

Fiscal Year Ended
June 30, 2019

COMPREHENSIVE ANNUAL FINANCIAL REPORT

City of Watsonville, California



City of Watsonville, California

**COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT**

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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, 2019

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INTRODUCTORY SECTION



City of Watsonville

"A Community of Opportunities"

February 25, 2020

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, 2019. 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, 2019.

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, 2019. 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, 2019, 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 53,920 people based on US Census estimates as of July 1, 2019.

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 CONDITION

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

Situated in the heart of the Monterey Bay area in the lush Pajaro Valley, Watsonville lies 95 miles south of San Francisco and has a population of over 51,000. It is a rich agricultural community (the Pajaro Valley is one of the world's largest agricultural centers) famous today for its fresh berries, apples, and cut flowers. This tradition sprouted from the late 1800s when the area harvested staples such as wheat and sugar beets. It later became a major processing center with producers such as Martinelli's Sparkling Apple Cider becoming a major employer in the community. More recently, the agricultural base has shifted towards its core crops today. 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, CSE Group, West Marine, Fox Factory, Annieglass, Granite Construction and Granite Rock.

Watsonville is more importantly recognized for its ethnic and cultural diversity. Over 81 percent of its population is Latino. Watsonville is also a young town, with over 32.9 percent of its population 19 and younger years of age.

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 22% 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. However, the average unemployment rate has improved over the past few fiscal years, dropping to 4.2%.

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 2018-19 marks a new peak as this year's allocation included amounts from a recently completed 54 residential apartment complex was completed in the downtown area, and an increase in residual payments from formerly redevelopment areas as debt related to those projects is retired. We have reason to believe this important stream will continue to increase moderately as there are several residential and commercial projects in various phases of planning or construction including, residential townhomes, two hotels, and a major commercial project on Main St. Furthermore, median home prices in our area continue to increase 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 2018-19 are 6.6% 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 had been steady since a low in 2009-10. Although this revenue did see an 8% drop in FY 2018-19 in comparison to FY 2017-18 revenues. This revenue stream can often be lumpy as fees for one major project can create major year to year swings. FY 2018-19 saw the opening of a 10,000 square foot commercial project at 45 Aviation Way which included Beer Mule. Additional restaurants and services continue to populate and fill out that space. Coming commercial developments include 2 new hotels, an organic grocery store, and assorted retail and food.

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 2016 lowered the tax rate, but expanded the types of technologies which could be taxed to be more in alignment with modern technologies. FY 2018-19 is the second year these changes were in full effect and resulted in was essentially flat from the prior year.

In November 2018 voters also approved an increase to the Transient Occupancy Tax from 11 to 12%. Although due to a lag in reporting and collections, FY 2018-19 only partially felt the effect of that increase and saw a 3% increase in this tax

revenue. That rate increase, along with new hotels in development, 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 2018-19 fell well below expectations due to slow starts for cultivation and manufacturing permittees, but also saw a large increase from the prior year and permittees were able to complete start production. We do expect this revenue to continue to grow in FY 2019-20 and become more predictable and the market becomes more established. Anticipated changes to the City's Ordinance to expand the number and type of liscences could also increase this revenue.

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. We expect this number to increase as we update our City's Capital Improvement Plan. Many of the City's facilities are in poor condition and threaten our ability to effectively and safely provide services to the public. 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 2019-20 budget was 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, 2018. This was the nineteenth 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, 2019. 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 nineteen years. Marissa Duran, Assistant Finance Director and Patricia Rodriguez, Financial Analyst, 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, Maribel Pierce, Christine McGrath, Diana Rivas, Laura Calata, 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,



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, 2018

Christopher P. Monill

Executive Director/CEO

City of Watsonville, California

Officers and Officials

For the Fiscal Year End June 30, 2019

City Council:

Mayor – Francisco Estrada

Mayor Pro Tempore – Rebecca J. Garcia

Council Member – Felipe Hernandez

Council Member – Aurelio Gonzalez

Council Member – Lowell Hurst

Council Member – Trina Coffman-Gomez

Council Member – Ari Parker

City Officials:

City Manager – Matt Huffaker

City Clerk – Beatriz Vazquez Flores

Fire Chief – Pablo Barreto

Police Chief – David Honda

Public Works Director – Steve Palmasano

Library Director – Carol Heitzig

Community Development Director – Suzi Meriam

Parks and Community Services Director – Nick Calubaquib

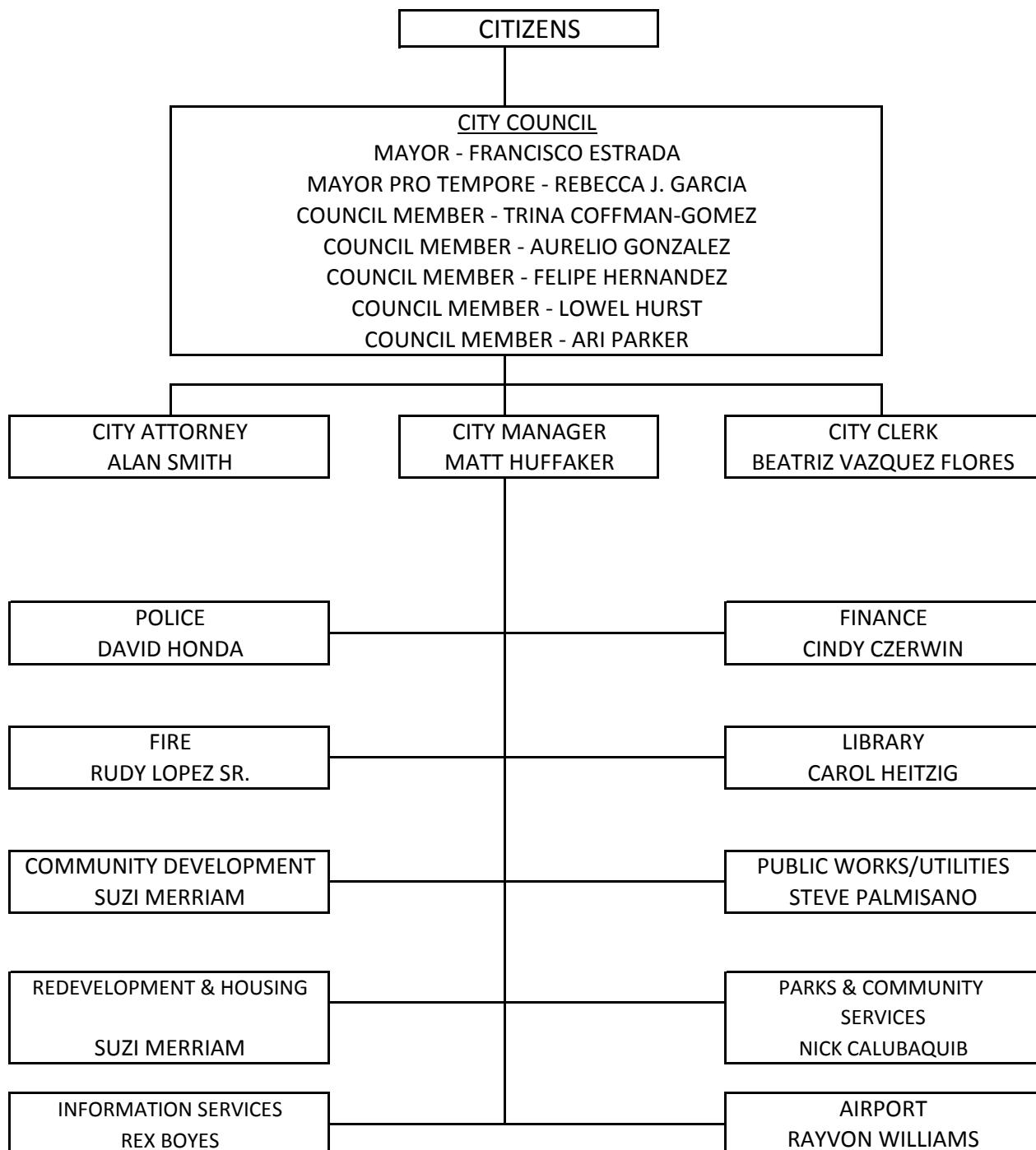
Airport Director – Rayvon Williams

WATSONVILLE

GOVERNING BODY

ORGANIZATIONAL STRUCTURE

FISCAL YEAR 2018 - 2019



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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, 2019, 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.

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, 2019, 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 February 25, 2020 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
February 25, 2020

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, 2019. 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 \$240,392.
- The City's deferred outflow of resources-Pension totaled \$17,585 and its deferred outflow of resources-Pensions totaled \$2,635.
- The City's liabilities totaled \$107,116.
- The City's total net position increased by \$6,309. Governmental activities net position decreased by \$1,127, which most of this decrease was due to the Airport enterprise fund write-off on advance payable. Business type activities net position increased by \$7,486. Most of this increase was from Water ending with positive operating income, and an Airport write-off of advances payable.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$33,388 an increase of \$137 in comparison with the prior fiscal year's balances. The non-spendable portion of the fund balance was \$123, the restricted portion was \$20,753 and the unassigned amount was \$12,511 a large portion of the unassigned fund balance was created by increases in taxes by the general fund during fiscal year 2018-19 and budgetary expenditure savings.

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 31 to 34 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 36 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 90 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 \$240,392 at the close of the most recent fiscal year.

By far the largest portion of the City of Watsonville's net position \$202,329 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 \$19,803 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 \$18,260 is unrestricted and available for next year's operations at the direction of the City Council.

City of Watsonville's Net Position
June 30, 2019
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets						
Capital assets	\$ 77,941	\$ 75,403	\$ 45,170	\$ 34,961	\$ 123,111	\$ 110,365
Total Assets	114,316	112,711	95,132	96,067	209,448	208,778
Deferred outflows of resources	13,364	16,512	4,221	5,710	17,585	22,222
Total Deferred Resources	13,364	16,512	4,221	5,710	17,585	22,222
Long-term liabilities outstanding	63,437	64,229	28,226	28,089	91,663	92,317
Other Liabilities	12,149	9,446	3,304	3,090	15,453	12,536
Total Liabilities	75,586	73,675	31,530	31,178	107,116	104,853
Deferred inflows of resources	1,996	1,736	639	693	2,635	2,429
Total Deferred Resources	1,996	1,736	639	693	2,635	2,429
Net Position:						
Net investment in capital assets	110,033	108,892	92,296	95,782	202,329	204,674
Restricted	19,803	19,848	-	-	19,803	19,848
Unrestricted	(1,797)	475	20,058	9,085	18,261	9,560
Total Net Position	128,039	129,216	112,354	104,867	240,393	234,083

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, 2019
(in thousands)

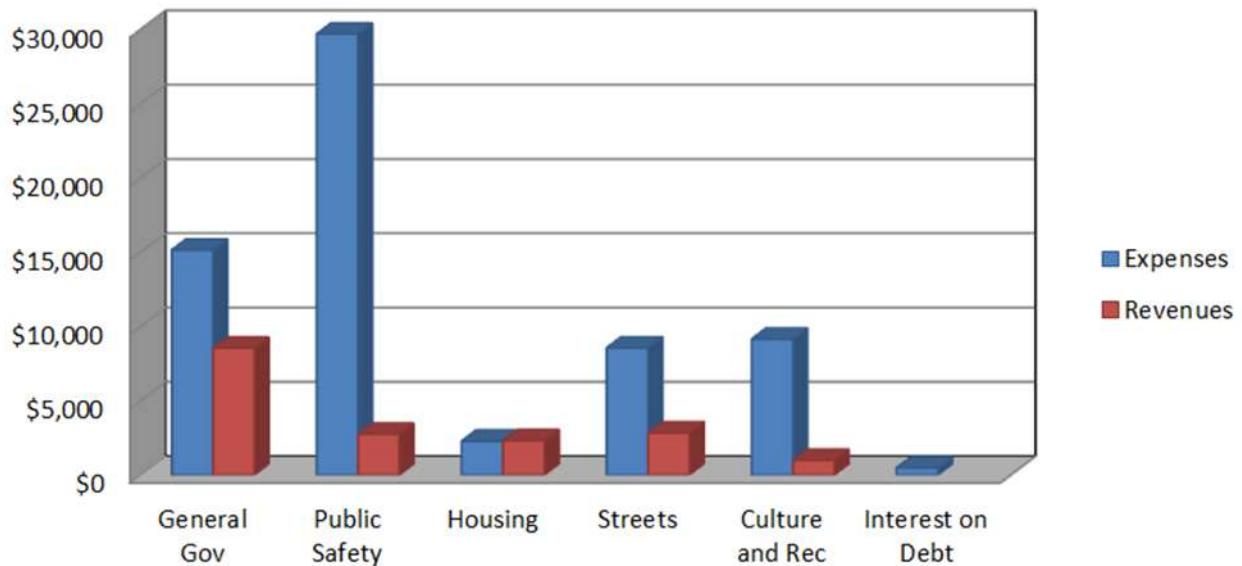
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
Revenues:						
Program Revenues:						
Charges for services	16,222	14,302	49,935	42,886	66,157	57,188
Operating grants and contributions	2,501	2,019	2,016	1,430	4,517	3,448
Capital grants and contributions	-	-	94	311	94	311
General Revenues						
Property taxes	15,669	13,436	-	-	15,669	13,436
Other taxes	26,965	24,908	-	-	26,965	24,908
Others	4,050	3,708	1,014	352	5,064	4,060
Total Revenues and Transfers	65,407	58,372	53,059	44,979	118,466	103,351
Expenses:						
General government	15,143	7,032	-	-	15,143	7,032
Public safety	31,221	30,971	-	-	31,221	30,971
Housing	2,289	1,158	-	-	2,289	1,158
Streets	8,560	5,974	-	-	8,560	5,974
Culture and recreation	9,152	8,591	-	-	9,152	8,591
Interest on debt	491	158	-	-	491	158
Water	-	-	13,996	12,038	13,996	12,038
Sewer	-	-	14,195	13,175	14,195	13,175
Solid waste	-	-	11,926	12,758	11,926	12,758
Airport	-	-	5,117	3,382	5,117	3,382
Fiber optic	-	-	67	46	67	46
Total Expenses	66,856	53,885	45,301	41,399	112,157	95,284
Increase in net position before transfers	(1,449)	4,488	7,758	3,579	6,309	8,067
Internal balances	272	270	(272)	(270)	-	-
Change in net position	(1,177)	4,758	7,486	3,309	6,309	8,067
Net position - beginning	129,216	124,458	104,867	101,558	234,083	226,016
Prior year adjustments	-	-	-	-	-	-
Net position - beginning restated	129,216	124,458	104,867	101,558	234,083	226,016
Net position ending	128,039	129,216	112,354	104,867	240,392	234,083

Governmental Activities. Governmental activities decreased the City of Watsonville's Net Position by a \$1,177. Key elements of this increase are as follows:

- Governmental revenues were greater than last year with increase in taxes of \$7,035. Most of this increase was due to \$2,233 increase in property taxes, \$540 in interest earnings, and \$1,117 increase in sales tax.
- Governmental expenses increased by \$12,971. The increase in General Government expenditures resulted from a \$3,297 settlement with the Airport fund, major streets projects, and the sale of an asset in housing.

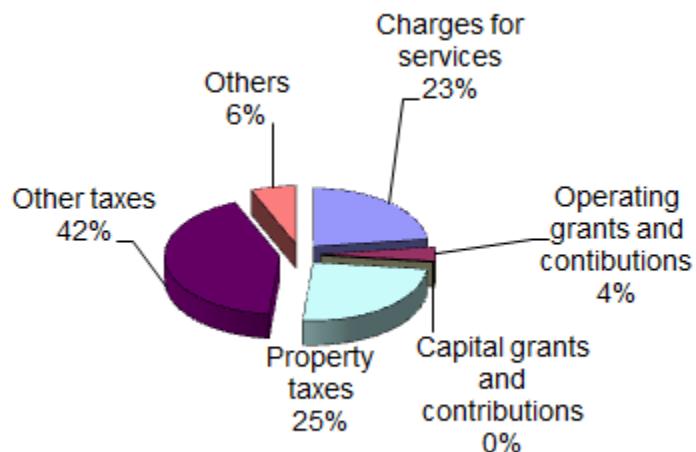
Expenses and Program Revenues

Governmental Activities



Revenues by Source

Governmental Activities



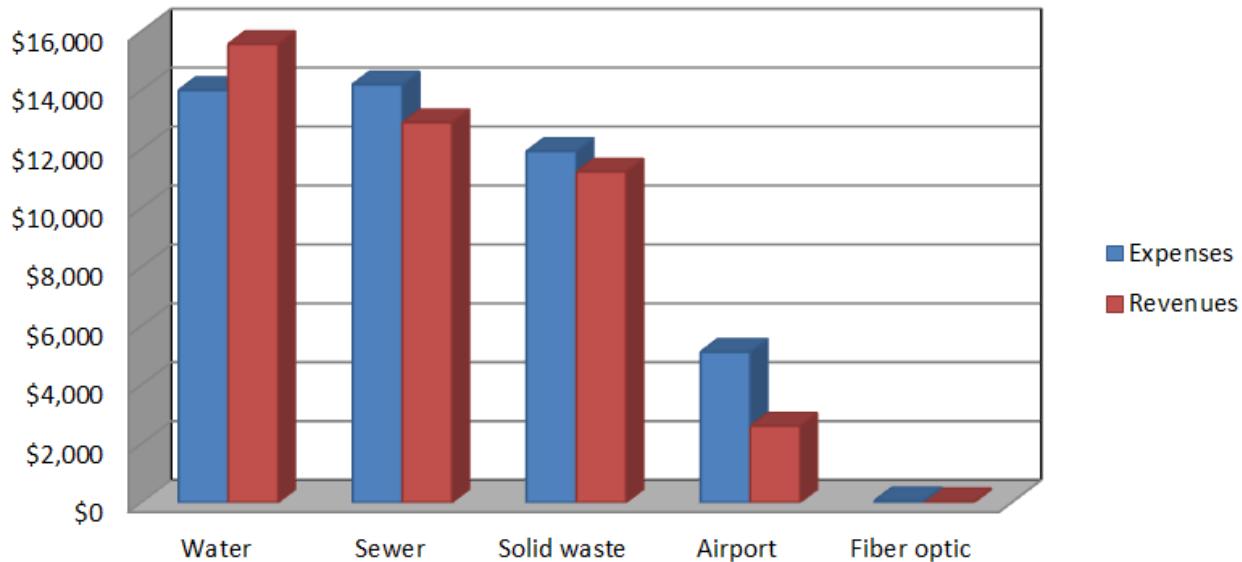
Explain Public Safety Decrease

Public safety costs decreased due to salary savings from vacant positions throughout the year.

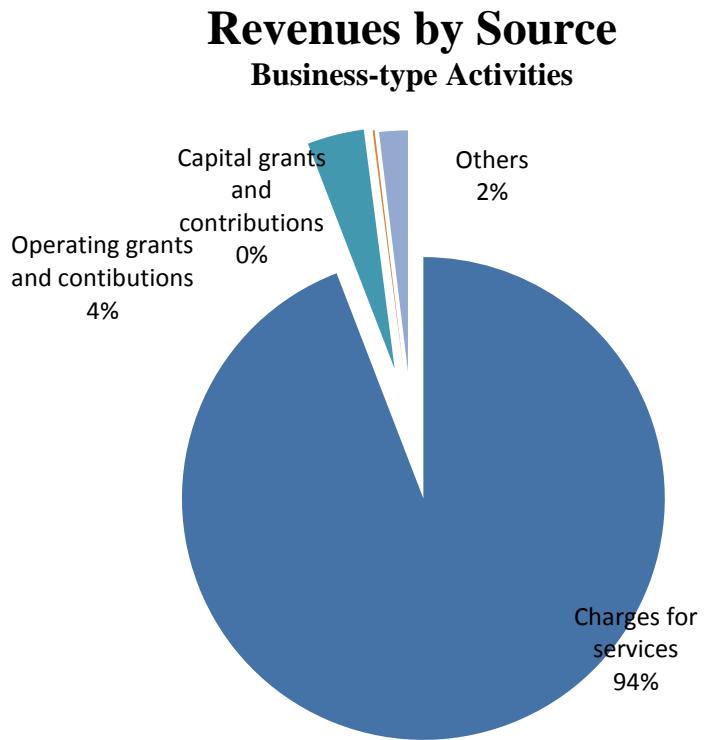
Business-type activities. Business-type activities increased the City of Watsonville's net position by \$7,487. Key elements of this increase are as follows:

Expenses and Program Revenues

Business-type Activities



- Charges for services increased by \$7,049 and other revenue increased by \$1,031. The increase in charges for services was mostly from a rate increase for the Water, Sewer and Solid Waste Funds.
- Other revenues also increased at the airport as it booked the reward from a legal settlement. The Airport also received much more by way of grant revenue than the prior year.
- Water, Sewer and Airport funds had increases in operating costs as of the fiscal year end. Water fund had an increase of \$1,958, and Sewer fund had an increase of \$1,020. A large portion of the increase for both funds was in salary costs as demand for more services creates demand for more staff. The airport had an increase of \$1,735 driven by increased capital expenditures



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 \$33,388, an increase of \$137 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 \$5,730. 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 5.0 percent of total general fund expenditures; the total fund balance represented 26 percent of the same amount.

The fund balance of the City of Watsonville's General Fund increase by \$337 during the current year largely due to the settlement agreement with the airport fund. The advance receivable that was written off as part of the settlement had been non-spendable fund balance, therefore, while overall General fund balance decreased, unassigned fund balance increased by \$2,801. The changes in Governmental Fund balance can be attributed to:

The General Fund decrease in fund balance was from increases in various revenue types, such as, property tax, sales tax and utility tax revenues, decrease in operating costs and cost increases over contract services and M&S.

The Impact Fees Fund had a fund balance of \$5,730, an increase of \$346 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 \$3,869, an increase of \$342 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 (\$181), a decrease of \$34 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 \$129, an increase of \$6 during the fiscal year. This increase is the result of intergovernmental funds.

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 2019	FY 2018	Change	% Change
Water	56,388	52,661	3,727	7.08%
Sewer	43,034	43,475	(441)	-1.01%
Solid Waste	4,041	2,275	1,766	77.63%
Airport	8,895	6,441	2,454	38.10%
Fiber Optic	(4)	15	(19)	-125.68%
Totals	112,354	104,867	7,487	-3.89%

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 of \$3,700. The bulk of which was to pay for the settlement with the Airport. There were also appropriations of \$2,699 for new grants that increased all four General Fund divisions.

Tax revenues were \$2,144 over budget. This increase in tax revenue was due to various taxes being over budgeted amounts, particularly property and sales tax. The City received Property from the receipt of unexpected residual payments and sales tax receiving true up revenue from the state. Miscellaneous revenues were over budget by \$1,449. \$830 of which was a one-time payment from a developer agreement. 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, particularly cannabis related expenditures which were frozen for the second year in a row.

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, 2019 was \$209,447 (net of depreciation). This represents a \$669 increase from the prior year or .32%.

Total City of Watsonville Capital Assets FY 2018-19

Capital Asset	FY 2019	FY 2018	Change	% Change
Land	28,117	32,486	(4,369)	-13.45%
Building and Improvements	135,198	133,942	1,256	0.94%
Machinery & Equipment	9,185	7,860	1,325	16.86%
Infrastructure	26,074	23,044	3,030	13.15%
Construction in progress	10,873	11,446	(573)	-5.01%
Totals	209,447	208,778	669	0.32%

Governmental Type Activities contributed to this change by an increase of 1.42%

Governmental Activities Capital Assets FY 2018-19

Capital Asset	FY 2019	FY 2018	Change	% Change
Land	14,471	13,971	500	3.58%
Building and Improvements	79,470	82,879	(3,409)	-4.11%
Machinery & Equipment	5,061	3,837	1,224	31.90%
Infrastructure	10,982	6,553	4,429	67.59%
Construction in progress	4,332	5,471	(1,139)	-20.82%
Totals	114,316	112,711	1,605	1.42%

While Business Type Activities contributed to this change by a decrease of -0.97%

Business Type Activities Capital Assets FY 2018-19

Capital Asset	FY 2019	FY 2018	Change	% Change
Land	13,647	18,515	(4,868)	-26.29%
Building and Improvements	55,665	51,063	4,602	9.01%
Machinery & Equipment	4,188	4,023	165	4.11%
Infrastructure	15,092	16,491	(1,399)	-8.48%
Construction in progress	6,540	5,975	565	9.46%
Totals	95,132	96,067	(935)	-0.97%

Additional information on the City of Watsonville's capital assets can be found in Note 4 on pages 59 to 60 of this report.

Long-Term Debt. At the end of the current fiscal year, the City of Watsonville had total net debt outstanding of \$92,767. Of this amount, \$0 comprises debt that represents bonds secured solely by specific revenue sources (e.g. revenue bonds), and \$49 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 \$2,438, debt payable of \$1,895, net OPEB liability of \$1,902, compensated absences of \$1,785, and net pension of \$56,328. Business type activities have \$296 in notes payable, \$1,343 in a loan, net OPEB liability of \$1,431, compensated absences of \$724, net pension of \$20,965 and landfill closure/post closure liability of \$3,661.

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 \$162,238 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 62 to 71 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 2019-20.

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.

CITY OF WATSONVILLE, CALIFORNIA

STATEMENT OF NET POSITION

JUNE 30, 2019

	Primary Government		
	Governmental Activities		Business-type Activities
	\$	\$	
ASSETS			
Cash and investments	42,602,028	33,738,689	76,340,717
Cash and investments with fiscal agent	-	40,462	40,462
Restricted cash	-	1,594,637	1,594,637
Receivables:			
Interest	2,287,174	-	2,287,174
Taxes	4,496,203	-	4,496,203
Accounts	1,747,931	3,536,278	5,284,209
Intergovernmental	3,454,899	810,692	4,265,591
Internal balances	(3,989,732)	3,989,732	-
Loans receivable	26,910,725	658,370	27,569,095
Inventories	21,813	800,813	822,626
Deposits	60,000	-	60,000
Land held for resale	349,500	-	349,500
Capital assets (net of depreciation, where applicable)			
Land	14,471,725	13,646,636	28,118,361
Buildings and Improvements	79,469,722	55,728,522	135,198,244
Machinery	5,061,138	4,124,899	9,186,037
Infrastructure	10,981,956	15,091,742	26,073,698
Construction in progress	4,331,571	6,540,056	10,871,627
Total Assets	<u>192,256,653</u>	<u>140,301,528</u>	<u>332,558,181</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow of resources - Pensions	<u>13,363,807</u>	<u>4,221,322</u>	<u>17,585,129</u>
Total deferred outflow of resources	<u>13,363,807</u>	<u>4,221,322</u>	<u>17,585,129</u>

See accompanying notes to financial statements

Continued

CITY OF WATSONVILLE, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
	\$	\$	
LIABILITIES			
Accounts payable	3,561,500	1,961,651	5,523,151
Accrued personnel costs	1,562,102	728,321	2,290,423
Insurance claims payable	3,097,588	-	3,097,588
Interest payable	47,592	-	47,592
Retentions payable	74,793	222,665	297,458
Unearned revenue	2,379,994	134,321	2,514,315
Deposits	514,311	63,666	577,977
Noncurrent liabilities			
Due within one year	910,819	193,863	1,104,682
Due in more than one year			
(Net of capitalized discounts)	<u>63,436,985</u>	<u>28,225,811</u>	<u>91,662,796</u>
Total Liabilities	<u>75,585,684</u>	<u>31,530,298</u>	<u>107,115,982</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow of resources - Pensions	1,996,273	638,612	2,634,885
Total deferred inflow of resources	<u>1,996,273</u>	<u>638,612</u>	<u>2,634,885</u>
NET POSITION			
Net investment in capital assets	110,032,939	92,296,100	202,329,039
Restricted for:			
Debt service	81,254	-	81,254
Impact fee	5,729,984	-	5,729,984
Housing	3,869,318	-	3,869,318
Grants, contributions & fees for specific purpose	10,122,695	-	10,122,695
Unrestricted	<u>(1,797,687)</u>	<u>20,057,840</u>	<u>18,260,153</u>
Total Net Position	<u>128,038,503</u>	<u>112,353,940</u>	<u>240,392,443</u>

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, 2019

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	15,142,733	12,232,616	79,843	-	(2,830,274)	-	(2,830,274)
Public safety	31,221,043	821,651	1,074,096	-	(29,325,296)	-	(29,325,296)
Housing	2,289,191	866,398	963,867	-	(458,926)	-	(458,926)
Streets	8,560,388	1,056,521	213,260	-	(7,290,607)	-	(7,290,607)
Culture and recreation	9,152,007	1,244,596	169,809	-	(7,737,602)	-	(7,737,602)
Interest on long term debt	491,217	-	-	-	(491,217)	-	(491,217)
Total government activities	66,856,579	16,221,782	2,500,875	-	(48,133,922)	-	(48,133,922)
Business-type activities:							
Water	13,995,792	17,357,169	-	24,734	-	3,386,111	3,386,111
Sewer	14,194,742	13,444,241	30,977	69,772	-	(649,752)	(649,752)
Solid Waste	11,925,744	13,492,713	14,011	-	-	1,580,980	1,580,980
Airport	5,117,640	5,595,237	1,970,858	-	-	2,448,455	2,448,455
Fiber Optic	67,682	45,752	-	-	-	(21,930)	(21,930)
Total business-type activities	45,301,600	49,935,112	2,015,846	94,506	-	6,743,864	6,743,864
Total primary government	112,158,179	66,156,894	4,516,721	94,506	(48,133,922)	6,743,864	(41,390,058)
General revenues:							
Property taxes				15,668,672	-	15,668,672	
Sales taxes				19,368,937	-	19,368,937	
Utility users taxes				4,010,802	-	4,010,802	
Franchise taxes				460,164	-	460,164	
Other taxes				3,125,598	-	3,125,598	
Intergovernmental revenues not restricted to specific program				1,020,772	-	1,020,772	
Unrestricted investment earnings				3,030,062	1,014,363	4,044,425	
Transfers				271,556	(271,556)	-	
Total general revenues and transfers				46,956,563	742,807	47,699,370	
Change in net position				(1,177,359)	7,486,671	6,309,312	
Net position - beginning				129,215,862	104,867,269	234,083,131	
Net position - ending				128,038,503	112,353,940	240,392,443	

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2019

	SPECIAL REVENUE FUNDS						OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	HOUSING	REDEVELOPMENT AND HOUSING GRANTS	DEBT SERVICE	\$		
ASSETS:								
Cash and investments	16,326,170	5,493,285	3,531,109	2,548,845	126,791		10,816,853	38,843,052
Receivables:								
Interest	501,658	-	664,808	991,240	-		129,468	2,287,174
Taxes	3,281,900		-	-	-		1,214,303	4,496,203
Deferred assessments	-	-	-	-	-		-	0
Accounts	1,116,382	5,300	-	-	2,055		229,643	1,353,380
Intergovernmental	2,373,525		-	321,596	-		759,778	3,454,899
Due from other funds	773,685		-	-	-		-	773,685
Advances receivable	101,674	262,074	-	-	-		446,394	810,142
Loans receivable	3,468,454	-	10,271,734	12,446,256	-		724,281	26,910,725
Inventories	21,813	-	-	-	-		-	21,813
Land held for resale	-	-	349,500	-	-		-	349,500
Total Assets	27,965,261	5,760,659	14,817,151	16,307,937	128,846		14,320,720	79,300,573
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:								
Liabilities:								
Accounts payable	2,038,723	30,675	8,638	37,067	-		1,421,550	3,536,653
Accrued personnel costs	1,449,748	-	2,182	3,781	-		106,391	1,562,102
Retention payable	34,128		-	10,820	-		29,845	74,793
Due to other funds	-	-	-	298,249	-		475,436	773,685
Advances payable	4,799,875	-	-	-	-		-	4,799,875
Unearned revenue	-	-	-	2,379,994	-		-	2,379,994
Deposits	414,395	-	471	-	-		99,443	514,309
Total Liabilities	8,736,869	30,675	11,291	2,729,911	-		2,132,665	13,641,411
Deferred Inflows of Resources								
Unavailable revenue	5,961,428	-	10,936,542	13,759,092	0		1,614,125	32,271,187
Total Deferred Inflows of Resources	5,961,428	-	10,936,542	13,759,092	0		1,614,125	32,271,187
Fund Balances:								
Nonspendable:								
Inventories	21,813	-	-	-	-		-	21,813
Advance receivable	101,674	-	-	-	-		-	101,674
Restricted for:	-	-	-	-	-		-	-
Debt service	-	-	-	-	128,846		-	128,846
Streets - Impact fees	-	5,729,984	-	-	-		-	5,729,984
Housing	-	-	3,869,318	-	-		-	3,869,318
Public safety - Narcotics assets seizure	-	-	-	-	-		120,195	120,195
Housing - Business development	-	-	-	-	-		38,762	38,762
Housing - Economic development	-	-	-	-	-		21,331	21,331
Cultural and recreation - Library	-	-	-	-	-		1,225,730	1,225,730
Cultural and recreation - Parks development	-	-	-	-	-		2,078,701	2,078,701
General government - Retirement tax	-	-	-	-	-		257,363	257,363
Public safety - Measure G	-	-	-	-	-		3,404,763	3,404,763
Public safety - Abandoned vehicle	-	-	-	-	-		10,110	10,110
Housing - Inclusionary housing	-	-	-	-	-		1,819,290	1,819,290
Streets - SB1 Gas tax	-	-	-	-	-		514,800	514,800
Streets - Measure D	-	-	-	-	-		1,534,120	1,534,120
Unassigned	13,143,476	-	-	(181,066)	-		(451,235)	12,511,175
Total Fund Balances	13,266,963	5,729,984	3,869,318	(181,066)	128,846		10,573,930	33,387,975
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	27,965,261	5,760,659	14,817,151	16,307,937	128,846		14,320,720	79,300,573

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 30,2019**

Amounts Reported For Governmental Activities To The Statement Of Net Position Are Different Because:	\$
Fund Balances Of Governmental Funds. (Page 34)	33,387,975
Capital Assets Used In Governmental Activities Are Not Financial Resources And, Therefore, Are Not Reported In The Funds.	205,598,302
Accumulated Depreciation Has Not Been Included In The Funds Financial Statements.	(91,282,190)
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.	1,091,091
Loans, Intergovernmental And Assessment Receivables Unavailable Revenue recorded in the Governmental Funds was Recorded As Revenue On The Statement Of Activities.	32,271,187
Interest Payable Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(47,592)
Long-term Liability Is Not Due And Payable In The Current Period And Therefore Not Reported In Governmental Funds.	(64,347,804)
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	13,363,807
Deferred Inflows Of Resources Relating To Pensions	(1,996,273)
Total Net Position - Governmental Activities	<u>128,038,503</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, 2019

	SPECIAL REVENUE FUNDS					OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
	GENERAL	IMPACT FEES	HOUSING	REDEVELOPMENT AND HOUSING GRANTS	DEBT SERVICE		
	\$	\$	\$	\$	\$	\$	\$
REVENUES:							
Taxes	29,833,120	-	-	-	-	13,821,505	43,654,625
Licenses, permits, and fees	4,945,249	443,549	-	-	-	582,544	5,971,342
Intergovernmental	1,496,144	-	-	824,449	65,339	1,031,629	3,417,561
Charges for services	3,072,309	-	-	-	-	-	3,072,309
Fines	707,697	-	-	-	-	-	707,697
Interest	2,940,954	148,757	-	-	-	314,982	3,404,693
Special assessment	-	-	-	-	49,863	-	49,863
Miscellaneous	1,404,966	-	1,510,769	-	-	91,213	3,006,948
Total revenues	44,400,439	592,306	1,510,769	824,449	115,202	15,841,873	63,285,038
EXPENDITURES:							
Current:							
General government	12,908,834	-	-	-	-	153,046	13,061,880
Public safety	26,695,310	-	-	-	-	3,763,614	30,458,924
Housing	-	-	1,275,310	595,020	-	418,861	2,289,191
Streets	4,623,299	241,264	-	-	-	3,894,121	8,758,684
Culture and recreation	5,428,133	-	-	-	-	3,977,810	9,405,943
Debt service:							
Principal	-	-	-	-	729,629	-	729,629
Interest and fiscal charges	-	-	-	-	220,456	-	220,456
Total expenditures	49,655,576	241,264	1,275,310	595,020	950,085	12,207,452	64,924,707
Excess (deficiency) of revenues over (under) expenditures	(5,255,137)	351,042	235,459	229,429	(834,883)	3,634,421	(1,639,669)
OTHER FINANCING SOURCES (USES)							
Lease and Note Proceeds	1,540,720	-	-	-	-	-	1,540,720
Transfers in	4,376,709	-	106,441	-	840,918	133,195	5,457,263
Transfers out	(325,213)	(5,000)	-	(263,790)	-	(4,627,662)	(5,221,665)
Total other financing sources (uses)	5,592,216	(5,000)	106,441	(263,790)	840,918	(4,494,467)	1,776,318
Net change in fund balances	337,079	346,042	341,900	(34,361)	6,035	(860,046)	136,649
Fund balances, July 1	12,929,884	5,383,942	3,527,418	(146,705)	122,811	11,433,976	33,251,326
Fund balances, June 30	13,266,963	5,729,984	3,869,318	(181,066)	128,846	10,573,930	33,387,975

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, 2019

	\$
Amounts Reported For Governmental Activities In The Statement Of Activities Are Different Because:	
Net Change In Fund Balance - Total Governmental Funds (Page 36)	136,649
Capital Assets Transactions: Governmental Funds Report Capital Outlay As Expenditures However the cost of those assets is capitalized in the Statement of Activities and allocated over their estimated useful lives and reported as depreciation expense. The capital outlay expenditures are therefore added back to fund balance Depreciation Expense is deducted from the fund balance	6,643,230 (5,037,998)
Long-Term Debt Proceeds and Payments: Debt and lease proceeds provide current Financial Resources To Governmental Funds but increases long-term liabilities in the Statement of Net Positions. The Repayment Of the Principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities. Proceeds from issuance of long term debt and leases Repayment of Principal	(1,540,720) 712,241
Accrual of Non-Current Items: The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change): Non-current portion of Compensated Absences Net pension liabilities and related deferred outflows/inflows of resources Unavailable revenue	(18,957) (2,698,920) (1,096,428)
Internal Service Funds Are Used By Management To Charge The Costs Of Insurance To Individual Funds.	1,714,281
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.	9,263
Change In Net Position Of Governmental Funds. (Page 33)	<u>(1,177,359)</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, 2019**

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
	\$	\$	\$	
REVENUES:				
Taxes	27,772,810	27,772,810	29,833,120	2,060,310
Licenses, permits, and fees	4,890,081	4,890,081	4,945,249	55,168
Intergovernmental	3,253,660	3,253,660	1,496,144	(1,757,516)
Charges for services	3,161,581	3,161,581	3,072,309	(89,272)
Fines	851,000	851,000	707,697	(143,303)
Interest	2,373,638	2,373,638	2,940,954	567,316
Miscellaneous	326,200	326,200	1,404,966	1,078,766
Total revenues	42,628,970	42,628,970	44,400,439	1,771,469
EXPENDITURES:				
Current:				
General government	14,085,963	17,579,018	12,908,834	4,670,184
Public safety	26,849,069	27,107,795	26,695,310	412,485
Streets	4,350,917	6,146,468	4,623,299	1,523,169
Culture and recreation	6,101,556	6,489,156	5,428,133	1,061,023
Total expenditures	51,387,505	57,322,437	49,655,576	7,666,861
Excess (deficiency) of revenues over (under) expenditures	(8,758,535)	(14,693,467)	(5,255,137)	9,438,330
OTHER FINANCING SOURCES (USES)				
Leases and note Proceeds	1,540,720	1,540,720	1,540,720	-
Transfers in	4,580,864	4,580,864	4,376,709	(204,155)
Transfers out	(352,814)	(352,814)	(325,213)	-
Total other financing sources (uses)	5,768,770	5,768,770	5,592,216	(204,155)
Net change in fund balance	(2,989,765)	(8,924,697)	337,079	9,234,175
Fund balance, July 1	12,929,884	12,929,884	12,929,884	-
Fund balance, June 30	9,940,119	4,005,187	13,266,963	9,234,175

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, 2019

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
	\$	\$	\$	
REVENUES:				
Licenses, permits, and fees	443,000	443,000	443,549	549
Interest	33,500	33,500	148,757	115,257
Total revenues	476,500	476,500	592,306	115,806
EXPENDITURES:				
Current:				
Streets	1,691,984	1,691,984	241,264	1,450,720
Total expenditures	1,691,984	1,691,984	241,264	1,450,720
Excess (deficiency) of revenues over (under) expenditures	(1,215,484)	(1,215,484)	351,042	1,566,526
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	(1,220,484)	(1,220,484)	346,042	1,566,526
Fund balance, July 1	5,383,942	5,383,942	5,383,942	-
Fund balance, June 30	4,163,458	4,163,458	5,729,984	1,566,526

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, 2019**

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
	\$	\$	\$	\$
REVENUES:				
Interest	2,500	2,500	-	(2,500)
Miscellaneous	<u>446,040</u>	<u>446,040</u>	<u>1,510,769</u>	<u>1,064,729</u>
Total revenues	<u>448,540</u>	<u>448,540</u>	<u>1,510,769</u>	<u>1,062,229</u>
EXPENDITURES:				
Current:				
Housing	<u>532,111</u>	<u>532,111</u>	<u>1,275,310</u>	<u>(743,199)</u>
Total expenditures	<u>532,111</u>	<u>532,111</u>	<u>1,275,310</u>	<u>(743,199)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(83,571)</u>	<u>(83,571)</u>	<u>235,459</u>	<u>319,030</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>204,517</u>	<u>204,517</u>	<u>106,441</u>	<u>(98,076)</u>
Total other financing sources (uses)	<u>204,517</u>	<u>204,517</u>	<u>106,441</u>	<u>(98,076)</u>
Net change in fund balance	<u>120,946</u>	<u>120,946</u>	<u>341,900</u>	<u>220,954</u>
Fund balance, July 1	<u>3,527,418</u>	<u>3,527,418</u>	<u>3,527,418</u>	<u>-</u>
Fund balance, June 30	<u>3,648,364</u>	<u>3,648,364</u>	<u>3,869,318</u>	<u>220,954</u>

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, 2019

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
	\$	\$	\$	\$
REVENUES:				
Intergovernmental	1,888,144	1,888,144	824,449	(1,063,695)
Interest	5,000	5,000	-	(5,000)
Total revenues	1,893,144	1,893,144	824,449	(1,068,695)
EXPENDITURES:				
Housing	1,958,294	1,958,294	595,020	1,363,274
Total expenditures	1,958,294	1,958,294	595,020	1,363,274
Excess (deficiency) of revenues over (under) expenditures	(65,150)	(65,150)	229,429	294,579
OTHER FINANCING SOURCES (USES):				
Transfers out	(260,191)	(260,191)	(263,790)	(263,790)
Total other financing sources (uses)	(260,191)	(260,191)	(263,790)	(263,790)
Net change in fund balance	(325,341)	(325,341)	(34,361)	30,789
Fund balance, July 1	(146,705)	(146,705)	(146,705)	(146,705)
Fund balance, June 30	(472,046)	(472,046)	(181,066)	(115,916)

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2019

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service
	WATER	SEWER	SOLID WASTE	AIRPORT	FIBER OPTIC	TOTALS	Internal Service Fund
	\$	\$	\$	\$	\$	\$	\$
ASSETS							
Current Assets:							
Cash and investments	14,872,208	10,572,731	8,184,895	300	108,555	33,738,689	3,758,976
Cash and investments with fiscal agent	-	-	40,462	-	-	40,462	-
Restricted cash	-	1,594,637	-	-	-	1,594,637	-
Receivables:							
Accounts	758,691	2,333,545	364,567	35,428	44,047	3,536,278	394,551
Intergovernmental	9,137	128,941	2,408	670,206	-	810,692	-
Loans receivable	-	82,260	-	-	-	82,260	-
Deposits	-	-	-	-	-	-	60,000
Inventories	722,132	-	1,974	76,707	-	800,813	-
Total Current Assets	16,362,168	14,712,114	8,594,306	782,641	152,602	40,603,831	4,213,527
Noncurrent Assets							
Advances receivable	3,613,159	837,249	224,788	21,465	-	4,696,661	-
Loan receivable	-	576,110	-	-	-	576,110	-
Capital assets:							
Land and improvements	218,742	8,375,598	1,769,401	3,282,895	-	13,646,636	-
Buildings	48,457,208	30,634,187	1,844,609	9,160,742	-	90,096,746	-
Machinery and equipment	6,018,131	5,008,135	10,555,794	311,276	-	21,893,336	-
Infrastructure	13,110,752	39,590,646	-	7,966,694	706,929	61,375,021	-
Construction in progress	3,683,692	2,750,454	-	105,910	-	6,540,056	-
Accumulated depreciation	(29,473,425)	(48,376,446)	(9,550,686)	(10,910,398)	(108,985)	(98,419,940)	-
Total Capital Assets (Net of accumulated depreciation)	42,015,100	37,982,574	4,619,118	9,917,119	597,944	95,131,855	-
Total Noncurrent Assets	45,628,259	39,395,933	4,843,906	9,938,584	597,944	100,404,626	-
Total Assets	61,990,427	54,108,047	13,438,212	10,721,225	750,546	141,008,457	4,213,527
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflow of resources - pension	973,660	1,858,306	1,097,181	292,175	-	4,221,322	-
Total deferred outflow of resources	973,660	1,858,306	1,097,181	292,175	-	4,221,322	-
LIABILITIES							
Current Liabilities:							
Accounts payable	726,312	628,145	356,197	246,147	4,850	1,961,651	24,847
Accrued personnel costs	178,644	308,663	190,268	50,746	-	728,321	-
Insurance claims payable	-	-	-	-	-	-	3,097,588
Retention payable	-	184,970	-	37,695	-	222,665	-
Customer deposits	63,666	-	-	-	-	63,666	-
Unearned revenue	-	67,647	14,754	9,301	42,619	134,321	-
Current maturities of long term debt:							
Compensated absences	11,801	17,125	12,953	1,533	-	43,412	-
Liability for landfill closure	-	-	-	-	-	-	-
Revenue bonds	-	-	-	-	-	-	-
Note payable	17,538	43,528	-	22,903	-	83,969	-
Loan payable	-	66,482	-	-	-	66,482	-
Total Current Liabilities	997,961	1,316,560	574,172	368,325	47,469	3,304,487	3,122,435
Noncurrent Liabilities:							
Advance payable	-	-	-	-	706,929	706,929	-
Compensated absences	184,877	268,294	202,926	24,020	-	680,117	-
Net OPEB obligations	373,403	522,718	435,598	99,566	-	1,431,285	-
Liability for landfill closure	-	-	3,661,020	-	-	3,661,020	-
Net pension liability	4,835,532	9,228,986	5,448,977	1,451,042	-	20,964,537	-
Note payable	36,890	74,858	5,430	131,694	-	248,872	-
Loan payable	-	1,239,980	-	-	-	1,239,980	-
Total Noncurrent Liabilities	5,430,702	11,334,836	9,753,951	1,706,322	706,929	28,932,740	-
Total Liabilities	6,428,663	12,651,396	10,328,123	2,074,647	754,398	32,237,227	3,122,435
DEFERRED INFLOWS OF RESOURCES							
Deferred inflow of resources - pension	147,298	281,129	165,984	44,201	-	638,612	-
Total deferred inflow of resources	147,298	281,129	165,984	44,201	-	638,612	-
Net Position							
Net investment in capital assets	41,960,672	35,361,274	4,613,688	9,762,522	597,944	92,296,100	-
Unrestricted	14,427,454	7,672,554	(572,402)	(867,970)	(601,796)	20,057,840	1,091,092
Total Net Position	56,388,126	43,033,828	4,041,286	8,894,552	(3,852)	112,353,940	1,091,092

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, 2019

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund	
	WATER	SEWER	SOLID WASTE	AIRPORT	FIBER OPTIC	TOTALS	
	\$	\$	\$	\$	\$	\$	\$
OPERATING REVENUES:							
Charges for services	17,357,169	13,464,013	13,492,713	2,683,918	45,752	47,043,565	11,923,505
Total Operating Revenues	17,357,169	13,464,013	13,492,713	2,683,918	45,752	47,043,565	11,923,505
OPERATING EXPENSES:							
Costs of sales and services	12,416,786	12,905,303	11,235,487	4,797,810	32,336	41,387,722	10,323,022
Depreciation	1,579,006	1,289,439	664,952	319,830	35,346	3,888,573	-
Total Operating Expenses	13,995,792	14,194,742	11,900,439	5,117,640	67,682	45,276,295	10,323,022
Operating Income (Loss)	3,361,377	(730,729)	1,592,274	(2,433,722)	(21,930)	1,767,270	1,600,483
NONOPERATING REVENUES (EXPENSES)							
Forgiveness of advance from City	-	-	-	2,911,319	-	-	-
Lease revenues	-	-	-	904,292	-	904,292	-
Grant revenues	-	30,977	14,011	1,066,566	-	1,111,554	-
Interest revenues	369,740	398,187	233,337	9,785	3,314	1,014,363	77,840
Interest expenses	-	(19,772)	(25,305)	-	-	(45,077)	-
Total Nonoperating Revenues (expenses)	369,740	409,392	222,043	4,891,962	3,314	2,985,132	77,840
Income Before Contributions and Transfers							
Capital contributions - Connection fees	3,731,117	(321,337)	1,814,317	2,458,240	(18,616)	4,752,402	1,678,323
Transfers in	24,734	69,772	-	-	-	94,506	-
Transfers out	-	-	-	-	-	-	35,958
(29,169)	(189,493)	(47,838)	(5,056)	-	-	(271,556)	-
Changes in Net Position	3,726,682	(441,058)	1,766,479	2,453,184	(18,616)	7,486,671	1,714,281
Total Net Position- Beginning	52,661,444	43,474,886	2,274,807	6,441,368	14,764	104,867,269	(623,189)
Total Net Position - Ending	56,388,126	43,033,828	4,041,286	8,894,552	(3,852)	112,353,940	1,091,092

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	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	17,528,667	13,962,949	13,486,628	3,046,479	47,638	48,072,361	-
Receipts from interfund services provided	-	-	-	-	-	-	11,970,788
Payments to suppliers	(6,581,045)	(2,206,669)	(5,673,206)	(3,259,116)	(27,485)	(17,747,521)	(11,150,202)
Payments to employees	(3,676,365)	(7,035,192)	(4,891,702)	(1,477,965)	-	(17,081,224)	-
Payment for interfund services used	(1,636,624)	(2,833,592)	(1,228,640)	(309,312)	-	(6,008,168)	-
Net cash provided (used) by operating activities	<u>5,634,633</u>	<u>1,887,496</u>	<u>1,693,080</u>	<u>(1,999,914)</u>	<u>20,153</u>	<u>7,235,448</u>	<u>820,586</u>
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES							
Grant revenue	-	30,977	14,011	1,066,566	-	1,111,554	-
Transfers from (to) other funds	(29,169)	(189,493)	(47,838)	(5,056)	-	(271,556)	35,958
Net cash provided (used) by noncapital financing activities	<u>(29,169)</u>	<u>(158,516)</u>	<u>(33,827)</u>	<u>1,061,510</u>	<u>-</u>	<u>(271,556)</u>	<u>35,958</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition of capital assets	(576,509)	(1,139,663)	(825,705)	(411,526)	-	(2,953,403)	-
Connection fees	24,734	69,772	-	-	-	94,506	-
Principal paid on long term debt	(4,384)	(79,312)	(295,696)	(5,726)	-	(385,118)	-
Interest paid on long term debt	-	(27,390)	(26,265)	-	-	(53,655)	-
Net cash provided (used) by capital and related financing activities	<u>(556,159)</u>	<u>(1,176,593)</u>	<u>(1,147,666)</u>	<u>(417,252)</u>	<u>-</u>	<u>(3,297,670)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:							
Lease revenue	-	-	-	904,292	-	904,292	-
Interest received	369,740	398,187	233,337	9,785	-	1,011,049	77,840
Net cash provided (used) by investment activities	<u>369,740</u>	<u>398,187</u>	<u>233,337</u>	<u>914,077</u>	<u>-</u>	<u>1,915,341</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,419,045	950,574	744,924	(441,579)	20,153	6,693,117	934,384
CASH AND CASH EQUIVALENTS, JULY 1	9,453,163	11,216,794	7,480,433	441,879	88,402	28,592,269	2,824,592
CASH AND CASH EQUIVALENTS, JUNE 30	14,872,208	12,167,368	8,225,357	300	108,555	35,373,788	3,758,976
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating Income (loss)	3,364,643	(643,918)	1,952,378	(2,433,722)	(18,616)	2,220,765	1,600,483
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:							
Depreciation	1,579,006	1,289,439	664,952	319,830	35,346	3,888,573	47,283
(Increase) decrease in receivables	(341,191)	(646,670)	(52,355)	43,170	(1,428)	(998,474)	-
(Increase) decrease in inventories	(167,929)	-	(16)	1,347	-	(166,598)	-
(Increase) decrease in loans receivable	-	76,715	-	-	-	76,715	-
(Increase) decrease in due from other governments	-	323,474	7,360	(434,434)	-	(103,600)	-
(Increase) decrease in advance receivable	409,081	140,123	38,910	-	-	588,114	-
(Increase) decrease in deferred outflows	319,812	601,436	519,241	48,021	-	1,488,510	-
Increase (decrease) in pension liability	37,069	103,949	(547,552)	188,999	-	(217,535)	-
Increase (decrease) in accounts payable	170,094	101,363	(621,218)	123,297	4,851	(221,613)	(98,251)
Increase (decrease) in claims payable	-	-	-	-	-	-	(728,929)
Increase (decrease) in accrued personnel costs	201,110	21,298	(3,849)	(1,899)	-	216,660	-
Increase (decrease) in retentions payable	-	34,496	-	33,532	-	68,028	-
Increase (decrease) in loans payable	17,538	503,087	(235,388)	154,597	-	439,834	-
Increase (decrease) in deferred revenues	38,008	-	743	(34,426)	-	4,325	-
Increase (decrease) in customer deposits	17,023	-	-	-	-	17,023	-
Increase (decrease) in post retirement	-	-	-	(11,153)	-	(11,153)	-
Increase (decrease) in deferred inflows	(9,631)	(17,296)	(30126.00)	2,927	-	(54,126)	-
Total adjustments	<u>2,269,990</u>	<u>2,531,414</u>	<u>(259,298)</u>	<u>433,808</u>	<u>38,769</u>	<u>5,014,683</u>	<u>(779,897)</u>
Net cash provided (used) by operating activities	<u>5,634,633</u>	<u>1,887,496</u>	<u>1,693,080</u>	<u>(1,999,914)</u>	<u>20,153</u>	<u>7,235,448</u>	<u>820,586</u>
NONCASH INVESTING ACTIVITIES:							
Landfill postclosure liability amortization	-	-	\$244,866	-	-	\$244,866	-
Landfill usage amortization	-	-	\$50,830	-	-	\$50,830	-

See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
 SUCCESSOR AGENCY PRIVATE PURPOSE TRUST FUND
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2019

ASSETS	\$
Cash and Investments	1,523,748
Cash and Investments with Fiscal Agent	1,718,925
Prepaid Expense	1,456,431
Notes	309,894
Total Assets	5,008,998
DEFERRED OUTFLOW OF RE COURSES	
Deferred Loss on Refunding	232,058
Total Deferred Outflow of Resources	232,058
LIABILITIES	
Current Liabilities:	
Accounts Payable	7,366
Salaries Payable	1,150
Interest Payable	191,625
Notes Payable	900,000
Refunding Bonds Payable	1,225,000
Total Current Liabilities	2,325,141
Noncurrent liabilities:	
Net OPEB Liability	64,461
Notes Payable	1,825,854
Refunding Bonds Payable	10,770,860
Total Non Current liabilities	12,661,175
Total Liabilities	14,986,316
Net Position	
Unrestricted	(9,745,260)
Total Net Position	(9,745,260)

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 ENDIED JUNE 30, 2019

ADDITIONS:

Intergovernment	282,063
Amortization	87,830
Total Additions	<u>369,893</u>

DEDUCTIONS:

Administration	93,992
Interest	375,730
Total Deductions	<u>469,722</u>

Change in Net Position	(99,829)
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Net Position, July 1, 2018	<u>(9,645,431)</u>
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Net Position, June 30, 2019	<u>(9,745,260)</u>
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See accompanying notes to financial statements

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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, 2019 (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% former Redevelopment Agency's 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, 2019 (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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

accepted in the United States of America, as prescribed by the GASB and the American Institute 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, 2019 (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, 2019 (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, 2019 (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 on 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, 2019 (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 \$5,934,932 during the fiscal year. The large portion of this was within the mid-year budget review for \$3,700,606. The mid-year adjustments included the Airport Settlement in the amount of \$3,297,055.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

The remainders of the increase were grants that increased all four General Fund divisions. City also increased non major special revenue funds appropriations by \$2,089,037 during the year. The mid-year adjustment was for \$137,474 and the rest were grant increases.

Encumbrance accounting is employed in governmental funds. The commitments will be re-appropriated and honored during the subsequent fiscal year. Encumbrances were as follow at fiscal year-end: General Fund – \$1,249,572, Impact Fee Fund - \$85,470, Housing Fund - \$102,557, Redevelopment and Housing Grants Fund - \$9,059 and Other Governmental Funds - \$1,491,658.

B. Excess of expenditures over appropriations

For the fiscal year ended June 30, 2019, expenditures exceeded appropriations in the following funds: Housing Fund (\$743,199), Debt Service Fund (\$336,732), Library Fund (\$205,427) Retirement Tax Special Revenue Fund by (\$938). These 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 Grants Fund of (\$181,066), Parking Garage Fund of (\$451,235) and the Enterprise Funds had the Fiber Optic Fund by (\$3,852) as of June 30, 2019. The special revenue funds will make these deficits up with future special revenue funds and the Fiber Optic Fund will increase its charges to its users in the future.

III. Detailed notes on all funds

A. Cash and investments

Cash and investments (including monies held by trustees and fiscal agents) as of June 30, 2019 were as follows:

Cash:

Demand Deposits	\$ 4,686,973
Outstanding Checks	(2,449,074)
Deposits in Transit	<u>240,588</u>
Net Demand Deposits	2,478,487
Petty Cash	<u>12,236</u>
Cash Subtotal	\$2,490,723

Investments:

Assessment Bonds	49,000
Guaranteed Investment Contracts	1,718,925
California Asset Management Program	24,335,037
Local Agency Investment Fund	<u>52,624,804</u>

Investment Subtotal	<u>78,727,766</u>
Total Cash and Investments	<u>\$81,218,489</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

The cash and investments by governmental funds, business type activities and private purpose trust fund was as follows:

Governmental Funds:

General	\$16,326,170
Impact Fees	5,493,285
Housing Fund	3,531,109
Redevelopment & Housing Grants	2,548,845
Debt Service	126,791
Other Non-major Funds	<u>10,816,853</u>
Total Government Activities:	<u>38,843,053</u>
Business-type Activities:	
Water	14,872,208
Sewer	12,167,368
Solid Waste	8,225,357
Airport	300
Fiber Optic	<u>108,555</u>
Total Business-type Activities	<u>35,373,788</u>
Internal Service Fund	3,758,976
Private Purpose Trust Fund	<u>3,242,672</u>
Total Government Cash and Investments	<u>\$81,218,489</u>

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, 2019:

	Fair Value Measurement Using Quoted Prices In Active Market for Identical Assets		
	<u>Total</u>	<u>Exempt</u>	<u>(Level 1)</u>
Investment by fair value level			
Assessment Bonds	49,000		49,000
Investments measured at amortized cost:			
Guaranteed Investments			
Contracts	1,718,925	1,718,925	
State Investments			
Pool	52,624,804	52,624,804	
CA State Assets			
Mngt. Program	<u>24,335,037</u>	<u>24,335,037</u>	_____
Total Investment	<u>\$78,727,766</u>	<u>\$78,678,766</u>	<u>\$49,000</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

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, 2019, the government carrying amount of deposits and cash on hand was \$2,500,496 and bank balances were \$4,686,973. Bank balances in excess of the FDIC insurance limitations are fully collateralized by the Bank by pledging identified U.S. Government securities.

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

Disclosures Relating to Interest Rate Risk

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</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	\$52,624,804	\$ -	\$ -	\$ -
CA Asset Mngmnt. Prgrm.	24,335,037	-	-	-
Debt of City of Watsonville	-	49,000	-	-
Guaranteed Inv. Contracts	-	-	-	49,000
Total	<u>\$64,785,477</u>	<u>49,000</u>	<u>\$ -</u>	<u>\$1,718,925</u>
				<u>\$78,727,766</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>	<u>Total</u>
State Investment Pool	N/A	\$-	\$ -	\$ 52,624,804	52,624,804
CA Asset Mngmnt. Prgrm.	N/A	-	-	24,335,037	24,335,037
Debt of City of Watsonville	N/A	-	-	49,000	49,000
Guaranteed Inv. Contracts	N/A	-	<u>1,718,925</u>	-	<u>1,718,925</u>
Total		<u>\$ -</u>	<u>\$1,718,925</u>	<u>\$77,008,841</u>	<u>\$78,727,766</u>

(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, 2019 the amortized cost value of the pool was \$105,633,660,465 and the estimated fair value of the pool was \$105,814,483,092. 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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

B. Capital assets

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

Governmental activities:		Beginning Balance	Additions	Deletions	Reclass	Ending Balance
Captial Assets, not being depreciated:		\$	\$	\$	\$	\$
Land and Improvements	13,970,752	500,973		-	-	14,471,725
Construction in Progress	5,470,740		(1,139,169)			4,331,571
Total Capital Assets not depreciated	19,441,492	500,973	(1,139,169)		-	18,803,296
Captial Assets, being depreciated:						
Building and Improvements	134,971,991	158,323		-	210,778	135,341,092
Machinery and Equipment	13,755,925	2,218,606	(62,898)	(210,778)		15,700,855
Infrastructure	30,659,868	5,021,986		-	71,205	35,753,059
Total Capital Assets being depreciated	179,387,784	7,398,915	(62,898)		71,205	186,795,006
Less accumulated depreciation for:						
Buildings and Improvements	(52,093,456)	(3,823,879)		-	45,965	(55,871,370)
Machinery and Equipment	(9,918,576)	(738,074)	62,898	(45,965)		(10,639,717)
Infrastructure	(24,106,364)	(664,621)		-	(118)	(24,771,103)
Total Accumulated depreciation	(86,118,396)	(5,226,574)	62,898		(118)	(91,282,190)
Total Capital Assets being depreciated, net	93,269,388	2,172,341		-	71,087	95,512,816
Governmental activities, Capital Assets, net	112,710,880	2,673,314	(1,139,169)		71,087	114,316,112

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

Business Type activities:

	Beginning Balance	Additions	Deletions	Reclass	Ending Balance
Captial Assets, not being depreciated:	\$	\$	\$	\$	\$
Land and Improvements	18,515,035	570,803	-	(5,439,202)	13,646,636
Construction in Progress	5,974,698	565,358	-	-	6,540,056
Total Capital Assets not depreciated	<u>24,489,733</u>	<u>1,136,161</u>	-	(5,439,202)	20,186,692
Captial Assets, being depreciated:					
Building and Improvements	88,664,933	139,257	-	1,292,556	90,096,746
Machinery and Equipment	20,874,838	1,172,845	-	(154,347)	21,893,336
Infrastructure	56,568,890	576,344	-	4,229,787	61,375,021
Total Capital Assets being depreciated	<u>166,108,661</u>	<u>1,888,446</u>	-	5,367,996	173,365,103
Less accumulated depreciation for:					
Buildings and Improvements	(37,602,244)	(2,151,937)	-	5,385,956	(34,368,225)
Machinery and Equipment	(16,849,407)	(855,674)	-	(63,356)	(17,768,437)
Infrastructure	(40,079,835)	(880,962)	-	(5,322,481)	(46,283,278)
Total Accumulated depreciation	<u>(94,531,486)</u>	<u>(3,888,573)</u>	-	119	(98,419,940)
Total Capital Assets being depreciated, net	<u>71,577,175</u>	<u>(2,000,127)</u>	-	5,368,115	74,945,163
Business Type activities, Capital Assets, net	<u>96,066,908</u>	<u>(863,966)</u>	-	(71,087)	95,131,855

Depreciation expenses were charged to functions/programs of the primary government as follows:

Government activities:

General government	\$ 904,448
Public safety	2,759,319
Highways and streets	630,103
Culture and recreation	<u>806,908</u>
Total depreciation expense - governmental activities	<u>\$5,100,778</u>
Business-type activities:	
Water	\$1,579,006
Sewer	1,289,439
Solid waste	664,952
Airport	319,830
Fiber optic	<u>35,346</u>
Total depreciation expense - business-type activities	<u>\$3,888,573</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

D. Interfund receivables, payables, and transfers

The composition of interfund activities as of June 30, 2019, 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	773,685	-
Redevelopment & Housing Fund	-	298,249
Nonmajor Funds	-	<u>475,436</u>
Total Governmental Funds	<u>773,685</u>	<u>773,685</u>
Total Government	<u>773,685</u>	<u>773,685</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	101,674	4,799,874
Impact Fees	262,074	-
Nonmajor Funds	<u>446,394</u>	-
Total Governmental Funds	<u>810,142</u>	<u>4,799,874</u>
Enterprise Funds:		
Water	3,613,159	-
Sewer	837,249	-
Solid Waste	224,788	-
Airport	21,465	-
Fiber Optic	-	<u>706,929</u>
Total Enterprise Funds	<u>4,696,661</u>	<u>706,929</u>
Total Government	<u>5,506,803</u>	<u>5,506,803</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (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 Transfer
	General Fund	Housing Fund	Debt Service Fund	Nonmajor Funds	Internal Service Fund	
	\$	\$	\$	\$	\$	
Transfer Out						
General Fund	-	106,441	140,997	53,483	24,292	325,213
Impact Fee Fund	5,000	-		-	-	5,000
Redevelopment &						
Housing Fund	115,019	-	148,771	-	-	263,790
Nonmajor Funds	4,256,690	-	311,484	59,488	-	4,627,662
Water Fund	-	-	24,113	5,056	-	29,169
Sewer Fund	-	-	178,724	5,056	5,713	189,493
Airport Fund	-	-	-	5,056	-	5,056
Solid Waste Fund	-	-	36,829	5,056	5,953	47,838
Total Transfer In	4,376,709	106,441	840,918	133,195	35,958	5,493,221

The government approved various interfund transfers within its budget for various recommencements such as the transfer from the Retirement Fund to the General Fund for recommencements of General Fund employee's retirement costs, the transfer from the CDBG Fund to the General Fund for the recommencements of qualified recreations staff costs and recommencements 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 \$50,301 for the fiscal year ended June 30, 2019. The future minimum lease payments as of June 30, 2019 are as follows:

Fiscal Year Ending	June 30,	Amount
		\$
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, 2019 (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	50,964
Total	<u>757,013</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. These bonds were paid off in this fiscal year ending June 30, 2019.

Solid Waste Revenue Refunding Bond 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 the 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 ranging from 5.3% to 5.5% and to purchase land for \$1,988,518. These bonds were paid off in this fiscal year ending June 30, 2019.

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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

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, 2019 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 6.5%.	<u>49,000</u>
Total limited obligation bonds payable at June 30, 2019	<u>49,000</u>

The annual requirements to repay all limited obligation bonds outstanding as of June 30, 2019 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2020	<u>49,000</u>	<u>3,185</u>	<u>52,185</u>
Total	<u>49,000</u>	<u>3,185</u>	<u>52,185</u>

Debt payable (Direct Borrowing)

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.

Interest rate for the loan is 5.29% with principal payments ranging from \$195,929 to \$282,376 through fiscal year 2027.

The annual requirements to amortize the loan outstanding as of June 30, 2019 is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
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>1,895,208</u>	<u>453,816</u>	<u>2,349,024</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

Notes payable:

Section 108 Loan Payable (Direct Borrowing)

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, 2019 is as follows:

Maturity	Date	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
		\$	\$	\$
2019	August 1	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>908,000</u>	<u>70,296</u>	<u>978,296</u>

PG&E Notes (Direct Borrowing)

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, 2019 are as follows:

Street Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2020	30,298
2021	<u>15,149</u>
Total	<u>45,447</u>

Beach Street Parking Garage Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2020	<u>5,119</u>
Total	<u>5,119</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

City Buildings Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2020	10,555
2021	10,555
2022	<u>8,795</u>
Total	<u>29,905</u>

Waste Water System Lights:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2020	10,555
2021	10,555
2022	10,555
2023	<u>7,036</u>
Total	<u>38,701</u>

PG&E 2019 Notes (Direct Borrowing)

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 terms and maximum payments required on the 2019 notes are as follows:

Old City Hall - \$54,401, 6 year loan, maximum annual payment of \$11,657,
 Civic Center - \$15,800, 4 year loan, maximum annual payment of \$6,320,
 Marinovich - \$31,322, 6 year loan, maximum annual payment of \$6,834,
 Youth Center - \$22,040, 8 year loan, maximum annual payment of \$3,040,
 Ramsay Park - \$29,931, 5 year loan, maximum annual payment of \$8,760,
 Fire Station 1 - \$21,261, 3 year loan, maximum annual payment of \$10,205,
 Beach St Parking - \$13,278, 5 year loan, maximum annual payment of \$3,886,
 Police Station - \$64,236, 6 year loan, maximum annual payment of \$14,544,
 Veterans Memorial Bldg. - \$13,679, 7 year loan, maximum annual payment of \$2,487.

The annual requirements to repay the PG&E 2019 governmental notes outstanding as of June 30, 2019 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2020	67,733
2021	66,032
2022	52,788
2023	40,670
2024	15,086
2025	4,284
2026	<u>3,040</u>
Total	<u>249,633</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

The original loan amounts, terms and maximum annual payments required on the 2019 notes are as follows:

Corralitos	- \$19,010, 5 year loan, maximum annual payment of \$4,473,
MSC	- \$30,080, 5 year loan, maximum annual payment of \$8,204,
Vista Well	- \$9,721, 3 year loan, maximum annual payment of \$4,861,

The annual requirements to repay the PG&E 2019 Water fund notes outstanding as of June 30, 2019 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
\$	\$
2020	17,538
2021	16,322
2022	12,677
2023	<u>7,891</u>
Total	<u>54,428</u>

For the Waste Water Fund as follows:

Waste Water

Treatment Plant - \$87,928, 4 year loan, maximum annual payment of \$32,973,

The annual requirements to repay the PG&E 2019 Waste Water fund note outstanding as of June 30, 2019 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
\$	\$
2020	32,974
2021	32,974
2022	<u>13,739</u>
Total	<u>79,687</u>

For the Airport Fund as follows:

Airport - \$160,322, 8 year loan, maximum annual payment of \$22,903

The annual requirements to repay the PG&E 2019 Airport fund note outstanding as of June 30, 2019 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
\$	\$
2020	22,903
2021	22,903
2022	22,903
2023	22,903
2024	22,903

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

2025	22,903
2026	<u>17,178</u>
Total	<u>154,596</u>

For the Solid Waste Fund as follows:

Landfill - \$5,818, 5 year loan, maximum annual payment of \$1,551

The annual requirements to repay the PG&E 2019 Solid Waste fund note outstanding as of June 30, 2019 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
	\$
2020	1,551
2021	1,551
2022	1,551
2023	<u>776</u>
Total	<u>5,429</u>

State Water Resources Control Board Loan (Direct Borrowing)

On December 18, 2015 the city entered into an agreement with California State Water Resource Board for a Clean Water State Revolving Fund loan to finance the Manana Lanes Sewer project. The amount of the loan is \$1,486,310. Interest rate for the 20 year loan is 1.6% with principal payments ranging from \$69,004 to \$87,062.

The City's outstanding debt under the California State Water Resources Control Board are secured by a pledge of revenues from the Sewer Enterprise Fund. Event of default include non-payment of interest or principal when due. The City shall have 10 days to clear any default. A penalty of highest legal rate of interest from date of default will be added for each charge, fees, taxes, assessments tools or other charges or imposed by the Recipient of non-payment. There have been no events of default since the loan was issued.

The annual requirements to amortize the loan outstanding as of June 30, 2019 is as follows:

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
<u>Date</u>	\$	\$	\$
<u>August 1</u>			
2020	59,383	20,903	80,286
2021	60,333	19,953	80,286
2022	61,298	18,988	80,286
2023	62,279	18,007	80,286
2024	63,275	17,010	80,286
2025	64,288	15,998	80,286
2026	65,316	14,970	80,286
2027	66,361	13,925	80,286
2028	67,423	12,863	80,286

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

2029	68,502	11,784	80,286
2030	69,598	10,688	80,286
2031	70,712	9,574	80,286
2032	71,843	8,443	80,286
2033	72,993	7,294	80,286
2034	74,160	6,126	80,286
2035	75,347	4,939	80,286
2036	76,553	3,734	80,286
2037	77,777	2,509	80,286
2038	<u>79,021</u>	<u>1,265</u>	<u>80,286</u>
Total	<u>1,306,462</u>	<u>218,973</u>	<u>1,525,434</u>

State of California Energy Commission Note (Direct Borrowing)

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, 2019 are shown below:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2020	65,420	2,486	67,906
2021	<u>33,905</u>	<u>45</u>	<u>33,953</u>
Total	<u>99,325</u>	<u>2,531</u>	<u>101,859</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 \$1,591,230.

The government recognizes a portion of the closure and post-closure 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, 2019, the new landfill cell had used 94.3% of its projected space. The estimated closure and post-closure costs were \$1,909,476 and \$1,591,230. The estimated remaining closure and post-closure costs are \$108,609 and \$90,507, which will be recognized as the remaining capacity is used (estimated to be 0.6 years). To date, the fund has \$359,430 for post closure costs for the closed phase I and II cells and has set aside closure costs of \$1,800,867 and post-closure costs of \$1,500,723 for the open phase III cell for a total of \$3,661,020. The estimated costs of closure and post-closure 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, 2019 (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, 2019, the net OPEB liability was calculated to be immaterial for GASB#75 presentation purposes. However, Management decided to still reflect the net OPEB liabilities of \$1,901,953 as part of the long-term liabilities in the City's Statement of Net Position.

CAPITAL LEASE (Direct Borrowing)

On March 12, 2018 the city entered into an Equipment Lease Purchase agreement with Community First National Bank for the purchase of a Rosenbauer EXT Aerial Tiller Fire Truck. The amount of the Lease was \$1,291,081. Interest rate for the 5 year lease is 3.544% with principal lease payments ranging from \$249,076 to \$276,507.

If the Lessee should default under any of the provisions hereof, the lessor may charge interest on all amounts due at 10% per annum or the maximum amount permitted by law, whichever is less. There have been no events of default since the lease was issued.

The annual requirement to amortize the lease outstanding as of June 30, 2019 is as follows:

Lease Payment Date	Principal	Interest	Debt Service	Purchase Option
<u>March 12</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Option</u>
2020	249,076	37,231	286,307	817,483
2021	257,903	28,404	286,307	554,422
2022	267,044	19,263	286,307	282,308
2023	<u>276,507</u>	<u>9,799</u>	<u>286,306</u>	
Total	<u>1,050,530</u>	<u>94,697</u>	<u>1,145,227</u>	

Changes in long-term liabilities

Long-term liability activity for the fiscal year ended June 30, 2019, was as following on the next page:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental type activities:					
General Obligation Debt:					
Debt payable	2,081,170	-	(185,962)	1,895,208	195,929
Capital Lease	-	1,291,081	(240,551)	1,050,530	249,076
Notes payable	<u>1,324,524</u>	<u>249,639</u>	<u>(236,728)</u>	<u>1,337,435</u>	<u>312,127</u>
Subtotal	3,405,694	1,540,720	(663,241)	4,282,173	757,132
Bonds payable:					
Special assessment debt with government commitment	98,000	-	(49,000)	49,000	49,000
Other liabilities:					
Compensated absences	1,766,321	1,050,273	(1,031,316)	1,785,278	104,687
Net OPEB liability	1,901,953	-	-	1,901,953	-
Net pension liability	<u>57,056,631</u>	<u>12,900,187</u>	<u>(13,628,418)</u>	<u>56,328,400</u>	<u>-</u>
Governmental activity					
Long-term Liabilities	<u>64,228,599</u>	<u>15,491,180</u>	<u>(15,371,975)</u>	<u>64,347,804</u>	<u>910,819</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:	\$	\$	\$	\$	\$
Bonds payable:					
Revenue bonds	<u>235,388</u>	<u>-</u>	<u>(235,388)</u>	<u>-</u>	<u>-</u>
Total bonds payable	<u>235,388</u>	<u>-</u>	<u>(235,388)</u>	<u>-</u>	<u>-</u>
State Water Resources					
Control Board loan	872,505	494,471	(60,514)	1,306,462	66,482
Notes Payable	49,256	294,140	(10,555)	332,841	83,969
Compensated absences	714,854	604,270	(595,595)	723,529	43,412
Net OPEB liabilities	1,431,285	-	-	1,431,285	-
Net pension liabilities	21,182,072	3,612,329	(3,829,864)	20,964,537	-
Landfill closure/					
Post-closure	<u>3,603,205</u>	<u>117,715</u>	<u>(59,900)</u>	<u>3,661,020</u>	<u>-</u>
Business-type activity					
Long-term liabilities	<u>28,088,565</u>	<u>5,122,925</u>	<u>(4,791,816)</u>	<u>28,419,674</u>	<u>193,863</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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (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 Internal services fund at June 30, 2019 totaled \$3,097,588 as follows: Health Benefits \$111,294; General Liability \$554,930; and Workers' Compensation \$2,431,364.

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>2017-18</u>	<u>2018-19</u>
Claims incurred but not reported:		
Beginning	\$ 568,469	\$ 721,123
Incurred claims	7,739,769	7,833,977
Claims paid	<u>(7,587,115)</u>	<u>(7,888,876)</u>
Ending	<u>721,123</u>	<u>666,224</u>
Claims payable:		
Beginning	2,500,983	3,105,394
Incurred claims	1,623,369	1,956,003
Claims paid	<u>(1,054,900)</u>	<u>(2,630,033)</u>
Ending	<u>3,069,452</u>	<u>2,431,364</u>
Total claims	<u>3,790,575</u>	<u>3,097,588</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

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, 2019, total estimated claims payable for General Liability were \$554,930.

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

transfers of surplus funds from enterprise funds to the general fund. Also unclear is the extent to 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.

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 Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>Miscellaneous</u>		
	Prior to	After	After
Hire Date	July 1, 2011	July 1, 2011	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%	5.5%
Required employer contribution rates	6.842%	6.842%	6.842%
Employees Covered – At June 30, 2019, the following employees were covered by the benefit terms for the Plan			

	<u>Miscellaneous</u>
Inactive employees or beneficiaries currently receiving benefits	292
Inactive employees entitled to but not yet receiving benefits	277
Active employees	<u>287</u>
Total	<u>856</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 \$3,756,236 for the fiscal year ended June 30, 2019.

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, 2018, using an annual actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below:

Actuarial Assumptions – The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

Actuarial Assumptions:

Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	Varies by Entry Age & Service
Projected Salary Increase	3.3% - 14.2 (1)
Investment Rate of Return	7.5 % (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 2017 actuarial experience study for the period 1997 to 2015. 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.

Change in Assumption:

For the measurement date of June 30, 2018, the inflation rate reduced from 2.75% to 2.50%.

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

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

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.

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	50%	4.80%	5.98%
Global Fixed Income	28	1.00	2.62
Inflation Sensitive	-	0.77	1.81
Private Equity	8	6.30	7.23
Real Estate	13	3.75	4.93
Liquidity	1	-	(0.92)

(a) An expected inflation of 2.0% was used for this period.

(b) An expected inflation of 2.92% was used for this period.

Changes in the Net Pension Liability

The changes in the Net Pension Liability for the Plan as follows:

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2017	\$ 140,912,706	\$101,243,607	\$ 39,669,099

Change in the year:

Service cost	2,696,646	-	2,696,646
Interest on the total pension Liability	9,872,907	-	9,872,907
Change of Assumptions	(617,380)	-	(617,380)
Differences between Expected And Actual Experience	(622,350)	-	(622,350)
Net Plan to Plan Resource Movement	-	(250)	250
Contributions – employer	-	3,443,447	(3,443,447)
Contributions – employee	-	1,301,275	(1,301,275)
Net investment income	-	8,537,327	(8,537,327)
Benefit payments	(5,877,340)	(5,877,340)	-
Administrative Expense	-	(157,765)	157,765
Other Miscellaneous Expense	-	(299,599)	299,599
Net change	<u>5,452,483</u>	<u>6,947,095</u>	<u>(1,494,612)</u>
Balance at June 30, 2018	<u>\$ 146,365,189</u>	<u>\$108,190,702</u>	<u>\$ 38,174,487</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

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	\$ 58,261,579
Current Discount Rate	7.15%
Net pension liability	\$ 38,174,487
1% Increase	8.15%
Net pension liability	\$ 21,593,345

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, 2019, the City recognized pension expense of \$5,402,660. At June 30, 2019, 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	\$3,756,236	\$ -
Changes in assumptions	3,611,804	(450,521)
Difference between expected and actual experience		(712,330)
Net difference between projected and actual earnings on plan investments	<u>318,598</u>	<u>-</u>
Total	<u>\$ 7,686,638</u>	<u>\$(1,162,851)</u>

The amount of \$3,756,236 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 non-employer 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. Other amounts reported as deferred outflows of resources and deferred inflows of resources to pensions will be recognized as pension expense as shown on the following page:

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

Fiscal Year ended	Annual
<u>June 30</u>	<u>Amortization</u>
2020	\$2,996,365
2021	\$1,296,037
2022	\$(1,251,587)
2023	\$(273,264)
Total	<u>\$2,767,551</u>

G. Payable to Pension Plan

At June 30, 2019, the City had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2019.

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

(Continued 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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019(Continued)

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	Safety		
	Prior to July 1, 2011	After July 1, 2011	After January 1, 2013
Hire Date			
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	3%	2.4% to 3.0%	2% to 2.7%
Required employee contribution rates	9%	9%	12%
Required employer contribution rates	20.556%	17.614%	12.141%

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 \$4,006,904 for the fiscal year ended June 30, 2019.

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2019, the City reported a liability of \$39,118,450 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial CITY valuation as of June 30, 2017. 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, 2019, the City's proportion was 0.669%.

For the fiscal year ended June 30, 2019, the City recognized pension expense of \$6,526,695 together with \$5,402,660 for Miscellaneous plan, the total pension expense for the City is \$11,929,355. 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, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources on the next page:

OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
City contribution subsequent to the measurement date	\$4,006,904	\$ -
Difference between actual and expected experience	840,524	(3,188)
Changes in assumptions	3,838,202	(517,842)
Net difference between projected and actual earnings on plan investments	264,850	-
Changes to proportion	948,011	(109,655)
Difference between City contributions and proportionate share of contribution	-	(841,349)
Total	<u>\$9,898,491</u>	<u>\$(1,472,034)</u>

The amount of \$4,006,904 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:

In 2018, the accounting discount rate was reduced from 7.65% to 7.15%.

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>	Safety Plan	Miscellaneous Plan	Total
	Annual <u>Amortization</u>	Annual <u>Amortization</u>	Annual <u>Amortization</u>
2020	\$3,529,312	\$2,996,365	\$6,525,677
2021	2,121,687	1,296,037	3,417,724
2022	(960,492)	(1,251,587)	(2,212,079)
2023	(270,954)	(273,264)	(544,218)
Total	<u>\$4,419,553</u>	<u>\$2,767,551</u>	<u>\$7,187,104</u>

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

	<u>Safety</u>
Valuation date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation Rate	2.50%
Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15% 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 2017 experience study report.

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 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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

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	50%	4.80%	5.98%
Global Fixed Income	28	1.00	2.62
Inflation Sensitive	-	0.77	1.81
Private Equity	8	6.30	7.23
Real Estate	13	3.75	4.93
Liquidity	1	-	(.92)

(a) An expected inflation of 2.0% was used for this period.

(b) An expected inflation of 2.92% 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	\$59,450,386
Current Discount Rate	7.15%
Net pension liability	\$39,118,450
1% Increase	8.15%
Net pension liability	\$22,460,068

Pension Plan Fiduciary Net Position

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, 2019, the City had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2019.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

F. New Accounting Pronouncements

New Pronouncements

In 2019, the City adopted new accounting and reporting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 83, Certain Asset Retirement Obligations (GASB Statement No. 83), addresses accounting and financial reporting for certain assets retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. GASB Statement No. 83 requires the current value of a government's AROs to annually be adjusted for the effects of general inflation or deflation, and relevant factors that may significantly change the estimated asset retirement outlays. This statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. GASB Statement No. 83 is effective for the City's fiscal year ending June 30, 2019. This statement had no impact on the City's financial statements.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB Statement No. 88), improves the information that is disclosed in the notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. It requires that additional essential information related to debt be disclosed in the notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. GASB Statement No.88 is effective for the City's reporting periods beginning after June 15, 2018.

Future governmental Accounting Standards Board (GASB) Pronouncements

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

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.

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

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

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.

The following is a schedule of long-term liabilities for the fiscal year ended June 30, 2019:

	<u>Balance</u> \$	<u>Additions</u> \$	<u>Reductions</u> \$	<u>Balance</u> \$	<u>One Year</u> \$
Refunding tax allocation bonds	11,895,000	-	(1,195,000)	10,700,000	1,225,000
Add:					
Bond Premium	<u>1,383,689</u>	<u>-</u>	<u>(87,830)</u>	<u>1,295,859</u>	<u>-</u>
Total Bonds	<u>13,278,689</u>	<u>-</u>	<u>(1,282,830)</u>	<u>11,995,859</u>	<u>1,225,000</u>
Debt payable	56,260	-	(56,260)	-	-
Net OPEB liability	64,461	-	-	64,461	-
Notes payable	<u>3,182,553</u>	<u>-</u>	<u>(476,576)</u>	<u>2,725,854</u>	<u>900,000</u>
Total	<u>16,581,963</u>	<u>-</u>	<u>(1,815,666)</u>	<u>14,786,174</u>	<u>2,125,000</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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

The annual requirements to amortize the loan outstanding as of June 30, 2019 is as follows:

Series A:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
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
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	390,000	5,850	395,850
Total	<u>10,700,000</u>	<u>2,224,588</u>	<u>12,924,588</u>

Net OPEB Liability

As of the transfer of the former Agency assets to the Successor Agency, the Net OPEB liability was \$64,461. This amount will be reduced by an allocation of future costs incurred by the City from former staff members of the former Agency.

Notes Payable

The City and former Agency had several notes payable from the former Agency to the City for various costs and fees associated with the construction of the Civic Plaza as follows:

Parking Garage Loan for Construction Costs	\$3,236,651
--------------------------------------------	-------------

The State of California deemed these notes as non-enforceable obligation, and the city could not be paid back until a finding of completion was received from the State's Department of Finance, which the City received on February 21, 2014 and the Successor Agency's oversight board 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.

CITY OF WATSONVILLE, CALIFORNIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (Continued)

Debt Payable Recap:

Parking Garage Loan

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
	\$	\$	\$
2020	900,000	6,178	906,178
2021	900,000	3,772	903,772
2022	900,000	1,366	901,366
2023	<u>25,854</u>	<u>876</u>	<u>26,730</u>
Total	<u>2,725,854</u>	<u>12,192</u>	<u>2,738,046</u>

Required Supplementary Information

CITY OF WATSONVILLE, CALIFORNIA
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST FIVE FISCAL YEARS*
JUNE 30, 2019

The following table provides required supplementary information regarding the City's Miscellaneous Pension Plan:

	2015	2016	2017	2018	2019
TOTAL PENSION LIABILITY	\$	\$	\$	\$	\$
Service Cost	2,348,593	2,251,567	2,250,229	2,616,009	2,696,646
Interest	8,369,558	8,741,399	9,093,428	9,502,933	9,872,907
Changes of Assumptions	-	(2,194,095)	-	8,126,558	(617,380)
Difference between Expected and Actual Experience	-	(1,088,430)	(1,307,204)	(160,738)	(622,350)
Benefit Payments, Including Refunds of Employee Contributions	(4,554,651)	(4,874,482)	(5,292,339)	(5,612,765)	(5,877,340)
Net Change in Total Pension Liability	6,163,500	2,835,959	4,744,114	14,471,997	5,452,483
Total Pension Liability - Beginning	<u>112,697,136</u>	<u>118,860,636</u>	<u>121,696,595</u>	<u>126,440,709</u>	<u>140,912,706</u>
Total Pension Liability - Ending (a)	<u>118,860,636</u>	<u>121,696,595</u>	<u>126,440,709</u>	<u>140,912,706</u>	<u>146,365,189</u>
PLAN FIDUCIARY NET POSITION					
Contributions - Employer	1,750,491	1,881,144	2,288,840	2,856,260	3,443,447
Contributions - Employee	1,087,253	1,064,147	1,145,223	1,265,745	1,301,275
Net Investment Income (1)	14,090,974	2,081,010	501,726	10,269,390	8,537,327
Benefit Payments, Including Refunds of Employee Contributions	(4,554,651)	(4,874,482)	(5,292,339)	(5,612,765)	(5,877,340)
Net Plan to Plan Resource Movement	-	-	-	(2,203)	(250)
Administrative Expense	-	(105,873)	(57,299)	(136,723)	(457,364)
Net Change in Fiduciary Net Position	12,374,067	45,946	(1,413,849)	8,639,704	6,947,095
Plan Fiduciary Net position - Beginning	<u>81,597,739</u>	<u>93,971,806</u>	<u>94,017,752</u>	<u>92,603,903</u>	<u>101,243,607</u>
Plan Fiduciary Net position - Ending (b)	<u>93,971,806</u>	<u>94,017,752</u>	<u>92,603,903</u>	<u>101,243,607</u>	<u>108,190,702</u>
Plan Net Pension Liability/(Asset) - Ending (a) - (b)	24,888,830	27,678,843	33,836,806	39,669,099	38,174,487
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.06%	77.26%	73.24%	71.85%	73.92%
Covered payroll	\$ 17,390,545	\$ 17,452,658	\$ 17,680,742	\$ 18,366,981	\$ 18,917,990
Plan Net Pension Liability/(Asset) as a Percentage of Covered-Employee Payroll	143.12%	158.59%	191.38%	215.98%	201.79%

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, 2017.

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 Inflation Rate Assumptions from 2.75% to 2.50%.

(1) 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 FIVE FISCAL YEARS*
JUNE 30, 2019

The following table provides required supplementary information regarding the City's Miscellaneous Pension Plan.

	2015	2016	2017	2018	2019
	\$	\$	\$	\$	\$
Contractually required contribution (actuarially determined)	1,769,613	2,299,823	2,288,840	2,856,260	3,756,236
Contribution in relation to the actuarially determined contributions	<u>(1,769,613)</u>	<u>(2,299,823)</u>	<u>(2,288,840)</u>	<u>(2,856,260)</u>	<u>(3,756,236)</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
Covered payroll	17,452,658	17,680,742	18,366,981	18,917,990	19,029,329
Contributions as a percentage of covered payroll	10.14%	13.01%	12.46%	15.10%	19.74%

Notes to Schedule

Valuation Date: 6/30/2017

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	2.50%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.15% 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 2017 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 FIVE FISCAL YEARS*
JUNE 30, 2019

The following table provides required supplementary information regarding the City's Safety Pension Plan.

	2015	2016	2017	2018	2019
Proportion of the net pension liability	0.358953%	0.379737%	0.387650%	0.388914%	0.666691%
Proportionate share of the net pension liability	\$ 22,335,737	\$ 26,064,837	\$ 33,543,690	\$ 38,569,604	\$ 39,118,450
Covered payroll	\$ 10,541,326	\$ 9,190,095	\$ 9,792,080	\$ 11,557,360	\$ 11,496,504
Proportionate share of the net pension liability as percentage of covered payroll	211.89%	283.62%	342.56%	333.72%	340.26%
Plan's total pension liability	\$ 30,829,966,631	\$ 31,771,217,402	\$ 18,961,274,094	\$ 21,144,800,930	\$ 22,053,702,155
Plan's fiduciary net position	\$ 24,607,502,515	\$ 24,907,305,871	\$ 13,782,056,004	\$ 15,169,595,595	\$ 16,186,149,467
Plan fiduciary net position as a percentage of the total pension liability	79.82%	78.40%	72.69%	71.74%	73.39%

* 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 FIVE FISCAL YEARS*
JUNE 30, 2019

The following table provides required supplementary information regarding the City's Safety Pension Plan.

	2015	2016	2017	2018	2019
Contractually required contribution (actuarially determined)	\$ 2,648,853	\$ 2,921,288	\$ 3,364,471	\$ 3,606,866	\$ 3,940,104
Contribution in relation to the actuarially determined contributions	<u>(2,648,853)</u>	<u>(2,921,288)</u>	<u>(3,364,471)</u>	<u>(3,606,866)</u>	<u>(4,006,904)</u>
Contribution deficiency (excess)	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>(66,800)</u></u>
Covered payroll	\$ 9,190,095	\$ 9,792,080	\$ 11,557,360	\$ 11,496,504	\$ 11,783,799
Contributions as a percentage of covered payroll	28.82%	29.83%	29.11%	31.37%	34.00%

Notes to Schedule

Valuation Date: 6/30/2017

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	2.50%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.15% 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 2017 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, 2019

Special Revenue Funds							
	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	ECONOMIC DEVELOPMENT	LIBRARY	PARKS DEVELOPMENT	RETIREMENT TAX
	\$	\$	\$	\$	\$	\$	\$
ASSETS:							
Cash and investments	410,711	219,638	37,758	21,331	616,771	2,011,763	71,180
Receivables:							
Interest	-	-	-	38,170	-	-	-
Taxes	-	-	-	-	336,264	-	-
Accounts	3,903	-	1,602	-	-	9,447	186,183
Intergovernmental	663,735	-	-	-	-	-	-
Advances receivable	-	-	-	-	272,695	68,167	-
Loans receivable	-	-	-	57,025	-	-	-
Total Assets	1,078,349	219,638	39,360	116,526	1,225,730	2,089,377	257,363
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:							
Liabilities:							
Accounts payable	352,894	-	-	-	-	9,172	-
Accrued personnel costs	14,154	-	-	-	-	1,504	-
Retention	29,845	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-
Deposits	-	99,443	-	-	-	-	-
Total Liabilities	396,893	99,443	-	-	-	10,676	-
Deferred Inflows of Resources							
Unavailable revenue	663,735	-	598	95,195	-	-	-
Total Deferred Inflows of Resources	663,735	-	598	95,195	-	-	-
Total Liabilities and Deferred Inflows of Resources	1,060,628	99,443	598	95,195	-	10,676	-
Fund Balances:							
Restricted for:							
Assets seizure	-	120,195	-	-	-	-	-
Business development	-	-	38,762	-	-	-	-
Economic development	-	-	-	21,331	-	-	-
Library	-	-	-	-	1,225,730	-	-
Parks development	-	-	-	-	-	2,078,701	-
Retirement tax	-	-	-	-	-	-	257,363
Measure G	-	-	-	-	-	-	-
Inclusionary housing	-	-	-	-	-	-	-
SB1 Gas tax	17,721	-	-	-	-	-	-
Measure D	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total Fund Balances	17,721	120,195	38,762	21,331	1,225,730	2,078,701	257,363
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	1,078,349	219,638	39,360	116,526	1,225,730	2,089,377	257,363

Continued

CITY OF WATSONVILLE, CALIFORNIA
 NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2019

	Special Revenue Funds						
	PARKING GARAGE	MEASURE G	ABANDONED VEHICLE	INCLUSIONARY HOUSING	SB 1 GAS TAX	MEASURE D	TOTAL
ASSETS:	\$	\$	\$	\$	\$	\$	\$
Cash and investments	571	3,005,060	-	1,816,737	1,109,398	1,495,935	10,816,853
Receivables:							
Interest	-	-	-	91,298	-	-	129,468
Taxes	-	610,612	17,554	-	174,880	74,993	1,214,303
Accounts	27,238	-	-	1,270	-	-	229,643
Intergovernmental	-	-	-	-	-	96,043	759,778
Advances receivable	-	-	-	105,532	-	-	446,394
Loans receivable	-	-	-	667,256	-	-	724,281
Total Assets	27,809	3,615,672	17,554	2,682,093	1,284,278	1,666,971	14,320,720
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:							
Liabilities:							
Accounts payable	10,759	131,045	-	93,673	787,199	36,808	1,421,550
Accrued personnel costs	293	79,864	-	10,576	-	-	106,391
Retention	-	-	-	-	-	-	29,845
Due to other funds	467,992	-	7,444	-	-	-	475,436
Deposits	-	-	-	-	-	-	99,443
Total Liabilities	479,044	210,909	7,444	104,249	787,199	36,808	2,132,665
Deferred Inflows of Resources							
Unavailable revenue	-	-	-	758,554	-	96,043	1,614,125
Total Deferred Inflows of Resources	-	-	-	758,554	-	96,043	1,614,125
Total Liabilities and Deferred Inflows of Resources	479,044	210,909	7,444	862,803	787,199	132,851	3,746,790
Fund Balances:							
Restricted for:							
Assets seizure	-	-	-	-	-	-	120,195
Business development	-	-	-	-	-	-	38,762
Economic development	-	-	-	-	-	-	21,331
Library	-	-	-	-	-	-	1,225,730
Parks development	-	-	-	-	-	-	2,078,701
Retirement tax	-	-	-	-	-	-	257,363
Measure G	-	3,404,763	-	-	-	-	3,404,763
Abandoned vehicle	-	-	10,110	-	-	-	10,110
Inclusionary housing	-	-	-	1,819,290	-	-	1,819,290
SB1 Gas Tax	-	-	-	-	497,079	-	514,800
Measure D	-	-	-	-	-	1,534,120	1,534,120
Unassigned	(451,235)	-	-	-	-	-	(451,235)
Total Fund Balances	(451,235)	3,404,763	10,110	1,819,290	497,079	1,534,120	10,573,930
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	27,809	3,615,672	17,554	2,682,093	1,284,278	1,666,971	14,320,720

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, 2019

Special Revenue Funds

	GAS TAX	NARCOTICS ASSETS SEIZURE	BUSINESS DEVELOPMENT	ECONOMIC DEVELOPMENT	LIBRARY	PARKS DEVELOPMENT	RETIREMENT TAX
	\$	\$	\$	\$	\$	\$	\$
REVENUES:							
Taxes	1,020,772	-	-	-	3,484,725	-	3,363,193
Licenses, permits and fees	-	-	84,843	-	26,575	216,578	-
Intergovernmental	990,765	-	-	-	40,864	-	-
Interest	7,676	3,236	2,515	-	43,967	56,856	-
Miscellaneous	4,264	5,056	6,000	2,392	16,791	-	-
Total revenues	2,023,477	8,292	93,358	2,392	3,612,922	273,434	3,363,193
EXPENDITURES:							
Current:							
General government	-	-	27,426	-	-	-	938
Public safety	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-
Streets	2,795,387	-	-	-	-	-	-
Culture and recreation	-	-	-	-	3,800,928	176,882	-
Total expenditures	2,795,387	-	27,426	-	3,800,928	176,882	938
Excess (deficiency) of revenues over (under) expenditures	(771,910)	8,292	65,932	2,392	(188,006)	96,552	3,362,255
OTHER FINANCING SOURCES (USES):							
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	(74,900)	-	(100,085)	-	(4,140,556)
Total other financing sources (uses)	-	-	(74,900)	-	(100,085)	-	(4,140,556)
Net change in fund balances	(771,910)	8,292	(8,968)	2,392	(288,091)	96,552	(778,301)
Fund balances, July 1	789,631	111,903	47,730	18,939	1,513,821	1,982,149	1,035,664
Fund balances, June 30	17,721	120,195	38,762	21,331	1,225,730	2,078,701	257,363

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, 2019

Special Revenue Funds

	PARKING GARAGE	MEASURE G	ABANDONED VEHICLE	INCLUSIONARY HOUSING	SB 1 GAS TAX	MEASURE D	TOTALS
	\$	\$	\$	\$	\$	\$	\$
REVENUES:							
Taxes	-	4,080,505	-	-	979,913	892,397	13,821,505
Licenses, permits and fees	169,397	319	59,800	25,032	-	-	582,544
Intergovernmental	-	-	-	-	-	-	1,031,629
Interest	-	89,108	-	57,808	19,194	34,622	314,982
Miscellaneous	132	-	-	56,578	-	-	91,213
Total revenues	169,529	4,169,932	59,800	139,418	999,107	927,019	15,841,873
EXPENDITURES:							
Current:							
General government	124,682	-	-	-	-	-	153,046
Public safety	-	3,680,702	82,912	-	-	-	3,763,614
Housing	-	-	-	418,861	-	-	418,861
Streets	-	-	-	-	873,633	225,101	3,894,121
Culture and recreation	-	-	-	-	-	-	3,977,810
Total expenditures	124,682	3,680,702	82,912	418,861	873,633	225,101	12,207,452
Excess (deficiency) of revenues over (under) expenditures	44,847	489,230	(23,112)	(279,443)	125,474	701,918	3,634,421
Transfers in	93,195	-	40,000	-	-	-	133,195
Transfers out	(14,622)	(286,307)	-	(11,192)	-	-	(4,627,662)
Total other financing sources (uses)	78,573	(286,307)	40,000	(11,192)	-	-	(4,494,467)
Net change in fund balances	123,420	202,923	16,888	(290,635)	125,474	701,918	(860,046)
Fund balances, July 1	(574,655)	3,201,840	(6,778)	2,109,925	371,605	832,202	11,433,976
Fund balances, June 30	(451,235)	3,404,763	10,110	1,819,290	497,079	1,534,120	10,573,930

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, 2019

	GAS TAX				NARCOTICS ASSETS SEIZURE				Variance With Final Budget - Positive (Negative)	
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual			
	Original	Final			Original	Final				
REVENUES:										
Taxes	1,275,181	1,275,181	1,020,772	(254,409)	-	-	-	-	-	
Intergovernmental	10,664,987	10,664,987	990,765	(9,674,222)	-	-	-	-	-	
Interest	6,000	6,000	7,676	1,676	2,500	2,500	3,236	736		
Miscellaneous	-	-	4,264	4,264	10,000	10,000	5,056	(4,944)		
Total revenues	11,946,168	11,946,168	2,023,477	(9,922,691)	12,500	12,500	8,292	(4,208)		
EXPENDITURES:										
Public safety	-	-	-	-	115,000	115,000	-	115,000		
Streets	10,326,454	10,954,642	2,795,387	8,159,255	-	-	-	-		
Total expenditures	10,326,454	10,954,642	2,795,387	8,159,255	115,000	115,000	-	115,000		
OTHER FINANCING SOURCES (USES):										
Transfers out	(67,906)	(67,906)	-	-	-	-	-	-		
Total other financing sources (uses)	(67,906)	(67,906)	-	-	-	-	-	-		
Net change in fund balances	1,619,714	991,526	(771,910)	(1,763,436)	(102,500)	(102,500)	8,292	110,792		
Fund balances, July 1	789,631	789,631	789,631	-	111,903	111,903	111,903	-		
Fund balances, June 30	2,409,345	1,781,157	17,721	(1,763,436)	9,403	9,403	120,195	110,792		

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, 2019

	BUSINESS DEVELOPMENT				ECONOMIC DEVELOPMENT			
				Variance With Final Budget -				Variance With Final Budget -
	Budgeted Amounts			Positive (Negative)	Budgeted Amounts			Positive (Negative)
	Original	Final	Actual	\$	Original	Final	Actual	\$
REVENUES:								
Licenses, permits and fees	79,000	79,000	84,843	5,843	-	-	-	-
Interest	900	900	2,515	1,615	-	-	-	-
Miscellaneous	10,000	10,000	6,000	(4,000)	-	-	2,392	2,392
Total revenues	89,900	89,900	93,358	3,458	-	-	2,392	2,392
EXPENDITURES:								
Current:								
General government	65,000	65,000	27,426	37,574	-	-	-	-
Total expenditures	65,000	65,000	27,426	37,574	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	24,900	24,900	65,932	41,032	-	-	2,392	2,392
OTHER FINANCING SOURCES (USES):								
Transfers out	(74,900)	(74,900)	(74,900)	-	-	-	-	-
Total other financing sources (uses)	(74,900)	(74,900)	(74,900)	-	-	-	-	-
Net change in fund balances	(50,000)	(50,000)	(8,968)	41,032	-	-	2,392	2,392
Fund balances, July 1	47,730	47,730	47,730	-	-	-	18,939	18,939
Fund balances, June 30	(2,270)	(2,270)	38,762	41,032	-	-	21,331	21,331

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, 2019**

	LIBRARY				PARKS DEVELOPMENT				Variance With Final Budget - Positive (Negative)	
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)		
	Original	Final			Original	Final				
REVENUES:										
Taxes	3,498,600	3,593,600	3,484,725	(108,875)	-	-	-	-	-	
Licenses, permits and fees	56,500	56,500	26,575	(29,925)	294,152	294,152	216,578	(77,574)		
Intergovernmental	46,000	46,000	40,864	(5,136)	-	-	-	-		
Interest	6,000	6,000	43,967	37,967	2,500	2,500	56,856	54,356		
Miscellaneous	7,000	7,000	16,791	9,791	-	-	-	-		
Total revenues	3,614,100	3,709,100	3,612,922	(96,178)	296,652	296,652	273,434	(23,218)		
EXPENDITURES:										
Current:										
Culture and recreation	3,595,501	3,595,501	3,800,928	(205,427)	196,546	196,546	176,882	19,664		
Total expenditures	3,595,501	3,595,501	3,800,928	(205,427)	196,546	196,546	176,882	19,664		
Excess (deficiency) of revenues over (under) expenditures	18,599	113,599	(188,006)	(301,605)	100,106	100,106	96,552	(3,554)		
OTHER FINANCING SOURCES (USES):										
Transfers out	(100,085)	(100,085)	(100,085)	-	-	-	-	-	-	
Total other financing sources (uses)	(100,085)	(100,085)	(100,085)	-	-	-	-	-	-	
Net change in fund balances	(81,486)	13,514	(288,091)	(301,605)	100,106	100,106	96,552	(3,554)		
Fund balances, July 1	1,513,821	1,513,821	1,513,821	-	1,982,149	1,982,149	1,982,149	-		
Fund balances, June 30	1,432,335	1,527,335	1,225,730	(301,605)	2,082,255	2,082,255	2,078,701	(3,554)		

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, 2019

	RETIREMENT TAX				PARKING GARAGE			
				Variance With Final Budget - Positive (Negative)				Variance With Final Budget - Positive (Negative)
	Budgeted Amounts		Actual		Budgeted Amounts		Actual	
	Original	Final	\$	\$	Original	Final	\$	\$
REVENUES:								
Taxes	3,276,724	3,276,724	3,363,193	86,469	-	-	-	-
Licenses, permits, and fees	-	-	-	-	154,000	154,000	169,397	15,397
Miscellaneous	-	-	-	-	56,000	56,000	132	(55,868)
Total revenues	3,276,724	3,276,724	3,363,193	86,469	210,000	210,000	169,529	(40,471)
EXPENDITURES:								
Current:								
General government	-	-	938	(938)	210,105	210,105	124,682	85,423
Total expenditures	-	-	938	(938)	210,105	210,105	124,682	85,423
Excess (deficiency) of revenues over (under) expenditures	3,276,724	3,276,724	3,362,255	85,531	(105)	(105)	44,847	44,952
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	93,195	93,195	93,195	-
Transfers out	(4,140,556)	(4,140,556)	(4,140,556)	-	(6,825)	(6,825)	(14,622)	(7,797)
Total other financing sources (uses)	(4,140,556)	(4,140,556)	(4,140,556)	-	86,370	86,370	78,573	(7,797)
Net change in fund balances	(863,832)	(863,832)	(778,301)	85,531	86,265	86,265	123,420	37,155
Fund balances, July 1	1,035,664	1,035,664	1,035,664	-	(574,655)	(574,655)	(574,655)	-
Fund balances, June 30	171,832	171,832	257,363	85,531	(488,390)	(488,390)	(451,235)	37,155

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, 2019**

	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	3,929,520	3,929,520	4,080,505	150,985	-	-	-	-
Licenses, permits and fees	-	-	319	-	60,000	60,000	59,800	(200)
Interest	2,440	2,440	89,108	86,668	-	-	-	-
Total revenues	3,931,960	3,931,960	4,169,932	237,653	60,000	60,000	59,800	(200)
EXPENDITURES:								
Current:								
Public safety	4,907,064	4,907,064	3,680,702	1,226,362	82,912	82,912	82,912	-
Total expenditures	4,907,064	4,907,064	3,680,702	1,226,362	82,912	82,912	82,912	-
Excess (deficiency) of revenues over (under) expenditures	(975,104)	(975,104)	489,230	1,464,015	(22,912)	(22,912)	(23,112)	(200)
OTHER FINANCING SOURCES (USES):								
Transfers in	-	-	-	-	40,000	40,000	40,000	-
Transfers out	-	-	(286,307)	(286,307)	-	-	-	-
Total other financing sources (uses)	-	-	(286,307)	(286,307)	40,000	40,000	40,000	-
Net change in fund balances	(975,104)	(975,104)	202,923	1,464,015	17,088	17,088	16,888	(200)
Fund balances, July 1	3,201,840	3,201,840	3,201,840	-	(6,778)	(6,778)	(6,778)	-
Fund balances, June 30	2,226,736	2,226,736	3,404,763	1,464,015	10,310	10,310	10,110	(200)

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, 2019

	INCLUSIONARY HOUSING				SB 1 - GAS TAX			
	Budgeted Amounts			Variance With Final Budget - Positive (Negative)	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual		Original	Final	Actual	
REVENUES:								
Taxes	-	-	-	-	1,000,000	1,000,000	979,913	(20,087)
Licenses, permits and fees	82,000	82,000	25,032	(56,968)	-	-	-	-
Interest	10,000	10,000	57,808	47,808	-	-	19,194	19,194
Miscellaneous	5,000	5,000	56,578	51,578	-	-	-	-
Total revenues	97,000	97,000	139,418	42,418	1,000,000	1,000,000	999,107	(893)
EXPENDITURES:								
Current:								
Housing	651,704	1,451,704	418,861	1,032,843	-	-	-	-
Streets	-	-	-	-	880,000	1,400,000	873,633	526,367
Total expenditures	-	1,451,704	418,861	1,032,843	880,000	1,400,000	873,633	526,367
Excess (deficiency) of revenues over (under) expenditures	(554,704)	(1,354,704)	(279,443)	1,075,261	120,000	(400,000)	125,474	525,474
OTHER FINANCING SOURCES (USES):								
Transfers out	(11,222)	(11,222)	(11,192)	30	-	-	-	-
Total other financing sources (uses)	(11,222)	(11,222)	(11,192)	30	-	-	-	-
Net change in fund balance	(565,926)	(1,365,926)	(290,635)	1,075,291	120,000	(400,000)	125,474	525,474
Fund balance, July 1	2,109,925	2,109,925	2,109,925	-	-	-	371,605	-
Fund balance, June 30	1,543,999	743,999	1,819,290	1,075,291	120,000	(400,000)	497,079	525,474

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, 2019**

	MEASURE D			
	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
REVENUES:				
Taxes	750,000	750,000	892,397	142,397
Interest	-	-	34,622	34,622
Total revenues	750,000	750,000	927,019	177,019
EXPENDITURES:				
Current:				
Streets	1,200,521	1,246,370	225,101	1,021,269
Total expenditures	1,200,521	1,246,370	225,101	1,021,269
Excess (deficiency) of revenues over (under) expenditures	(450,521)	(496,370)	701,918	1,198,288
Net change in fund balance	(450,521)	(496,370)	701,918	1,198,288
Fund balance, July 1	832,202	832,202	832,202	-
Fund balance, June 30	381,681	335,832	1,534,120	1,198,288

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, 2019

	Budgeted Amounts			Variance With Final Budget - Positive (Negative)
	Original	Final	Actual	
	\$	\$	\$	
REVENUES:				
Intergovernmental	557,983	557,983	65,339	(492,644)
Special assessment	55,370	55,370	49,863	(5,507)
Total revenues	<u>613,353</u>	<u>613,353</u>	<u>115,202</u>	<u>(498,151)</u>
EXPENDITURES:				
Debt service:				
Principal	472,145	472,145	729,629	(257,484)
Interest and fiscal charges	141,208	141,208	220,456	(79,248)
Total expenditures	<u>613,353</u>	<u>613,353</u>	<u>950,085</u>	<u>(336,732)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>0</u>	<u>0</u>	<u>(834,883)</u>	<u>(834,883)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in				
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>840,918</u>	<u>840,918</u>
Net change in fund balance	-	-	6,035	6,035
Fund balance, July 1	<u>122,811</u>	<u>122,811</u>	<u>122,811</u>	<u>-</u>
Fund balance, June 30	<u>122,811</u>	<u>122,811</u>	<u>128,846</u>	<u>6,035</u>

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									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Governmental activities										
Net investment in capital assets	114,050	112,462	128,634	121,354	118,302	114,148	110,806	111,256	108,892	110,033
Restricted	31,320	46,586	39,086	41,689	42,945	44,188	16,754	16,496	19,849	19,803
Unrestricted	2,737	(18,060)	(7,011)	(4,812)	(2,634)	(39,888)	(7,184)	(3,294)	475	(1,797)
Total governmental activities net position	<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>	<u>128,039</u>
Business-type activities										
Net investment in capital assets	98,788	101,914	99,867	100,375	99,277	98,484	94,655	96,034	95,782	92,296
Restricted	-	2,834	-	-	-	-	-	-	-	-
Unrestricted	16,476	4,612	8,671	6,562	10,865	(2,581)	2,587	5,524	9,085	20,058
Total business-type activities net position	<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>	<u>112,354</u>
Primary government										
Net investment in capital assets	212,838	214,376	228,501	221,729	217,579	212,632	205,461	207,290	204,674	202,329
Restricted	31,320	49,420	39,086	41,689	42,945	44,188	16,754	16,496	19,849	19,803
Unrestricted	19,213	(13,448)	1,660	1,750	8,231	(42,469)	(4,597)	2,230	9,560	18,261
Total primary government net position	<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>	<u>240,393</u>

CITY OF WATSONVILLE, CALIFORNIA

Changes In Net Position
Last Ten Fiscal Years
 (accrual basis of accounting)
 (amounts expressed in thousands)

	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Expenses:	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Governmental activities:										
General government	9,100	8,010	7,729	7,140	11,773	5,494	7,151	8,257	7,032	15,143
Public safety	22,752	22,258	18,888	21,249	23,020	25,716	27,751	27,382	30,972	31,221
Housing	8,734	6,118	3,091	1,543	820	1,298	1,389	2,318	1,158	2,289
Highways and streets	6,656	7,775	8,926	7,110	6,708	4,697	3,043	6,348	5,974	8,561
Culture and recreation	7,393	7,498	7,510	7,511	7,334	7,916	8,613	7,817	8,591	9,152
Interest on long term debt	3,269	3,089	1,153	346	189	132	112	146	158	491
Total government activities	<u>57,904</u>	<u>54,748</u>	<u>47,297</u>	<u>44,899</u>	<u>49,844</u>	<u>45,253</u>	<u>48,059</u>	<u>52,268</u>	<u>53,885</u>	<u>66,857</u>
Business-type activities:										
Water	11,483	11,187	11,213	11,249	11,001	11,583	15,537	13,851	12,038	13,996
Sewer	9,335	9,342	9,842	9,863	9,298	10,741	10,731	10,272	13,175	14,195
Solid Waste	8,460	8,165	8,583	8,557	8,699	10,136	9,181	10,976	12,758	11,925
Airport	2,364	2,520	2,539	3,347	2,888	2,580	2,225	2,684	3,382	5,118
Fiber Optic	-	-	-	-	-	-	8	41	46	68
Total business-type activities	<u>31,642</u>	<u>31,214</u>	<u>32,177</u>	<u>33,016</u>	<u>31,886</u>	<u>35,040</u>	<u>37,682</u>	<u>37,824</u>	<u>41,399</u>	<u>45,302</u>
Total primary government	<u>89,546</u>	<u>85,962</u>	<u>79,474</u>	<u>77,915</u>	<u>81,730</u>	<u>80,293</u>	<u>85,741</u>	<u>90,092</u>	<u>95,284</u>	<u>112,159</u>
Program Revenues:										
Governmental activities:										
Charges for services:										
General government	4,768	4,177	3,095	3,489	9,249	5,488	5,524	8,426	8,285	12,233
Public safety	1,793	1,556	1,703	1,623	1,549	1,396	1,853	1,780	1,875	822
Housing	512	3,612	903	97	1,619	391	-	675	289	866
Highways and streets	2,757	3,586	16	1,579	2,501	1,585	1,858	2,284	2,663	1,057
Culture and recreation	1,029	697	1,165	739	827	1,330	833	952	1,189	1,244
Operating grants and contributions	5,311	3,443	6,906	4,926	2,657	2,393	3,590	3,310	2,772	2,501
Capital grants and contributions	2,732	2,546	962	-	-	-	-	-	-	-
Total governmental activates program revenues	<u>18,902</u>	<u>19,617</u>	<u>14,750</u>	<u>12,453</u>	<u>18,402</u>	<u>12,583</u>	<u>13,658</u>	<u>17,427</u>	<u>17,073</u>	<u>18,723</u>
Business-type activities:										
Charges for services:										
Water	9,089	8,513	10,119	9,964	12,363	12,075	12,756	14,617	15,243	17,358
Sewer	7,557	10,140	8,782	9,128	10,864	10,046	14,307	12,069	12,475	13,444
Solid Waste	7,890	8,521	8,712	8,952	9,580	10,471	10,746	11,225	12,549	13,493
Airport	2,057	1,973	2,229	2,254	1,844	1,956	2,159	1,937	2,576	5,595
Fiber Optic	-	-	-	-	-	-	23	44	43	45
Operating grants and contributions	1,046	1,828	990	784	603	901	759	1,373	1,430	2,016
Capital grants and contributions	2,018	128	172	994	1,156	590	659	1,104	311	94
Total business-type activities program revenues	<u>29,657</u>	<u>31,103</u>	<u>31,004</u>	<u>32,076</u>	<u>36,410</u>	<u>36,039</u>	<u>41,409</u>	<u>42,369</u>	<u>44,627</u>	<u>52,045</u>

Continued

CITY OF WATSONVILLE, CALIFORNIA

Changes In Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

(amounts expressed in thousands)

	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net (expense) / revenue										
Governmental activities	(39,001)	(35,132)	(32,547)	(32,448)	(31,442)	(32,670)	(34,401)	(34,840)	(37,564)	(48,134)
Business-type activities	(1,985)	(111)	(1,174)	(939)	4,525	999	3,727	4,544	3,227	6,744
Total primary government net expense	<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>	<u>(41,390)</u>
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	18,082	17,380	13,825	12,383	12,090	11,868	12,846	13,300	13,436	15,669
Sales taxes	9,207	10,101	9,774	9,276	11,436	13,988	16,693	16,083	18,393	19,369
Utility users taxes	2,711	2,938	2,934	3,068	3,029	3,437	3,183	3,679	4,019	4,011
Franchise taxes	401	606	365	417	365	404	456	471	436	460
Other taxes	961	1,075	708	1,069	1,120	1,295	1,457	1,792	2,060	3,125
Intergovernmental revenue not restricted	1,299	1,803	1,255	1,235	1,686	1,475	1,120	1,009	1,048	1,021
Transfers	-	-	-	171	211	226	232	308	270	272
Unrestricted investment earnings	1,245	873	2,190	2,173	1,890	1,916	2,098	2,218	2,660	3,030
Total governmental activities	<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>	<u>46,957</u>
Business-type activities:										
Transfers	-	-	-	(171)	(211)	(226)	(231)	(308)	(270)	(272)
Unrestricted investment earnings	455	1,116	724	291	263	269	201	206	352	1,014
Total business-type activities	<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>	<u>742</u>
Total primary government	<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>	<u>47,699</u>
Change in net position before extraordinary item										
Governmental activities	(5,095)	(356)	(1,496)	(2,656)	385	1,939	3,683	4,020	4,758	(1,177)
Business-type activities	(1,530)	1,005	(450)	(819)	4,577	1,043	3,696	4,442	3,309	7,486
Total primary government	<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>	<u>6,309</u>
Extraordinary items										
Governmental activities	-	-	21,010	-	-	-	-	-	-	-
Total primary government	-	-	<u>21,010</u>	-	-	-	-	-	-	-
Change in net position										
Governmental activities	(5,095)	(356)	19,514	(2,656)	385	1,939	3,683	4,020	4,758	(1,177)
Business-type activities	(1,530)	1,005	(450)	(819)	4,577	1,043	3,696	4,442	3,309	7,486
Total primary government	<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>	<u>6,309</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									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
General fund										
Nonspendable	N/A	69	44	65	56	35	3,365	2,965	2,588	123
Restricted	2,749	-	-	-	-	-	-	-	-	-
Unassigned	(852)	1,530	4,305	4,428	1,881	4,595	4,228	6,057	10,342	13,144
Total general fund	<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>	<u>13,267</u>
All other governmental funds										
Restricted, reported in										
Special revenue funds	11,757	10,483	12,158	12,069	12,021	14,566	18,216	17,880	20,926	20,607
Debt service funds	6,394	3,064	932	87	79	72	125	131	123	129
Unassigned	-	(4,110)	(1,967)	(1,021)	(910)	(1,069)	(770)	(740)	(728)	(615)
Total all other governmental funds	<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>	<u>20,121</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										
	2005	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenues											
Taxes	31,343	32,660	33,903	28,860	27,448	29,725	32,466	35,754	36,198	39,392	43,655
Licenses, permits, and fees	5,911	2,970	3,506	3,272	2,757	4,855	5,248	5,795	5,885	6,642	5,971
Intergovernmental	11,799	5,608	4,461	7,670	4,530	3,032	2,458	3,336	3,410	3,455	3,417
Charges for services	2,807	4,326	5,243	4,773	4,704	2,447	2,458	2,945	2,770	3,224	3,072
Fines	478	984	757	804	588	622	552	690	737	723	708
Interest	2,529	1,650	1,127	2,344	2,309	2,084	2,076	2,168	2,435	2,869	3,405
Special assessment	83	147	112	172	229	92	91	77	60	58	50
Miscellaneous	2,160	1,929	449	956	475	825	1,995	2,810	1,871	2,491	3,007
Total revenues	57,110	50,274	49,558	48,851	43,040	43,682	47,344	53,575	53,366	58,854	63,285
Expenditures											
Current:											
General government	11,483	7,567	6,021	5,594	6,407	10,447	5,574	6,989	7,556	7,978	13,062
Public safety	17,024	21,738	20,250	18,473	20,353	20,406	22,707	24,860	24,271	26,744	30,459
Housing	6,901	8,720	5,919	3,191	1,566	820	1,298	1,389	2,318	1,158	2,289
Streets	2,964	6,084	6,844	8,598	6,509	5,972	4,252	1,672	5,772	5,385	8,759
Culture and recreation	4,402	6,039	5,745	6,152	6,051	6,505	7,172	7,090	7,079	7,837	9,406
Capital outlay	17,591	417	1,877	3,929	1,134	1,581	817	3,286	4,833	2,404	
Debt service:											
Principal	2,025	1,993	8,549	2,139	1,381	439	495	429	478	463	730
Interest and fiscal charges	1,344	3,259	3,086	1,267	299	195	159	183	173	161	220
Total expenditures	63,734	55,817	58,291	49,343	43,700	46,365	42,474	45,898	52,480	52,130	64,925
Excess (deficiency) of revenues over (under) expenditures	(6,624)	(5,543)	(8,733)	(492)	(660)	(2,683)	4,870	7,677	886	6,724	(1,640)
Other financing sources (uses)											
Bond/note proceeds	738	-	-	3,014	695	191	-	-	-	-	1,541
Transfers in	7,536	9,460	18,321	5,883	4,388	3,238	3,340	3,692	3,562	4,464	5,457
Transfers out	(7,536)	(9,460)	(18,321)	(5,883)	(4,217)	(3,309)	(3,150)	(3,496)	(3,290)	(4,230)	(5,222)
Total other financing sources (uses)	738	-	-	3,014	866	120	190	196	272	234	1,776
Net change in fund balances before extraordinary items	(5,886)	(5,543)	(8,733)	2,522	206	(2,563)	5,060	7,873	1,158	6,958	136
Extraordinary items	-	-	-	-228	-	-	-	-	-	-	-
Net change in fund balances	(5,886)	(5,543)	(8,733)	2,294	206	(2,563)	5,060	7,873	1,158	6,958	136
Debt service as a percentage of noncapital expenditures	7.9%	12.9%	10.5%	26.0%	8.1%	4.1%	1.4%	1.6%	1.5%	1.4%	1.5%

** 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
	\$	\$	\$	\$	\$	\$
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
2019	15,669	19,369	460	4,011	3,125	42,634

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
	\$	\$	\$	\$	\$	\$	\$	%	\$	%
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
2019	2,727,533	583,841	442,945	421,714	262,350	222,957	4,215,426	1.16	4,215,426	1.00

Notes: Source: HDL, Coren & Cone

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
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
2019	1.000	0.081	0.077	1.158

Source: HDL, Coren & Cone

CITY OF WATSONVILLE, CALIFORNIA
Principal Property Taxpayers
June 30, 2019
(amounts expressed in thousands)

	2019		2010			
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value		
	\$	%	\$	%		
Watsonville Hospital Corp	62,131	1	1.47%	60,429	1	1.88%
Martinelli Company Properties	44,690	2	1.06%	29,449	2	0.92%
Ow George Jr Trustees	34,760	3	0.82%	17,548	5	0.55%
Freedom Assoc LLC	25,080	4	0.59%			
Home Depot Dev	21,598	5	0.51%			
Harvest Drive Properties LLC	21,531	6	0.51%			
Kaiser	20,818	7	0.49%			
Tkg Iii Watsonville LLC	20,080	8	0.48%			
Hansen William J Neva J Co Tru	19,147	9	0.45%			
Terminal Freezers LLC	18,501	10	0.44%			
Granite Construction Co				21,055	3	0.66%
Hd Dev Of Maryland Inc.				18,189	4	0.57%
Wri Freedom Center Lp				16,045	6	0.50%
Target Stores				15,852	8	0.49%
Albertsons Inc #7197				15,906	7	0.50%
Watsonville Square LLC				14,835	9	0.46%
Cascade Properties LLC				14,323	10	0.45%
Totals	288,335		6.84%	223,631		6.97%

Source: HDL, Coren & Cone

Total Taxable Value	4,215,426	100.00%	3,209,515	100.00%
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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
	\$	\$	\$	\$	\$	\$
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%	117,264	-	7,918,268
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
2019	10,536,951	10,536,951	100%	238,730	-	10,775,681

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			
	\$	\$	\$	\$	\$	\$	\$		
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	0.00%	0.090
2019	4,283	49	-	-	1,639	-	5,971	0.59%	0.113

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 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)

Fiscal Year	General Obligation Debt \$	Less: Amounts Available in Debt Service Fund \$	Total \$	Percentage of Estimated Actual Taxable Value of Property	Per Capita \$
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	0.13%	1,250
2017	3,818	131	3,687	0.12%	1,438
2018	3,406	123	3,283	0.09%	1,615
2019	4,283	129	4,154	0.10%	1,276

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 for estimated actual property value data.

Population data can be found in the Schedule of Demographic and Economic Statistics

CITY OF WATSONVILLE, CALIFORNIA

Legal Debt Margin Information
Last Ten Fiscal Years
(amounts expressed in thousands)

	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Debt limit	120,357	117,333	122,989	121,772	123,043	133,232	139,945	149,679	158,656	166,439
Total net debt applicable to limit	25,003	24,658	4,800	5,241	5,082	4,676	4,129	3,687	3,283	4,154
Legal debt margin	94,356	90,605	117,136	114,555	118,367	128,556	135,816	145,992	155,373	162,285

Total net debt applicable to the limit as a percentage of debt limit	20.774%	21.015%	3.903%	4.304%	4.130%	3.510%	2.950%	2.463%	2.069%	2.496%
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Legal Debt Margin Calculation for Fiscal Year 2019

Assessed value	\$ 4,215,426
Add back: exempt real property	222,957
Total assessed value	<u>4,438,383</u>
Debt Limit = 3.75% of assessed valuation	166,439
Debt applicable to limit	4,283
Less: Amount set aside for repayment of general obligation debt	129
Total net debt applicable to limit	<u>4,154</u>
Legal debt margin	<u><u>\$ 162,285</u></u>

Source: City of Watsonville

CITY OF WATSONVILLE, CALIFORNIA

Computation of Direct and Overlapping Bonded Debt

June 30, 2019

(amounts expressed in thousands, except per capita amount)

Jurisdiction	Total Debt Outstanding	Percentage Applicable	Estimated Share of Overlapping Debt
	\$		\$
Direct Debt:			
City of Watsonville	4,283	100%	<u>4,283</u>
Total of Direct Debt			<u>4,283</u>
 Overlapping Tax Debt:			
Cabrillo Joint Community College District	101,080	9.14%	9,235
Pajaro Valley Unified School District	174,155	26.56%	46,254
Santa Cruz County Certificates of Participations	66,595	9.20%	6,129
Santa Cruz County Office of Education	8,516	9.20%	784
Pajaro Valley Unified School District Certificates of Participation	16,160	26.56%	4,292
City of Watsonville 1915 Act Bonds	98	100.00%	98
Successor Agency	10,700	100.00%	10,700
 Total Overlapping Debt	<u>377,304</u>		<u>77,491</u>
 Total Direct and Overlapping Bonded Debt			<u>77,495</u>

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**

Fiscal Year	Population (1)	Personal (2) Income (amounts expressed in thousands)	Per Capita Personal Income	Median Age (3)	School (4) Enrollment	Unemployment Rate (5)
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%
2019	53,021	1,014,448	19.133	29.7	20,106	10.4%

Source: MuniServices, LLC & Data Reporting Office Ca. Dept of Ed.

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.) Student Enrollment reflects the total number of students enrolled in the Pajaro Valley Unified School District.

CITY OF WATSONVILLE, CALIFORNIA

Principal Employers
Current Fiscal Year and Ten Years Ago

	2019			2010		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Pajaro Valley Unified School District	4,108	1	16.11%	2,061	1	13.67%
Monterey Mushrooms Inc.	870	2	3.41%			
Watsonville Community Hospital	591	3	2.32%	693	2	4.60%
Granite Construction	557	4	2.18%			
City of Watsonville *	427	6	1.67%	374	4	2.48%
Salud Para La Gente	422	7	1.65%	160	9	1.06%
Fox Factory	265	9	1.04%	400	3	2.65%
West Marine Products	247	10	0.97%	279	5	1.85%
S Martinelli & Co.	290	8	1.14%	180	7	1.19%
Target				211	6	1.40%
Couch Distributing				170	8	1.13%
Lakeside Organic Gardens LLC	450	5	1.76%			
Mi Pueblo Food Center				144	10	0.96%
Total	<u><u>8,227</u></u>		<u><u>32.26%</u></u>	<u><u>4,672</u></u>		<u><u>30.99%</u></u>

Source: BL Data, MuniServices, LLC & Called Employers

Source: 2009-10 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	<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>	<u>2019</u>
General Government	6	6	7	6	6	7	7	9	9	9
City Clerk	4	4	4	3	3	3	3	3	3	3
Community Development	16	15	16	13	14	13	11.5	14	15	16
Finance	24	22	22	22	17	16	16	10	10	11
Fire	36	36	36	36	35	41	41	40	42	43
Information Services *	n/a	8	8	8						
Police:										
Officers	74	70	70	73	68	64	67.2	66	75	75
Civilians	19	16	18	19	17	22	26	27	22	24
Library	25	24	24	29	29	29	27.41	25	25	26
Parks & Community Services	33	28	30	27	27	27	25.88	26	29	29
Public Works	22	17	17	16	16	16	14	14	13	15
Airport	8	8	8	9	9	9	9	9	10	13
LLMAD	1	1	1	1	1	1	1	1	1	1
Gas Tax	n/a	0	2	4						
Parking Garage	3	2	0	0	0	0	0	0	0	0
Redevelopment and Housing	8	7	10	4	4	4	5.2	3	4	4
Solid Waste	35	34	34	37	38	36	44	46	49	43
Wastewater	41	42	41	44	46	47	49	53	55	59
Water	28	30	30	27	31	34	35	38	41	44
	383	362	368	366	361	369	382.2	392	413	427

* Information Services was created and 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Government:										
City Council meetings	23	24	25	24	22	27	19	21	25	25
Resolutions processed	186	209	158	169	153	181	199	187	192	180
Recruitments	12	21	36	29	52	46	59	66	41	55
Community Development:										
Planning application reviews	373	341	289	332	259	393	361	369	423	442
Construction inspections	2,470	1,508	1,459	1,784	1,851	1,725	1,165	2,933	3,828	3,624
Building Permits	1,757	1,175	766	852	625	768	817	862	1,034	810
Finance:										
Payroll checks issued	13,344	13,575	12,784	12,336	12,203	12,327	12,511	12,547	13,323	13,028
Utility accounts	15,980	14,833	14,684	14,618	14,685	15,023	15,024	14,985	15,043	15,070
A/P checks issued	8,859	7,879	7,634	7,484	7,460	7,313	7,517	7,644	7,588	8,062
Fire:										
Field incidents dispatched	3,896	4,590	4,734	4,092	4,123	4,282	4,282	4,997	5,070	5,286
Information Services:										
Client Computers	447	447	450	450	542	542	531	531	646	646
Library:										
Items used/checked out	257,195	327,961	231,384	259,986	262,929	411,234	411,234	439,234	272,468	326,888
Parks & Community Services:										
Registered Participants	739	856	807	628	506	549	475	479	413	297
Police:										
Moving and Parking Citations	16,709	10,599	12,161	11,204	9,876	10,524	11,105	12,747	9,600	15,659
Service Calls Dispatch	61,643	57,651	62,047	62,126	61,239	65,288	69,668	67,632	65,635	44,386
URC Crime Rate	42	32	32	27	25	39	40	43	38	34
(# crimes/1,000 population, calendar years)										
Wastewater:										
Avrg. Annual volume per day septicage treated (in million gallons)	7.45	7.12	6.65	6.98	7.70	7.81	3.39	3.49	4.38	5.38
Water:										
Water production (acre feet)	8,834	7,300	7,758	7,761		7,163	6,597	6,648	7,102	6,906
Solid Waste:										
Refuse handled (tons)	35,179	32,936	32,812	32,995	32,607	40,204	41,389	36,028	34,286	35,109
Recycled material (tons)	6,023	4,006	6,258	5,847	6,041	4,946	7,466	7,081	8,188	7,070

Source: City of Watsonville departments

CITY OF WATSONVILLE, CALIFORNIA

Capital Assets Statistics by Function
Last Ten Fiscal Years

Function	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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	18	18	18	18	18	17	17	17	22	22
Patrol motorcycles	6	6	6	6	6	4	5	5	5	5
Library:										
Buildings	2	2	2	2	2	2	2	2	2	2
Parks & Community Services:										
Parks	21	21	21	21	21	26	26	26	26	26
Acreage of parks	85.0	85.0	85.0	85.0	85.0	143.0	143.0	143.0	143.0	143.0
Community Centers	6	6	6	6	5	5	5	5	5	6
Public Works:										
Miles of streets	96	96	96	96	96	89	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	12.1	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	19.1	19.1	19.1	19.1	19.1
Average consumption*	6.3	6.3	6.3	6.3	6.3	6.1	5.9	5.9	5.9	6.2
*(gallons per day in millions)										
Solid Waste:										
Collection trucks	20	20	19	16	16	16	19	19	20	20

Source: City of Watsonville departments

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