: _____ Organization's Overall Budget: _____

How Many Watsonville Residents Does Your Organization Serve Annually? _____

Organization Mission Statement (Limit 100 Characters)

Executive Director

First Name: _____ Last Name: _____

Title: _____

Email Address: _____ Office Phone: _____ Ext: _____

Annual Salary: _____

Contact for Grant Request

Same As Executive Director? *If Not, Please Provide Contact Information*

☐ YES ☐ NO

First Name: _____ Last Name: _____

Title: _____

Email Address: _____ Office Phone: _____ Ext: _____

Staff

Number of Full Time Staff: _____ Number of Part Time Staff: _____

Number of Volunteers: _____

Program Title (10 Word Limit): _____

Requested Amount: _____

Program Start Date: _____ Program End Date: _____

How many individuals does this program intend to serve? (e.i. specific about demographics such as age, gender, ethnicity, and demographic locations.) **(Provide a number)** _____

Describe the ***need*** that this program will address in Watsonville (250 Word Limit):

[illegible]

Summarize the services, activities or purchases that your org. will be doing if funded by The Clty of Watsonville . (300 Word Limit)

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Program Information Continued

Please share what would be the impact to Watsonville residents if this program is not funded.
(150 Word Limit)

Watsonville is a diverse community, describe how you ensure that Watsonville residents receive services? (100 Word Limit)

Board of Directors:

[See Attachment 1](#)

Program Budget:

A detailed program showing income and expenses, and explaining how grant funds would be allocated for the years reflected in this grant request.

[See Attachment 2](#)

Leverage Funds / Partners:

Provide a list of other funding sources leverage for this program and list agencies partnering with you. Indicate if other grant applications are pending or approved. Also share the role of partnering agencies.

[See Attachment 3](#)

Explain how your partners enhance your ability to provide service to the Watsonville Community.
(150 Word Limit)

Measure M

Please answer the following questions only if you are applying for funding under Measure M.

Only those programs with an emphasis on intervention, prevention and pro-social developmental services to Watsonville youth are eligible to apply for Measure M funding.

Does your program support?

- ☐ Prevention
- ☐ Intervention
- ☐ Pro-Social Development
- ☐ Other

Is the proposed program built on evidence based practices (explain) (150 Word Limit)

- ☐ Yes
- ☐ No

Describe what innovative approach you use to attract youth to your program. (150 Word Limit)

Measure M Continued

How will your proposed services/program fill a gap or enhance existing services? (150 Word Limit)

Board of Directors

How much money did the board of directors contribute to the organization during the most recent fiscal year?

What percentage of Board of Directors contributed financially to the organization during the most recent fiscal year?

| Name | City of residence | Profession | Ethnicity |
|------|-------------------|------------|-----------|
| | | | |
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Program Budget

Type Of Support: Select The Type Of Support For This Grant Request (All That Apply)

□ CAPITAL

☐ OPERATIONAL

□ PROGRAM

| Organization Name | | Program | |
|-------------------|--|---------|--|
| | | | |
| Income | | Notes | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| Total: | | | |

| Expenses | | Notes |
|-----------------------|--|-------|
| Salaries | | |
| Tax & Benefits | | |
| Professional Services | | |
| Supplies | | |
| Travel | | |
| Printing | | |
| Office Supplies | | |
| Total: | | |

Attachment 1
9 of 9