



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

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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 black ink, appearing to read "G. Hays", is written over the typed name of the Administrative Services Director.

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

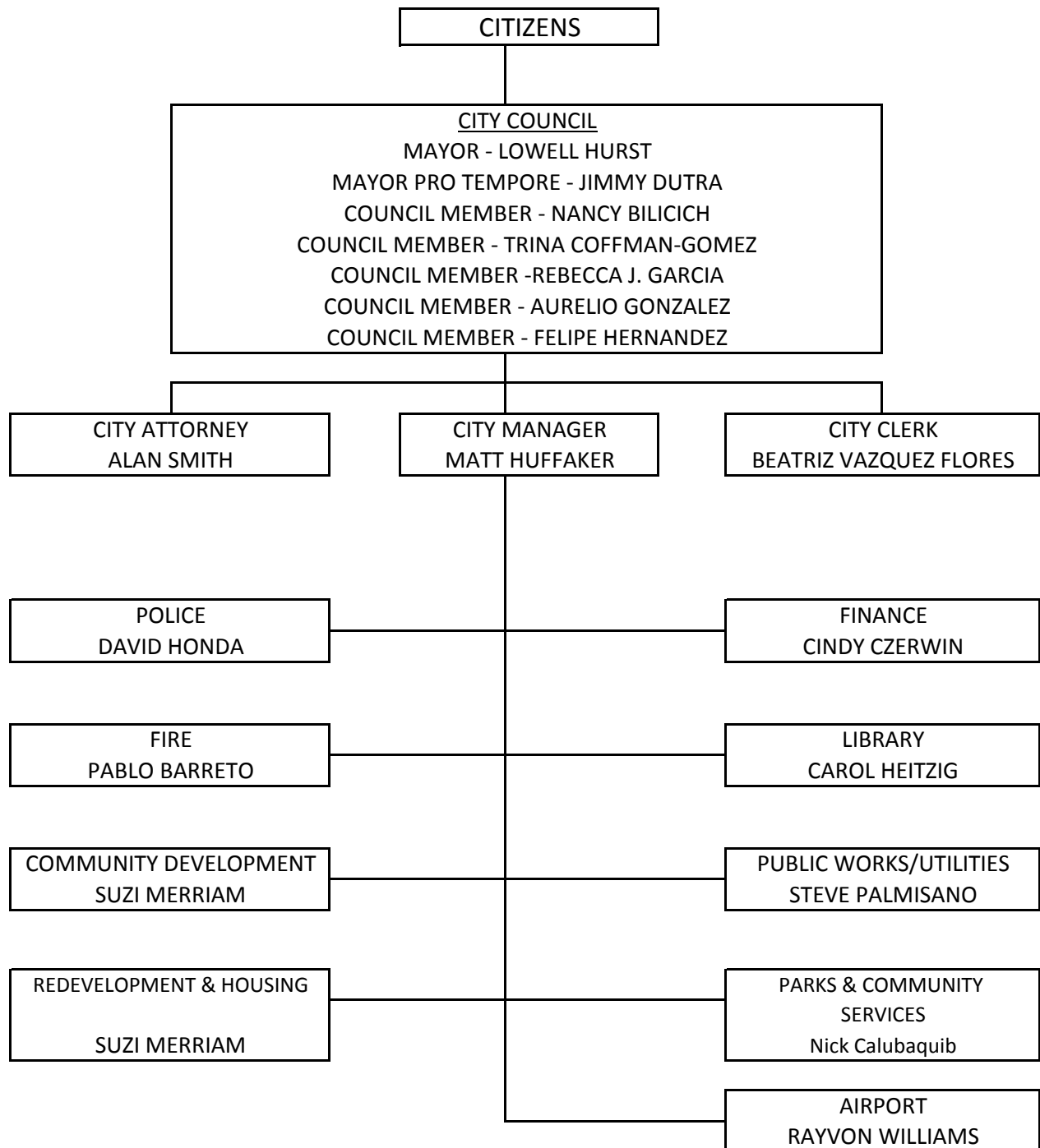
City Officials:

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.

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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

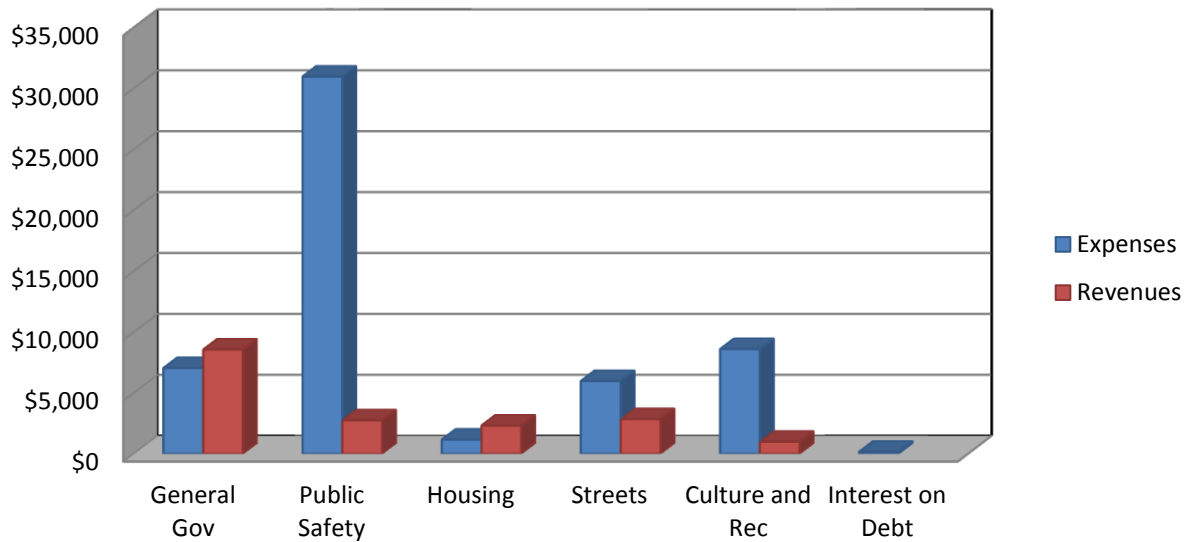
Governmental Activities. Governmental activities increased the City of Watsonville's Net Position by a \$4,758. Key elements of this increase are as follows:

- 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.

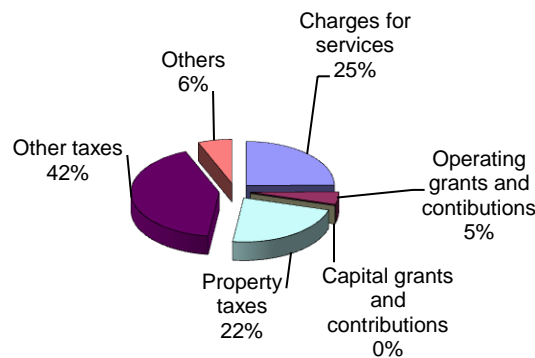
Expenses and Program Revenues

Governmental Activities



Revenues by Source

Governmental Activities



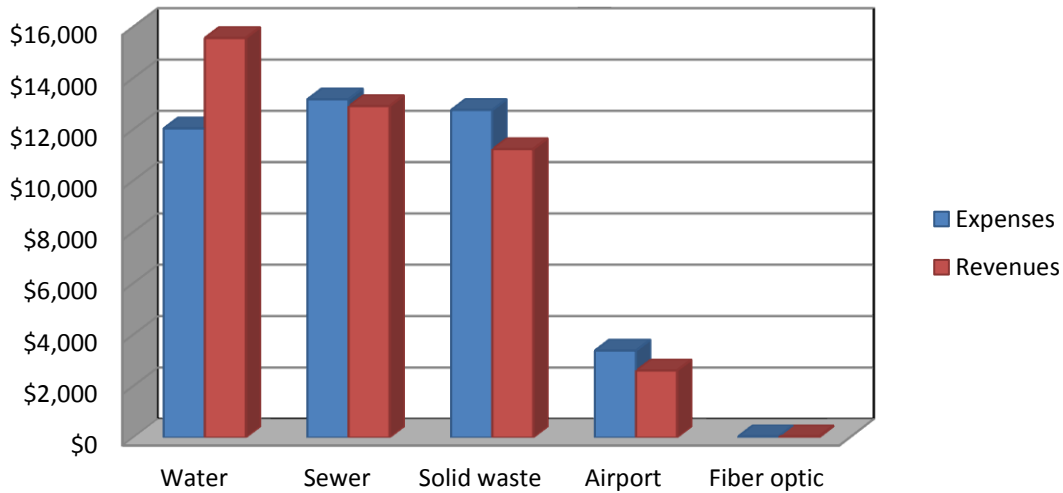
Expenses for culture and recreation and interest on debt increased from prior year. The increase in culture and recreation was from new operating grant activity.

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 were 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

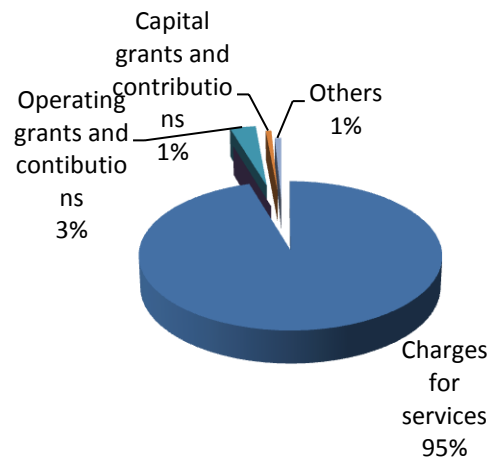
Business-type Activities



- 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 retire 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		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
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	-	-	-	-	-	-	12,110,508
Payments to suppliers	(5,461,714)	(2,115,122)	(4,997,163)	(2,093,343)	(50,885)	(14,718,227)	(10,913,694)
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	<u>4,981,021</u>	<u>1,958,263</u>	<u>2,154,066</u>	<u>(977,195)</u>	<u>(8,266)</u>	<u>8,107,889</u>	<u>1,196,814</u>
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)	35,958
Net cash provided (used) by noncapital financing activities	<u>15,462</u>	<u>263,975</u>	<u>(42,464)</u>	<u>240,727</u>	<u>-</u>	<u>(270,115)</u>	<u>35,958</u>
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	<u>(517,732)</u>	<u>(1,158,292)</u>	<u>(1,290,075)</u>	<u>(342,655)</u>	<u>-</u>	<u>(3,308,754)</u>	<u>-</u>
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	<u>105,390</u>	<u>199,430</u>	<u>42,170</u>	<u>687,058</u>	<u>-</u>	<u>1,034,048</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>4,584,141</u>	<u>1,263,376</u>	<u>863,697</u>	<u>(392,065)</u>	<u>(8,266)</u>	<u>6,310,883</u>	<u>1,232,772</u>
CASH AND CASH EQUIVALENTS, JULY 1	<u>4,869,022</u>	<u>9,953,418</u>	<u>6,616,736</u>	<u>833,944</u>	<u>96,668</u>	<u>22,273,120</u>	<u>1,591,820</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>9,453,163</u></u>	<u><u>11,216,794</u></u>	<u><u>7,480,433</u></u>	<u><u>441,879</u></u>	<u><u>88,402</u></u>	<u><u>28,680,671</u></u>	<u><u>2,824,592</u></u>
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	2,824,592
Cash with fiscal agent	-	-	18,678	-	-	18,678	-
Restricted cash	-	1,594,637	40,462	-	-	1,635,099	-
	<u>9,453,163</u>	<u>11,216,794</u>	<u>7,480,433</u>	<u>441,879</u>	<u>88,402</u>	<u>28,680,671</u>	<u>2,824,592</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating Income (loss)	<u>3,205,009</u>	<u>(700,124)</u>	<u>(191,667)</u>	<u>(726,217)</u>	<u>(3,868)</u>	<u>1,583,133</u>	<u>576,896</u>
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	(171,481)
(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	34,334
Increase (decrease) in claims payable	-	-	-	-	-	-	757,065
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	<u>1,776,012</u>	<u>2,658,387</u>	<u>2,345,733</u>	<u>(250,978)</u>	<u>(4,398)</u>	<u>6,524,756</u>	<u>619,918</u>
Net cash provided (used) by operating activities	<u><u>4,981,021</u></u>	<u><u>1,958,263</u></u>	<u><u>2,154,066</u></u>	<u><u>(977,195)</u></u>	<u><u>(8,266)</u></u>	<u><u>8,107,889</u></u>	<u><u>1,196,814</u></u>
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>		
		<u>Quoted Prices In</u>	<u>Significant</u>	
		<u>Active Market</u>	<u>Other</u>	<u>Significant</u>
		<u>For Identical</u>	<u>Observable</u>	<u>Unobservable</u>
		<u>Assets</u>	<u>Inputs</u>	<u>Inputs</u>
<u>Investment by fair</u>	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>value level</u>				
Assessment Bonds	\$98,000	\$98,000	\$ -	\$ -
Investments measured at				
amortized cost:				
Guaranteed Investments				
Contracts	1,737,428			
State Investment				
Pool	64,875,477			
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	<u>3,281,616</u>	<u>12,474,336</u>	<u>15,489,514</u>	<u>49,000</u>	<u>2,073,149</u>	<u>33,367,615</u>
Total Deferred Inflow s of Resources	<u>3,281,616</u>	<u>12,474,336</u>	<u>15,489,514</u>	<u>49,000</u>	<u>2,073,149</u>	<u>33,367,615</u>

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

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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

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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	<u>-</u>	<u>(399,352)</u>
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
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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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