CITY OF
CLOVERDALE

**AGENDA**
**REGULAR MEETING OF THE CITY COUNCIL AND**
**JOINT MEETING OF THE CLOVERDALE COMMUNITY DEVELOPMENT SUCCESSOR AGENCY BOARD OF DIRECTORS**

**TUESDAY, FEBRARY 23 DATE, 2016**

**CLOSED SESSION 5:30 p.m.**
**CLOSED SESSION LOCATION: CITY HALL CONFERENCE ROOM, 124 N. CLOVERDALE BLVD. CLOVERDALE, CA 95425**

**PUBLIC BUSINESS SESSION: 6:30 p.m.**
**PUBLIC BUSINESS SESSION LOCATION: CLOVERDALE PERFORMING ARTS CENTER, 209 N. CLOVERDALE BLVD., CLOVERDALE, CA 95425**

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The Cloverdale City Council welcomes you to its meetings that are typically scheduled for the 2nd and 4th Tuesday of the month. Your interest and participation are encouraged and appreciated. ***Please silence all pagers, cellular telephones and other communications devices upon entering the meeting.***

**ADDRESSING THE CITY COUNCIL:**

When asked to do so by the Mayor, those wishing to address the City Council are asked to step up to the podium. Speak directly into the microphone so everyone in the audience can hear your comments and so they'll be recorded into the official record. State your name and City of Residence for the record. Per City Council Policy, three (3) minutes are typically allotted to each speaker. However, Council may at its discretion revise the amount of time allotted. Public comments will normally be received after staff presentations on an agenda item and before the City Council starts deliberations. A Talking Tips sheet is available for your use.

***We may disagree, but we will be respectful of one another.***
***All comments will be directed to the issue at hand, and addressed to the City Council.***
***Personal attacks are unacceptable.***

**DISABLED OR SPECIAL NEEDS ACCOMMODATION**: In compliance with the Americans with Disabilities Act, if you need assistance to attend or participate in a City Council meeting, please contact the City Clerk's office at 894-2521. Notification at least 48-hours prior to the meeting will assist the City Clerk in assuring that reasonable accommodations are made to provide accessibility to the meeting.

**WAIVER WARNING**: If you challenge decisions/directions of the City Council in court, you may be limited to raising only those issues you or someone else raised at public hearings(s) described in this Agenda, or in written correspondence delivered to the City of Cloverdale at, or prior to, the public hearing(s).

## CLOSED SESSION

**CLOSED SESSION: 530 pm**

**OPENING:**

- Call to Order
- Roll Call
- Agenda Review - Closed Session (Changes and/or Deletions)

**PUBLIC COMMENTS ON CLOSED SESSION AGENDA:**

Prior to adjournment into Closed Session, the public may speak on items to be addressed in Closed Session.

**RECESS TO CLOSED SESSION:**

**CONFERENCE WITH LEGAL COUNSEL - POTENTIAL LITIGATION (1)**
Pursuant to California Government Code Section 54956.9(d)(2)
Number of Cases: 1

**CONVENE PUBLIC BUSINESS SESSION – 6:30 p.m.**

**OPENING:**

- Call to Order
- Pledge of Allegiance
- Roll Call
- Report out of Closed Session –Actions Taken
- Conflict of Interest Declaration
- Agenda Review – Regular Session (Changes and/or Deletions)

**PUBLIC COMMENTS:**

Any person wishing to speak to the City Council on any item not listed on the agenda may do so at this time. Members of the public have the right to speak on any items on the Council Agenda during that item. Pursuant to the Brown Act, the City Council is not allowed to consider issues or take action on any item not listed on the agenda. Each person wishing to speak must go to the podium when advised by the Mayor and speak directly into the microphone.

**PROCLAMATIONS / PRESENTATIONS:**

1. **Introduction of David Kelley** –Cayler
2. **Presentation by First 5 Sonoma County and Sonoma County Department of Health Services regarding Quality Preschool Initiative**- Alfredo Perez and Kellie Noe
3. **Presentation of the 2015 Financial Statements**- Terry Krieg, auditor

**CONSENT CALENDAR:**

All items under Consent Calendar will be considered together by one action of the Council unless any Council Member or member of the public requests that an item be removed and considered separately.

4. **Minutes of Previous Meetings – December 9, 2016**- Moore
5. **Engagement of Terry E. Kreig to provide auditing and financial services for FY 15/16**- Cavallari
6. **Waive the second reading and adopt Ordinance No. 703-2016, amending the Cloverdale Municipal Code, Title 18 (Zoning Ordinance), Chapter 18.08.040, and, waive the second reading and adopt Ordinance No. 704-2016 approving a Development Agreement between the City of Cloverdale and Spight Properties II LCC pertaining to the development of the Alexander Valley Resort project**- Kelley


AB343 Requirements: Any writings or documents provided to a majority of the City Council regarding any item on this agenda will be made available for public inspection in the City Hall offices located at 124 N. Cloverdale Blvd., Cloverdale CA 95425 during normal business hours.

7. **Water Production Update-** Apodaca

**COMMUNICATIONS:** None.

Council may discuss at this time written communications sent to Council members since the last council meeting. Written communication to be discussed will be listed below, if any.

**PUBLIC HEARINGS:** None.

**NEW BUSINESS:**

8. **City's Mid-Year Budget Review** – Cavallari

**Recommendation:** Informational only.

9. **Discussion and Possible Action on Potential Parks Capital Projects-** Apodaca

**Recommendation:** Direct staff to proceed with design and bidding of Improvements to City Park Parking Lot.

10. **Discussion and Possible Action on the Future of the Sonoma County Waste Management Agency, including Possible One Year Extension of Joint Powers Authority Agreement** – Cayler

**Recommendation:** The City Manager recommends that the City Council direct the City's SCWMA Board representative to vote in favor of a one-year extension for the operating term of the SCWMA JPA.

**SUBCOMMITTEE ACTION ITEMS:**

Finance, Administration & Police

11. **Consideration of Draft Resolution No. 018-2016 Accepting Draft Water and Sewer Rate Study and directing staff to proceed with the Proposition 218 Public Noticing Process for Proposed Water and Sewer Rate Increases and to Return April 26, 2016 for a Public Hearing and the Adoption of Rates-** Adocaca

**Recommendation:**

1. Move to approve by title only Resolution No. 018-2016 accepting the Water and Sewer Rate Study – Final Draft Report dated February 9, 2016, and provide direction for proposing:
    a. Overall water rate increases of 7 percent on June 1, 2016, and rate increases of 3 percent on July 1, 2017, July 1, 2018, and July 1, 2019 in accordance with proposed rate schedules; and
    b. Overall sewer rate increases of 0 percent on June 1, 2016, and rate increases of 3 percent on July 1, 2017, July 1, 2018, and July 1, 2019 in accordance with proposed rate schedules; and
    c. Changes to both water and sewer rate structures effective June 1, 2016.

2. Direct staff to begin the Proposition 218 public noticing process for proposed water and sewer rate increases and to return on April 26, 2016 for a public hearing and the adoption of rates.

12. **Presentation and Discussion of Proposed Ordinance Repealing and Replacing Cloverdale Municipal Code Chapter 5.24 Relating to Massage Therapy and Massage Establishments -** Cramer

**Recommendation:** The City Manager recommends that the City Council discuss the issue related to massage therapy and give Staff feedback regarding finalizing a proposed ordinance.

**SUBCOMMITTEE REPORTS:** (VERBAL REPORTS: 15 minutes)

- Airport (Chair, Councilmember Russell and Mayor Cox) - Next Meeting: April 3, 2016, 8:00 am.
- Finance, Administration & Police (Chair, Mayor Cox and Vice Mayor Brigham) - Next Meeting: February 25, 2016, 2:00 pm.



AB343 Requirements: Any writings or documents provided to a majority of the City Council regarding any item on this agenda will be made available for public inspection in the City Hall offices located at 124 N. Cloverdale Blvd., Cloverdale CA 95425 during normal business hours.

- Planning & Community Development (Chair, Councilmember Wolter and Vice Mayor Brigham) - Next Meeting: February 24, 2016, 4:00 pm.
- Public Works (Chair, Mayor Cox and Councilmember Russell) - Next Meeting: March 29, 2016, 10:30 am.
- Joint City/Fire District (Chair, Councilmember Palla and Vice Mayor Brigham) - Next Meeting June 13, 2016, 5:30 pm.
- Joint City/School District (Chair, Councilmember Palla and Councilmember Wolter) – Next Meeting: March 21, 2016, 5:00 pm.

**COUNCIL REPORTS (INCLUDING STUDENT LIAISON):** (VERBAL REPORTS: 15 minutes)

**LEGISLATIVE REPORT:** None.

**CITY MANAGER/CITY ATTORNEY REPORT**: None.

**COUNCIL DIRECTION ON FUTURE AGENDA ITEMS:**

**ADJOURNMENT:** Adjourn to a special joint meeting of the City Council and Cloverdale Community Development Successor Agency and the Coverdale Planning Commission, Tuesday, March 1, 2016, for Public Business Session at 5:00 p.m. (Cloverdale Senior Center, 311 N. Main St., Cloverdale, CA 95425).

The City does not transcribe its proceedings. Anyone who desires a verbatim record of this meeting should arrange for attendance by a court reporter or for other acceptable means of recordation. Such arrangements will be at the sole expense of the individual requesting the recordation. Questions about this agenda should be directed to City Hall at 707/894-2521. State of California, County of Sonoma, City of Cloverdale. CERTIFICATION I, Paul Cayler, do hereby declare under penalty of perjury that the foregoing agenda was posted on the outdoor bulletin board at the City Hall, 124 N. Cloverdale Blvd., Cloverdale, California, and made available for public review, prior to or on this 18th day of February, 2016, at or before 5:00 p.m.

Paul Cayler, City Manager



AB343 Requirements: Any writings or documents provided to a majority of the City Council regarding any item on this agenda will be made available for public inspection in the City Hall offices located at 124 N. Cloverdale Blvd., Cloverdale CA 95425 during normal business hours.

CITY OF CLOVERDALE

# *City Council/Successor Agency Agenda Item Summary*

Agenda Item: 2
Meeting Date: February 23, 2016

| **Agenda Section** | **Staff Contact** |
|---|---|
| Proclamations/Presentations | Paul Cayler, City Manager |

**Agenda Item Title**

Presentation by First 5 Sonoma County and Sonoma County Department of Health Services regarding Quality Preschool Initiative.

**Summary**

Alfredo Perez, First 5 Sonoma County and Kellie Noe, Department of Health Services (Cradle to Career Sonoma County) will provide an update on efforts to support increased access to quality preschool in Sonoma County. The presentation will include an update about specific strategies being implemented in Cloverdale. Quality preschool has been linked to numerous positive educational and long term health outcomes. Children who attend quality preschool will be more likely to read by third grade, graduate high school, enter a successful career and have better overall health outcomes.

**Options**

This is presentation only in order to provide feedback and ask questions. No action required

**Budget/Financial Impact**

None.

**Subcommittee Recommendation**

None.

**Recommended Council Action**

The City Manager recommends that the City Council hear the presentation from First 5 Sonoma County and Sonoma County Health Service Department, then take public comment. As appropriate, the City Council may provide feedback and ask questions to Sonoma County staff.

**Attachments:**

None.

**cc:**

# Options for Universal Access to Preschool in Sonoma County

Cloverdale City Council

# Summary of Phase-in Options

| Potential 5-10 Year Phase-in Options |
| --- |
| 1. Serving all 3- and 4-year-olds in the highest priority area zip codes |
| 2. Serving all 3- and 4-year-olds in the highest priority area census tracts |
| 3. Serving all 3- and 4-year-olds under 300 percent of the federal poverty line |
| 4. Serving all 3- and 4-year-olds countywide with an 85 percent participation rate |
| 5. Serving all 3- and 4-year-olds countywide with a 100 percent participation rate |

# Funding Sources

- Most of the initiatives studied have a dedicated funding mechanism for preschool.
  - Sales tax
  - Property tax
  - Set-aside
  - Combination of funding sources
  - Pay for Success Bonds
  - State and federal funds as well as private donations

# A successful universal preschool initiative in the county will require the following:

- Clearly defining the goals for preschool-age children
- Establishing a framework for quality
- Making the most of existing funding streams
- Obtaining a dedicated new funding stream for preschool
- Phasing in the preschool initiative across a period of up to 10 years, beginning in the neighborhoods of greatest unmet need
- Developing partnerships with business and schools

# Cradle to Career believes…

- Access to quality preschool should be provided for all 3 and 4 year old children with a phase-in period that starts with preschool for the children in highest need.
- An 8-hour day, full-year preschool should be provided to families with the option for parents to pay for before and after care.
- State/ federal funds should be fully maximized and partnerships developed with schools and businesses.
- Subsidized high quality preschool seats should be provided to all families under 300% of the federal poverty level (FPL).
- Competitive preschool wages should be provided to promote teacher retention and quality.

# Potential City Roles

- Provide long term leases for quality preschool facilities
- Implement family friendly policies
- Host a City Council study session
- Review and adjust permitting fees
- Stewardship
- Others?

CITY OF CLOVERDALE

# City Council/Successor Agency Agenda Item Summary

Agenda Item: 3
Meeting Date: February 23, 2016

| Agenda Section | Staff Contact |
|---|---|
| Presentations | Joanne Cavallari, Finance Manager |

**Agenda Item Title**

Presentation and acceptance of the FY 2014/15 City of Cloverdale Audited Financial Statements

**Summary**

Local governments are required to have an independent auditor review their finances each year, and produce an Independent Auditors' Report. The Governmental Accounting Standards Board (GASB) provides principles and guidelines against which that jurisdiction's finances are evaluated.

Regardless of how many Funds a jurisdiction may use for accounting purposes, GASB Statement 34 requires that for purposes of its audit, a city's Funds are grouped into three broad categories; major governmental funds, major enterprise (or business) funds, and non-major funds. Major Funds are those that have assets, liabilities, revenues or expenditures equal to or greater than 10% of their Fund Type total, five percent of the grand total of all of the City's Funds.

Governmental Accounting Standards Board (GASB) 34 was intended to improve the public's ability to read and understand the audits of public agencies. Among its components was the creation of the Management's Discussion and Analysis (MD&A). The MD&A offers a narrative summary of the jurisdiction's annual financial condition.

Governmental Accounting Standards Board (GASB) 68, Accounting and Financial Reporting for Pensions, was effective for fiscal years beginning after June 15, 2014. Its purpose is to improve accounting and financial reporting by state and local governments for pensions and pension liabilities.

An Audit is typically made up of a cover letter from the independent auditor; the MD&A; the Basic Financial Statements, including Notes; Required Supplementary Information (RSI), including comparisons between budget and actual; Supplementary information, including combining balance sheets; and Other Reports, including reports on internal control, a summary of findings, and a summary of prior year findings.

FINANCIAL HIGHLIGHTS

- The City's total net position at June 30, 2015 was $94,346,801, a decrease of $8,885,861 over the prior year before restatement for the implementation of GASB 68. The restatement for the new pension accounting standard accounts for about $7.2 million of the total fiscal 2015 decrease in net position from fiscal 2014. After the restatement of the beginning net position, the City reports a $1,647,199 overall decrease in net position.

- Total City revenues, including program and general revenues, were $10,140,200, a decrease of $634,910 from the prior year. Total expenses were $11,787,399 which is an increase of $795,510 from the prior year.

- Governmental Activities Program Revenues were $1,393,685, a decrease of $333,290 from fiscal 2014's $1,726,975. Charges for services decreased by $35,023 from the prior year, while grants and contributions revenue decreased by $298,267. Tax revenue was $3,962,630 for 2015 which represents a 4% increase from the prior year. Other General Revenues were $48,798, a decrease of $195,021 primarily due to the recovery of prior period expenditures in fiscal year 13/14.

- Governmental Activities Program Expenses were $7,603,231 fiscal 2015, an increase of $490,610 from 2014 which was $7,112,621.

- Program revenues from Business-Type Activities were $4,735,087 in fiscal year 2015, down $241,163 from the prior year. Business-type activities revenue this year is comprised of charges for services which increased $129,598 primarily due to increases in water and sewer service rates.

- General Fund revenues and other funding sources were $5,710,496, a decrease of $72,744 from 2014. The difference is primarily due to a decrease in grant revenue and reimbursements compared to the previous year.

- General Fund total expenditures were $5,599,447, an increase of $482,423 from prior year amounts due to filling of vacant positions in the public safety and public works departments.

- General fund balance is $893,284, an increase of $95,301 from the prior year's fund balance of $797,983. The fund balance is approximately 16% of total General Fund expenditures.

Terry E. Krieg, CPA, will attend the Council meeting to present the report and answer questions from the Council and public.

**Staff Recommendation**

Review and accept by motion order the FY 2014/15 City of Cloverdale Audited Financial Statements.

**Budget/Financial Impact**

The purpose of an audit is to review a prior year's financial activities.

**Subcommittee Recommendation**

The Audited Financial Statements were provided to the Finance, Administration, and Police Subcommittee; however, they have not separately reviewed this report.

**Recommended Council Action**

Review and accept by motion order the City of Cloverdale FY 2014/15 Audited Financial Statements.

**Attachments:**

1. FY 2014/15 Audited Financial Statements.

**cc:**

# CITY OF CLOVERDALE, CALIFORNIA

## Basic Financial Statements
## For The
## Fiscal Year Ended June 30, 2015

**CITY OF CLOVERDALE, CALIFORNIA**
**Basic Financial statements**
**For The Fiscal Year Ended June 30, 2015**

**Table of Contents**


| | Page |
|---|---|
| **FINANCIAL SECTION** | |
| Report of Independent Accountants | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 11 |
| Statement of Activities | 12 |
| Fund Financial Statements: | |
| Balance Sheet Governmental Funds | 13 |
| Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds | 14 |
| Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities | 15 |
| Statement of Net Position- Proprietary Funds | 16 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position Proprietary Funds | 17 |
| Statement of Cash Flows-Proprietary Funds | 18 |
| Statement of Fiduciary Net Position – Private Purpose Trust | 20 |
| Statement of Changes in Fiduciary Net position– Private Purpose Trust | 21 |
| Notes to the Basic Financial Statements | 22 |
| **REQUIRED SUPPLEMENTAL INFORMATION SECTION** | |
| Budgetary Comparison Schedule - General Fund | 44 |
| Note to RSI: Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures | 45 |
| Budgetary Comparison Schedule – Employee Retirement Fund Fund | 46 |
| Schedule of Funding Progress-Other Post- Employment Benefits (OPEB) | 47 |

**CITY OF CLOVERDALE, CALIFORNIA**
**Basic Financial statements**
**For The Fiscal Year Ended June 30, 2015**

**Table of Contents**


| | Page |
|---|---|
| Schedule of Proportionate Share of the Net Pension Liability | 48 |
| Schedule of Employer Pension Plan Contributions | 49 |
| **SUPPLEMENTAL SECTION** | |
| Combining Statements and Individual Fund Schedules-Nonmajor Funds: | |
| Combining Balance Sheet Non-major Governmental Funds | 50 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances Non-major Governmental Funds | 52 |

# FINANCIAL SECTION

## MANAGEMENT'S DISCUSSION AND ANALYSIS,

## BASIC FINANCIAL STATEMENTS
## AND
## NOTES TO THE FINANCIAL STATEMENTS

**Terry E. Krieg, CPA**
Certified Public Accountant

## Independent Auditor's Report

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

**Report on the Financial Statements**

I 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 Cloverdale, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Cloverdale'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 financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with audited 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 I 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, I 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,

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

**Opinions**

In my 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 of the City of Cloverdale, California as of June 30, 2015, and the respective changes in its financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in note 5H to the financial statements, the City in fiscal 2015 implemented the provisions of Governmental Accounting Standards Board (GASB) Statement Number 68, Accounting and Financial Reporting for Pensions. As discussed in Note 5G to these financial statements, repayment agreements between the City and its Successor Agency and the transfer of unexpended bond proceeds from the Successor Agency to the City have been subsequently approved or are pending final approval by all regulatory parties. My opinion is not modified with respect to these matters.

131-A Stony Circle, Suite 500 | Santa Rosa, California 95401
P: 707-544-5684 E: Kriegcpa@msn.com

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 10; the Budgetary Comparison Schedules, the Schedule of Funding Progress, and the Schedules of the Proportionate Share of the Net Pension Liability and Employer Pension Plan Contributions on pages 44 through 49 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.

I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cloverdale's basic financial statements. The accompanying nonmajor fund combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The nonmajor fund combining financial statement 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 my opinion, the nonmajor fund combining financial statements is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, I have also issued my report, dated January 21, 2016, on my consideration of the City of Cloverdale's internal control over financial reporting and on my 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 my 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 of Cloverdale's internal control over financial reporting and compliance.

Terry E. Krieg
Certified Public Accountant
Santa Rosa, California
January 21, 2016

# CITY OF CLOVERDALE

## MANAGEMENT'S DISCUSSION AND ANALYSIS
## JUNE 30, 2015

This section, Management's Discussion & Analysis (MD&A) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. Please read this section in conjunction with the accompanying basic financial statements.

### FINANCIAL HIGHLIGHTS

- The City's total net position at June 30, 2015 was $94,367,364, a decrease of $8,865,298 over the prior year before restatement for the implementation of Governmental Accounting Standards Board (GASB) Statement Number 68, Accounting and Financial Reporting for Pensions. The restatement for the new pension accounting standard accounts for about $7.2 million of the total fiscal 2015 decrease in net position from fiscal 2014.After the restatement of the beginning net position, the City reports a $1,626,636 overall decrease in net position.

- Total City revenues, including program and general revenues, were $10,160,763, a decrease of $614,347 from the prior year. Total expenses were $11,787,399 which is an increase of $795,510 from the prior year.

- Governmental Activities Program Revenues were $1,414,248, a decrease of $312,727 from fiscal 2014's $1,726,975. Charges for services decreased by $35,023 from the prior year, while grants and contributions revenue decreased by $277,704. Tax revenue was $3,962,630 for 2015 which represents a 4% increase from the prior year. Other General Revenues were $48,798, a decrease of $195,021 primarily due to the recovery of prior period expenditures in fiscal year 2013/14.

- Governmental Activities Program Expenses were $7,603,231 in fiscal 2015, an increase of $490,610 from 2014 which was $7,112,621.

- Program revenues from Business-Type Activities were $4,735,087 in fiscal year 2015, down $241,163 from the prior year. Business-type activities revenue this year is comprised of charges for services which increased $129,598 primarily due to increases in water and sewer service rates.

- General Fund revenues and other funding sources were $5,694,748, a decrease of $43,137 from 2014. The difference is primarily due to a decrease in grant revenue and reimbursements compared to the previous year.

- General Fund total expenditures were $5,599,447, an increase of $482,423 from prior year amounts due to filling of vacant positions in the public safety and public works departments.

- General fund balance is $893,284, an increase of $95,301 from the prior year's fund balance of $797,983. The fund balance is approximately 16% of total General Fund expenditures.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The components are:

- The government-wide financial statements which include the Statement of Net Position and the Statement of Activities. These statements provide information about the activities of the City as a whole.
- Fund financial statements describe how City services are financed in the short term as well as what resources are available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.
- Notes to the Financial Statements.

**Reporting the City as a Whole**

**The Statement of Net Position and the Statement of Activities (Government-wide)**

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well-being. The Statement of Net Position and the Statement of Activities report information about the City as a whole that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are accounted for regardless of when cash is received or paid.

These two statements report the City's net position and changes thereto. Net position, the difference between assets and liabilities, is one way to measure the City's financial health, or financial position. Over time, increases or decreases in net position are an indicator of whether the financial health is improving or deteriorating. It is also important to consider other non-financial factors such as changes in the City's property tax base or condition of the City's roads and other infrastructure assets to accurately assess the overall health of the City.

The Statement of Net Position and the Statement of Activities present information about the following:

Governmental activities – All of the City's basic services are considered to be governmental activities, including general government, community development, public safety, public works, and community services. Property taxes, sales taxes, Vehicle License Fees (VLF), transient occupancy taxes and franchise fees finance most of these activities.

Business (proprietary fund) type activities – The City charges a fee to customers to cover all or most of the cost of the services provided. The City's water, sewer, transit, and airport operations are reported in this category.

Fiduciary unit – The City of Cloverdale elected to become the Successor Agency for the former Redevelopment Agency including the housing functions. The financial data relating to the Successor Agency are reported in a separate fiduciary fund.

**Reporting the City's Most Significant Funds**

**Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants.However, management establishes many other funds that aid in the administration of resources for particular purposes or meet legal responsibilities associated with the usage of certain taxes, grants, and other money. The City's two kinds of funds, governmental and proprietary, use different accounting approaches as explained below.

***Governmental funds*** – Most of the City's basic services are reported in governmental funds. Governmental funds focus on how resources flow in and out with the balances remaining at year end that are available for spending. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short term view of the City's general government operations and the basic services it provides. Governmental fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds through a reconciliation statement.

***Business Type (Proprietary) funds*** – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

**Table 1**
**City of Cloverdale's Net Position**
**(Full Accrual, in Whole Dollars)**

| | Government Activities | | Business-Type Activities | | Total | | Total Percentage Change |
|---|---|---|---|---|---|---|---|
| **Assets:** | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | |
| Current and other assets | $ 4,984,079 | $ 5,030,712 | $ 2,250,164 | $ 2,239,848 | $ 7,234,243 | $ 7,270,560 | |
| Noncurrent assets | 56,615,441 | 57,872,224 | 47,844,140 | 45,279,425 | 104,459,581 | 103,151,649 | |
| **Total Assets** | $ 61,599,520 | $ 62,902,936 | $ 50,094,304 | $ 47,519,273 | $ 111,693,824 | $ 110,422,209 | 1.1% |
| **Deferred outflows of Resources:** | | | | | | | |
| Pension plan contributions and deferrals | $ 594,640 | $ 602,000 | $ 107,295 | $ 92,000 | $ 701,935 | $ 694,000 | |
| **Total Deferred outflows of Resources** | $ 594,640 | $ 602,000 | $ 107,295 | $ 92,000 | $ 701,935 | $ 694,000 | |
| **Liabilities:** | | | | | | | |
| Current Liabilities | $ 917,167 | $ 681,975 | $ 1,396,520 | $ 1,426,392 | $ 2,313,687 | $ 2,108,367 | |
| Long-term debt | 7,753,507 | 8,816,696 | 6,415,904 | 4,197,146 | 14,169,411 | 13,013,842 | |
| **Total Liabilities** | $ 8,670,674 | $ 9,498,671 | $ 7,812,424 | $ 5,623,538 | $ 16,483,098 | $ 15,122,209 | 8.3% |
| **Deferred inflows of Resources** | | | | | | | |
| Pension plan timing differences | 1,309,500 | - | 235,797 | - | $ 1,545,297 | - | |
| **Total Deferred inflows of Resources** | $ 1,309,500 | $ - | $ 235,797 | $ - | $ 1,545,297 | $ - | |
| **Net Position:** | | | | | | | |
| Net investment in capital assets | $ 56,615,441 | $ 57,872,224 | $ 41,315,775 | $ 41,537,401 | $ 97,931,216 | $ 99,409,625 | |
| Restricted | 3,373,628 | 3,750,754 | 658,413 | 436,514 | 4,032,041 | 4,187,268 | |
| Unrestricted | (7,775,083) | (7,616,713) | 179,190 | 13,820 | (7,595,893) | (7,602,893) | |
| **Total Net Position** | $ 52,213,986 | $ 54,006,265 | $ 42,153,378 | $ 41,987,735 | $ 94,367,364 | $ 95,994,000 | -1.7% |

The City's combined net position for the fiscal year ended June 30, 2015 was $94,367,364. The City accounts for its water, sewer, airport, and transit operations as enterprise funds. These enterprise funds are categorized as Business-Type Activities on Table 1.

**Table 2**
**City of Cloverdale's Statement of Activities**
**(Full Accrual, in Whole Dollars)**

| | Governmental Activities | | Business-Type Activities | | Total | | Total Percentage Change |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | |
| Revenues | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | $ 688,619 | $ 723,642 | $ 4,410,853 | $ 4,281,255 | $ 5,099,472 | $ 5,004,897 | |
| Operating grants and contributions | 725,629 | 716,111 | 111,460 | 101,380 | 837,089 | 817,491 | |
| Capital grants and contributions | - | 287,222 | 212,774 | 593,615 | 212,774 | 880,837 | |
| General revenues | | | | | - | - | |
| Taxes | 3,962,630 | 3,828,066 | | | 3,962,630 | 3,828,066 | |
| From other agencies not restricted | | | | | - | - | |
| to specific programs | | - | | | - | - | |
| Other | 48,798 | 243,819 | | | 48,798 | 243,819 | |
| | | - | | | - | - | |
| **Total Revenues** | 5,425,676 | 5,798,860 | 4,735,087 | 4,976,250 | 10,160,763 | 10,775,110 | -6.0% |
| Expenses | | | | | | | |
| General government | 1,370,237 | 1,376,998 | | - | 1,370,237 | 1,376,998 | |
| Public safety | 3,651,438 | 3,397,609 | | - | 3,651,438 | 3,397,609 | |
| Public works | 1,775,337 | 1,589,033 | | - | 1,775,337 | 1,589,033 | |
| Planning | 223,995 | 210,663 | | - | 223,995 | 210,663 | |
| Parks & facilities | 457,524 | 416,696 | | - | 457,524 | 416,696 | |
| Housing & Development | 124,700 | 121,622 | | - | 124,700 | 121,622 | |
| Interest on long-term debt | - | - | | - | - | - | |
| Water | - | - | 2,194,183 | 2,092,690 | 2,194,183 | 2,092,690 | |
| Sewer | - | - | 1,663,582 | 1,527,901 | 1,663,582 | 1,527,901 | |
| Airport | - | - | 216,209 | 163,923 | 216,209 | 163,923 | |
| Transit | - | - | 110,194 | 94,754 | 110,194 | 94,754 | |
| **Total Expenses** | 7,603,231 | 7,112,621 | 4,184,168 | 3,879,268 | 11,787,399 | 10,991,889 | 6.7% |
| Increase (Decrease) in Net Position | | | | | | | |
| Before Transfers | (2,177,555) | (1,313,761) | 550,919 | 1,096,982 | (1,626,636) | (216,779) | |
| Transfers | 385,276 | 398,983 | (385,276) | (398,983) | - | - | |
| **Increase (Decrease) in Net Position** | (1,792,279) | (914,778) | 165,643 | 697,999 | (1,626,636) | (216,779) | |
| Net Position - Beginning (restated) | 54,006,265 | 61,021,300 | 41,987,735 | 42,428,141 | 95,994,000 | 103,449,441 | |
| Change in accounting principle (Note 5H) | | (6,100,257) | | (1,138,405) | | (7,238,662) | |
| Net Position - Ending | $ 52,213,986 | $ 54,006,265 | $ 42,153,378 | $ 41,987,735 | $ 94,367,364 | $ 95,994,000 | -1.7% |

The City's net position for governmental activities was $52,213,986 as of June 30, 2015, a decrease of $1,792,279 from the prior year. For the City's Business type activities, net position was $42,153,378 at June 30, 2015, an increase of about $165,643. Revenues were sufficient to cover operating expenses in the Water, Sewer, and Transit funds.

Governmental revenues decreased by $393,747 from fiscal year 2014. Property taxes, the single largest source of general fund revenue, increased by about 1.5% from fiscal 2014. Charges for services decreased due to decreased activity in the Planning and Building departments. There was less grant funding available for public safety.

Business type revenues have improved by $129,598 due to increased Water and Sewer service fees.

Following Table 3, variances in the City's general fund under the modified accrual method, measuring cash and all other financial assets that can readily be converted to cash, are discussed.

**Table 3**
**General Fund Budget Analysis**
**Fiscal Year 2014-15**

| | Final Budget | Actual | Varience from Budget Favorable (Unfavorable) | Percentage Over (under) Budget |
|---|---|---|---|---|
| Revenue | $ 3,846,137 | $ 4,273,041 | $ 426,904 | 11.10% |
| Expenditures | (5,390,394) | (5,599,447) | (209,053) | 3.88% |
| Transfer in (out) net | 1,509,130 | 1,421,707 | (87,423) | -5.79% |
| Net Change in Fund balance | $ (35,127) | $ 95,301 | $ 130,428 | |

**General Fund Highlights**

The City spent about 10% more in fiscal year 2014-15 compared to the prior year for general fund activities.

Total revenues decreased by about 2% compared to the prior year due to decreased grants and reimbursements.

## THE CITY'S FUNDS

**Table 4**
**Summary of Changes in Fund Balances of Governmental Funds and Net Position of Enterprise Funds**

| | June 30, 2015 | June 30, 2014 | Increase (Decrease) | Increase (Decrease) |
|---|---|---|---|---|
| **Governmental Funds:** | | | | |
| General Fund | $ 893,284 | $ 797,983 | $ 95,301 | 12% |
| Employee Retirement | 506,185 | 734,119 | (227,934) | -31% |
| Other Non-Major Govtl Funds | 2,867,443 | 3,016,635 | (149,192) | -5% |
| **Total Governmental Fund Balances** | $ 4,266,912 | $ 4,548,737 | $ (281,825) | -6% |
| **Enterprise Funds:** | | | | |
| Water | $ 14,992,677 | $ 14,840,210 | $ 152,467 | 1.03% |
| Sewer | 16,760,402 | 16,727,674 | 32,728 | 0.20% |
| Airport | 10,438,466 | 10,467,155 | (28,689) | -0.27% |
| Transit | (38,167) | (47,304) | 9,137 | -19.32% |
| **Total Enterprise Net Position** | $ 42,153,378 | $ 41,987,735 | $ 165,643 | 0.39% |

For the year ended June 30, 2015, the City's governmental funds reported a *combined* fund balance of $4,266,912, down $281,825 or 6% from the prior year's balance of $4,548,737.

The City's enterprise funds had an ending net position of $42,153,378, a decrease of about $972,762 from the prior year's balance of $43,126,140 before restatement. This amount reflects the changes in all business type activities for 2015.

## CAPITAL ASSETS

All of the City's capital assets have been reported in the financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement Number 34, including infrastructure assets such as roads, sidewalks, bridges, drainage systems, and street lighting systems as well as treatment plants, water mains, and sewer lines. Values are reported at historical cost or if not available, estimated historical cost.

**Table 5**
**Capital Assets**
**June 30, 2015**

| | Governmental Activities | | Business-type Activities | | Totals | | |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | Change |
| Land - Nondepreciable | $ 26,867,609 | $ 26,867,609 | $ 17,795,413 | $ 17,795,413 | $ 44,663,022 | $ 44,663,022 | $ - |
| Buildings and Improvements | 2,272,991 | 2,271,123 | 12,057,630 | 12,040,821 | 14,330,621 | 14,311,944 | 18,677 |
| Improvements other than Buildings | 5,914,883 | 5,877,371 | 1,877,937 | 1,877,937 | 7,792,820 | 7,755,308 | 37,512 |
| Pipelines | | | 23,311,556 | 23,311,556 | 23,311,556 | 23,311,556 | - |
| Appurtenances | | | 4,289,524 | 4,289,524 | 4,289,524 | 4,289,524 | - |
| Fire hydrants, valves and meters | | | - | - | - | - | - |
| Equipment & Vehicles | 2,004,146 | 2,004,146 | 1,336,961 | 1,280,931 | 3,341,107 | 3,285,077 | 56,030 |
| Infrastructure | 42,292,343 | 42,292,343 | | | 42,292,343 | 42,292,343 | - |
| Construction in Progress | | | 4,271,381 | 1,143,111 | 4,271,381 | 1,143,111 | 3,128,270 |
| Total Capital Assets | 79,351,972 | 79,312,592 | 64,940,402 | 61,739,293 | 144,292,374 | 141,051,885 | 3,240,489 |
| Less: Accumulated Depreciation | (22,736,531) | (21,440,368) | (17,754,675) | (16,896,382) | (40,491,206) | (38,336,750) | (2,154,456) |
| Capital Assets - Net | $ 56,615,441 | $ 57,872,224 | $ 47,185,727 | $ 44,842,911 | $ 103,801,168 | $ 102,715,135 | $ 1,086,033 |

Detailed information on capital assets is presented in Note 4 D of the financial statements.

## DEBT

The following is a summary of the City's long-term obligations as of June 30, 2015.

**Table 6**
**Outstanding Debt**
**June 30, 2015**

| | Governmental Activities | | Business-type Activities | | Totals | | |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | Change |
| Installment Agreement | $ - | $ - | $1,059,000 | $1,150,000 | $ 1,059,000 | $ 1,150,000 | $ (91,000) |
| Water Sale Agreement | - | - | 3,454,247 | 611,718 | 3,454,247 | 611,718 | 2,842,529 |
| Notes | - | - | 1,356,704 | 1,530,287 | 1,356,704 | 1,530,287 | (173,583) |
| Capital Leases | - | - | - | 25,186 | - | 25,186 | (25,186) |
| Compensated Absences | 317,773 | 405,004 | 227,997 | 231,758 | 545,770 | 636,762 | (90,992) |
| Total Debt | $ 317,773 | $ 405,004 | $6,097,948 | $3,548,949 | $ 6,415,721 | $ 3,953,953 | $ 2,461,768 |

Detailed information on long-term obligations is presented in Note 4 E of the financial statements.

## ECONOMIC FACTORS AND NEXT YEARS BUDGET AND RATES

As a result of the dissolution of the City's redevelopment agency, the City receives periodic distributions from the County for use in paying down enforceable obligations of the former redevelopment agency. The loss of tax increment revenues from the dissolution of the redevelopment agency has required the City to reconfigure its future budgets for operational and capital needs. The tax distributions being received as part of the dissolution process are currently covering the debt service payments with a limited amount available to pay the administration costs of the former agency.

In order to reconfigure the City's ability to sustain the current level of essential municipal services, the City is considering options to establish more discretionary revenues. The City is evaluating the potential revenue increases from the renegotiation of various franchise agreements, and increases in transient occupancy taxes (hotel tax). In 2014 the voters in the City of Cloverdale approved a 3% Utility Users Tax which became effective in January 2015 for a period of eight years.

Another challenge that the City has recently faced has been issues surrounding water capacity. This is an important issue not only for existing rate payers, but for potential developers. The Water System Improvement Project broke ground in 2014, funded through a low-interest loan and grant funding from the USDA. Two new wells were brought on line in 2014 and work continues on treatment capacity, additional storage, transmission mains, and other infrastructure improvements. In order to qualify, it was imperative that the City demonstrate its ability to repay the debt that would be created by the arrangement. The City was able to gain approval with community support to subsequently increase the water rates to levels that the City believes will be adequate for its purposes. The rate increases included a new rate structure which insures equity in user charges across all categories.

As time goes forward the State of California and U.S. federal government and its decisions will continue to have an impact on the future undertakings that the City must face. An example of this would be the mandate being passed down for the City to participate in a municipal storm sewer systems permit process and the program associated with it. There are also more and more regional initiatives that the City is asked to participate in, that will be considered for potential impact to the community and the possible need for investment of resources for the protection of the community's best interests.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the city's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Finance Manager Joanne Cavallari at City of Cloverdale, 124 N. Cloverdale Boulevard, Cloverdale, California 95425.

**CITY OF CLOVERDALE**
**Statement of Net Position**
**June 30, 2015**

| | Governmental Activities | Business Type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 4,168,882 | $ 1,664,375 | $ 5,833,257 |
| Net receivables | 564,060 | 657,829 | 1,221,889 |
| Prepayments | 137,150 | 26,336 | 163,486 |
| Inventory | - | 7,511 | 7,511 |
| Internal balances | 113,987 | (113,987) | - |
| Deposits | - | 8,100 | 8,100 |
| Total current assets | 4,984,079 | 2,250,164 | 7,234,243 |
| Noncurrent assets: | | | |
| Restricted cash and cash equivalents | - | 658,413 | 658,413 |
| Capital assets not being depreciated | 26,867,609 | 22,066,794 | 48,934,403 |
| Capital assets being depreciated,net | 29,747,832 | 25,118,933 | 54,866,765 |
| Total noncurrent assets | 56,615,441 | 47,844,140 | 104,459,581 |
| Total assets | 61,599,520 | 50,094,304 | 111,693,824 |
| **DEFERRED OUTFLOWS OF RESOURCES:** | | | |
| Pension plan related items | 594,640 | 107,295 | 701,935 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | 243,300 | 420,489 | 663,789 |
| Accrued liabilities and retentions | 473,867 | 56,291 | 530,158 |
| Compensated absences | 200,000 | 227,997 | 427,997 |
| Deposits | - | 272,542 | 272,542 |
| Accrued interest payable | - | 15,561 | 15,561 |
| Long-term liabilities due in one year | - | 403,640 | 403,640 |
| Total current liabilities | 917,167 | 1,396,520 | 2,313,687 |
| Long-term liabilities due in more one year: | | | |
| Compensated absences | 117,773 | - | 117,773 |
| Net other post-employment benefit (OPEB) | 2,228,118 | - | 2,228,118 |
| Loans | - | 2,070,065 | 2,070,065 |
| Installment agreements | - | 3,396,247 | 3,396,247 |
| Net pension liability | 5,407,616 | 949,592 | 6,357,208 |
| Total due in more than one year | 7,753,507 | 6,415,904 | 14,169,411 |
| Total liabilities | 8,670,674 | 7,812,424 | 16,483,098 |
| **DEFERRED INFLOWS OF RESOURCES:** | | | |
| Pension plan related items | 1,309,500 | 235,797 | 1,545,297 |
| **NET POSITION** | | | |
| Net investment in capital assets | 56,615,441 | 41,315,775 | 97,931,216 |
| Restricted for: | | | |
| Affordable housing | 713,086 | - | 713,086 |
| Employee retirement | 506,185 | - | 506,185 |
| Municipal facilities | 1,070,732 | - | 1,070,732 |
| Streets and thoroughfares | 646,157 | - | 646,157 |
| Public safety | 3,867 | - | 3,867 |
| Parks | 433,601 | - | 433,601 |
| System improvements | - | 658,413 | 658,413 |
| Unrestricted (deficit) | (7,775,083) | 179,190 | (7,595,893) |
| Total net position | $ 52,213,986 | $ 42,153,378 | $ 94,367,364 |

See accompanying notes to the basic financial statements

**CITY OF CLOVERDALE**
**Statement of Activities**
**For The Fiscal Year Ended June 30, 2015**

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expenses) Revenue and Changes in Net Position — City Government: Governmental Activities | Net (Expenses) Revenue and Changes in Net Position — City Government: Business-type Activities | Net (Expenses) Revenue and Changes in Net Position — City Government: Total |
|---|---|---|---|---|---|---|---|
| City government | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | $ 1,370,237 | $ 185,183 | $ 200,353 | $ - | $ (984,701) | $ - | $ (984,701) |
| Public safety | 3,651,438 | 119,536 | 176,717 | - | (3,355,185) | - | (3,355,185) |
| Planning | 223,995 | 158,686 | - | - | (65,309) | - | (65,309) |
| Parks and recreation | 457,524 | 15,161 | - | - | (442,363) | - | (442,363) |
| Public works | 1,775,337 | 210,053 | 348,559 | - | (1,216,725) | - | (1,216,725) |
| Housing and development | 124,700 | - | - | - | (124,700) | - | (124,700) |
| Total governmental activities | 7,603,231 | 688,619 | 725,629 | - | (6,188,983) | - | (6,188,983) |
| Business-Type Activities: | | | | | | | |
| Water | 2,194,183 | 2,409,513 | - | 149,032 | - | 364,362 | 364,362 |
| Wastewater | 1,663,582 | 1,863,146 | - | - | - | 199,564 | 199,564 |
| Transit | 110,194 | 7,017 | 100,079 | - | - | (3,098) | (3,098) |
| Airport | 216,209 | 131,177 | 11,381 | 63,742 | - | (9,909) | (9,909) |
| Total business-type activities | 4,184,168 | 4,410,853 | 111,460 | 212,774 | - | 550,919 | 550,919 |
| Total City government | $ 11,787,399 | $ 5,099,472 | $ 837,089 | $ 212,774 | (6,188,983) | 550,919 | (5,638,064) |
| General revenues and transfers | | | | | | | |
| *General revenues:* | | | | | | | |
| *Taxes:* | | | | | | | |
| Property taxes | | | | | 1,773,895 | - | 1,773,895 |
| Sales taxes | | | | | 836,791 | - | 836,791 |
| Pension tax | | | | | 531,052 | - | 531,052 |
| Other taxes | | | | | 820,892 | - | 820,892 |
| Other general revenues | | | | | 48,798 | - | 48,798 |
| *Transfers* | | | | | 385,276 | (385,276) | - |
| Total general revenues and transfers | | | | | 4,396,704 | (385,276) | 4,011,428 |
| **Change in net position** | | | | | (1,792,279) | 165,643 | (1,626,636) |
| Net position, beginning | | | | | 54,006,265 | 41,987,735 | 95,994,000 |
| Net position, ending | | | | | $ 52,213,986 | $ 42,153,378 | $ 94,367,364 |

See accompanying notes to the basic financial statements

**CITY OF CLOVERDALE**
**Balance Sheet**
**Governmental Funds**
**June 30, 2015**

| | General Fund | Employees Retirement | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and investments | $ 643,221 | $ 472,904 | $ 3,052,757 | $ 4,168,882 |
| Receivables: | | | | |
| Taxes | 363,337 | 33,054 | - | 396,391 |
| Accounts | 123,999 | - | - | 123,999 |
| Intergovernmental | - | - | 36,546 | 36,546 |
| Assessments | - | - | 5,525 | 5,525 |
| Interest | 237 | 227 | 1,135 | 1,599 |
| Due from other funds | 135,500 | - | - | 135,500 |
| Prepayments | 134,524 | | 2,626 | 137,150 |
| Total assets | $ 1,400,818 | $ 506,185 | $ 3,098,589 | $ 5,005,592 |
| **LIABILITIES AND FUND BALANCES** | | | | |
| Liabilities: | | | | |
| Accounts payable | $ 198,839 | $ - | $ 44,461 | $ 243,300 |
| Accrued liabilities | 308,695 | | 165,172 | 473,867 |
| Due to other funds | - | - | 21,513 | 21,513 |
| Total liabilities | 507,534 | - | 231,146 | 738,680 |
| Fund balances: | | | | |
| Nonspendable | 134,524 | - | 2,626 | 137,150 |
| Restricted for affordable housing | - | - | 712,049 | 712,049 |
| Restricted for employee retirement | - | 506,185 | - | 506,185 |
| Restricted for capital facilities | - | - | 1,070,732 | 1,070,732 |
| Restricted for streets and thorroughfares | - | - | 644,568 | 644,568 |
| Restricted for public safety | - | - | 3,867 | 3,867 |
| Restricted for parks and parkland | - | - | 433,601 | 433,601 |
| Assigned for traffic safety | 84,599 | - | | 84,599 |
| Assigned for equipment and projects | 161,870 | - | - | 161,870 |
| Unassigned | 512,291 | - | - | 512,291 |
| Total fund balances | 893,284 | 506,185 | 2,867,443 | 4,266,912 |
| Total liabilities and fund balances | $ 1,400,818 | $ 506,185 | $ 3,098,589 | $ 5,005,592 |

| | |
|---|---|
| Total Governmental Fund Balances | $ 4,266,912 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds | 56,615,441 |
| Other post-employment benefit obligations do not require the use of current financial resources and are not reported in the funds. | (2,228,118) |
| Some liabilities such as compensated are not due and payable in the current period and are therefore not reported in the funds | (317,773) |
| The net pension liability does not require the use of current financial resources and is therefore not reported in the funds | (5,407,616) |
| Deferred outflows of resources related to the net pension liability do not use current financial resources and are not therefore reported in the funds | 594,640 |
| Deferred inflows of resources for timing differences related to the net pension liability do not provide current financial resources and are not reported in the funds | (1,309,500) |
| Net Position of Governmental Activities | $ 52,213,986 |

See accompanying notes to the basic financial statements

**CITY OF CLOVERDALE**
**Statements of Revenues, Expenditures, and Changes in Fund Balances**
**Governmental Funds**
**For the Fiscal Year Ended June 30, 2015**

| | General Fund | Employees Retirement | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Taxes | $ 3,365,143 | $ 531,052 | $ 66,435 | $ 3,962,630 |
| Licenses and permits | 99,190 | - | - | 99,190 |
| Intergovernmental | 193,321 | - | 318,259 | 511,580 |
| Special assessments | - | - | 164,255 | 164,255 |
| Charges for services | 109,009 | - | - | 109,009 |
| Fines and forfeitures | 46,649 | - | - | 46,649 |
| Interest | 2,619 | 911 | 5,506 | 9,036 |
| Miscellaneous | 457,110 | - | 66,217 | 523,327 |
| Total revenues | 4,273,041 | 531,963 | 620,672 | 5,425,676 |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| General government | 1,333,628 | - | - | 1,333,628 |
| Public safety | 3,391,299 | - | 3,928 | 3,395,227 |
| Public works | 418,538 | - | 489,402 | 907,940 |
| Parks and recreation | 246,786 | - | - | 246,786 |
| Planning | 209,196 | - | - | 209,196 |
| Total expenditures | 5,599,447 | - | 493,330 | 6,092,777 |
| Excess (deficiency) of revenues over expenditures | (1,326,406) | 531,963 | 127,342 | (667,101) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfers in | 1,437,455 | - | 108,325 | 1,545,780 |
| Transfers out | (15,748) | (759,897) | (384,859) | (1,160,504) |
| Total other financing sources (uses) | 1,421,707 | (759,897) | (276,534) | 385,276 |
| Net change in fund balance | 95,301 | (227,934) | (149,192) | (281,825) |
| Fund balances, July 1 | 797,983 | 734,119 | 3,016,635 | 4,548,737 |
| Fund balances, June 30 | $ 893,284 | $ 506,185 | $ 2,867,443 | $ 4,266,912 |

See accompanying notes to the basic financial statements

**CITY OF CLOVERDALE**
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities**
**For the Fiscal Year Ended June 30, 2015**

| | |
|---|---|
| Net Change in Fund Balances - Total Governmental Funds | $ (281,825) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures, however, in the statement of activities, the costs of these assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense ($1,296,162) exceeds capital outlays ($39,380) in the current period. | (1,256,782) |
| Changes in the net pension liability and related deferred outflows of resources and deferred inflows of resources due to timing differences do not use current financial resources and are therefore not reported in the funds: | (22,220) |
| Governmental funds report compensated absences when payments are made or are immediately due. However, in the statement of activities these costs are recorded when incurred. | 87,231 |
| Increases in other post-employment benefit obligations do not require the use of current financial resources and are not reported in the funds | (318,683) |
| Net differences | (1,510,454) |
| Change in Net Position of Governmental Activities | $ (1,792,279) |

See accompanying notes to the basic financial statements

**CITY OF CLOVERDALE**
**Statement of Net Position**
**Proprietary Funds**
**June 30, 2015**

| | Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Water | Wastewater | Transit | Airport | Totals |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 618,495 | $ 1,018,152 | $ 27,728 | $ - | $ 1,664,375 |
| Receivables(net) | 210,503 | 175,178 | 31,274 | 27,612 | 444,567 |
| Due from other governments | 213,262 | | | | 213,262 |
| Deposits | 2,100 | 6,000 | - | - | 8,100 |
| Loans to other funds | - | 420,000 | - | - | 420,000 |
| Inventory | - | - | - | 7,511 | 7,511 |
| Prepayments | 13,514 | 11,185 | 1,432 | 205 | 26,336 |
| Total current assets | 1,057,874 | 1,630,515 | 60,434 | 35,328 | 2,784,151 |
| Noncurrent assets: | | | | | |
| Other assets: | | | | | |
| Cash and cash equivalents | 497,611 | 160,802 | - | - | 658,413 |
| Total other noncurrent assets | 497,611 | 160,802 | - | - | 658,413 |
| Capital assets: | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | 2,221,441 | 6,252,835 | - | 9,321,137 | 17,795,413 |
| Construction in progress | 4,212,782 | - | - | 58,599 | 4,271,381 |
| Total | 6,434,223 | 6,252,835 | - | 9,379,736 | 22,066,794 |
| Capital assets being depreciated: | | | | | |
| Buildings | 8,701,139 | 3,148,365 | - | 208,126 | 12,057,630 |
| Improvements | - | - | - | 1,877,937 | 1,877,937 |
| Pipelines | 12,547,279 | 10,764,277 | - | - | 23,311,556 |
| Appurtenances | 2,112,439 | 2,177,085 | - | - | 4,289,524 |
| Vehicles | 243,700 | 556,928 | 113,176 | - | 913,804 |
| Machinery and equipment | 291,962 | 121,520 | - | 9,675 | 423,157 |
| Less accumulated depreciation | (9,453,584) | (7,320,010) | (113,176) | (867,905) | (17,754,675) |
| Net capital assets being depreciated | 14,442,935 | 9,448,165 | - | 1,227,833 | 25,118,933 |
| Net capital assets | 20,877,158 | 15,701,000 | - | 10,607,569 | 47,185,727 |
| Total noncurrent assets | 21,374,769 | 15,861,802 | - | 10,607,569 | 47,844,140 |
| **Total assets** | 22,432,643 | 17,492,317 | 60,434 | 10,642,897 | 50,628,291 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | | |
| Pensiojn plan items | 58,148 | 39,723 | 6,550 | 2,874 | 107,295 |
| **LIABILITIES** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | 333,913 | 50,477 | 524 | 35,575 | 420,489 |
| Other current liabilities | 28,253 | 24,867 | 2,634 | 537 | 56,291 |
| Compensated absences | 102,682 | 94,896 | 29,588 | 831 | 227,997 |
| Deposits | 266,047 | - | 35 | 6,460 | 272,542 |
| Due to other funds | - | - | - | 113,987 | 113,987 |
| Loans from other funds | 420,000 | - | - | - | 420,000 |
| Interest payable | 14,806 | 755 | - | - | 15,561 |
| Long term obligations due in one year | 316,919 | 79,809 | - | 6,912 | 403,640 |
| Total current liabilities | 1,482,620 | 250,804 | 32,781 | 164,302 | 1,930,507 |
| Noncurrent liabilities due in more than one year: | | | | | |
| Bank loan | 892,000 | - | - | - | 892,000 |
| Installment sale agreement (2014) | 3,396,247 | - | - | - | 3,396,247 |
| State Revolving Fund Loan | - | 81,973 | - | - | 81,973 |
| Safe Drinking Water Loan | 1,084,822 | - | - | - | 1,084,822 |
| State Department Transportation loan | - | - | - | 11,270 | 11,270 |
| Net pension liability | 514,634 | 351,563 | 57,974 | 25,421 | 949,592 |
| Total noncurrent liabilities | 5,887,703 | 433,536 | 57,974 | 36,691 | 6,415,904 |
| **Total liabilities** | 7,370,323 | 684,340 | 90,755 | 200,993 | 8,346,411 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | | |
| Pension plan items | 127,791 | 87,298 | 14,396 | 6,312 | 235,797 |
| **NET POSITION** | | | | | |
| Net investment in capital assets | 15,187,170 | 15,539,218 | - | 10,589,387 | 41,315,775 |
| Restricted | 497,611 | 160,802 | - | - | 658,413 |
| Unrestricted (deficit) | (692,104) | 1,060,382 | (38,167) | (150,921) | 179,190 |
| **Total net position** | $ 14,992,677 | $ 16,760,402 | $ (38,167) | $ 10,438,466 | $ 42,153,378 |

See accompanying notes to the basic financial statements

**CITY OF CLOVERDALE**
**Statement of Revenues, Expenses, and Changes in Fund Net Position**
**Proprietary Funds**
**For the Fiscal Year Ended June 30, 2015**

| | Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Water | Wastewater | Transit | Airport | Totals |
| **OPERATING REVENUES** | | | | | |
| Sales of water | $ 2,406,202 | $ - | $ - | $ - | $ 2,406,202 |
| Service fees | - | 1,860,284 | 6,855 | - | 1,867,139 |
| Sale of fuel and rents | - | - | - | 131,063 | 131,063 |
| Miscellaneous | - | 161 | 133 | 114 | 408 |
| Total operating revenues | 2,406,202 | 1,860,445 | 6,988 | 131,177 | 4,404,812 |
| **OPERATING EXPENSES** | | | | | |
| Salaries and benefits | 992,759 | 724,302 | 97,764 | 40,786 | 1,855,611 |
| Purchased power | 176,661 | 263,551 | - | 8,818 | 449,030 |
| Services and supplies | 387,037 | 312,538 | 12,430 | 116,134 | 828,139 |
| Depreciation and amortization | 458,002 | 357,779 | - | 42,512 | 858,293 |
| Total operating expenses | 2,014,459 | 1,658,170 | 110,194 | 208,250 | 3,991,073 |
| Operating income (loss) | 391,743 | 202,275 | (103,206) | (77,073) | 413,739 |
| **NON-OPERATING REVENUES (EXPENSES)** | | | | | |
| Operating subsidies | - | - | 100,079 | 11,381 | 111,460 |
| Interest and investment revenue | 3,311 | 2,701 | 29 | - | 6,041 |
| Interest expense | (179,724) | (5,412) | - | (7,959) | (193,095) |
| Net nonoperating revenues (expenses) | (176,413) | (2,711) | 100,108 | 3,422 | (75,594) |
| Income (loss) before contributions and transfers | 215,330 | 199,564 | (3,098) | (73,651) | 338,145 |
| Contributions and transfers: | | | | | |
| Transfers in | 119,055 | 81,243 | 13,414 | 5,931 | 219,643 |
| Transfers out | (330,950) | (248,079) | (1,179) | (24,711) | (604,919) |
| Capital grants | 149,032 | - | - | 63,742 | 212,774 |
| Capital contributions | - | - | - | - | - |
| Net contributions and transfers | (62,863) | (166,836) | 12,235 | 44,962 | (172,502) |
| Change in net position | 152,467 | 32,728 | 9,137 | (28,689) | 165,643 |
| Total net position, July 1 | 14,840,210 | 16,727,674 | (47,304) | 10,467,155 | 41,987,735 |
| Total net position, June 30 | $ 14,992,677 | $ 16,760,402 | $ (38,167) | $ 10,438,466 | $ 42,153,378 |

See accompanying notes to the basic financial statements

**CITY OF CLOVERDALE**
**Statement of Cash Flows**
**Proprietary Funds**
**For the Fiscal Year Ended June 30, 2015**

| | Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Water | Wastewater | Transit | Airport | Totals |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from customers | $ 2,350,836 | $ 1,882,421 | $ 6,988 | $ 128,139 | $ 4,368,384 |
| Payments to suppliers | (575,444) | (606,001) | (13,348) | (122,602) | (1,317,395) |
| Payments to employees | (1,016,663) | (733,721) | (99,767) | (41,914) | (1,892,065) |
| Net cash provided by (used for) operating activities | 758,729 | 542,699 | (106,127) | (36,377) | 1,158,924 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | | |
| Transfers in | 119,055 | 81,243 | 13,414 | 5,931 | 219,643 |
| Transfers out | (330,950) | (248,079) | (1,179) | (24,711) | (604,919) |
| Repayments to other funds | - | - | - | (103,260) | (103,260) |
| Advances from other funds | - | - | - | 113,987 | 113,987 |
| Operating subsidies | - | - | 112,308 | 11,381 | 123,689 |
| Net cash provided by (used for) noncapital financing activities | (211,895) | (166,836) | 124,543 | 3,328 | (250,860) |
| **CASH FLOWS FROM CAPITAL AND RELATED** | | | | | |
| Capital contributions | 239,324 | - | - | 58,635 | 297,959 |
| Proceeds of long-term debt | 3,240,984 | | | | |
| Capital asset purchases | (3,235,574) | (53,758) | - | (11,009) | (3,300,341) |
| Payments on long-term debt principal | (180,329) | (102,822) | - | (6,618) | (289,769) |
| Interest paid on long-term debt | (164,918) | (8,339) | - | (7,959) | (181,216) |
| Net cash provided by (used for) capital and related financing activities | (100,513) | (164,919) | - | 33,049 | (3,473,367) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Interest receipts | 3,312 | 2,701 | 29 | - | 6,042 |
| Net cash provided by investing activities | 3,312 | 2,701 | 29 | - | 6,042 |
| Net increase (decrease) in cash and cash equivalents | 449,633 | 213,645 | 18,445 | - | 681,723 |
| Balances-beginning of the year | 666,473 | 965,309 | 9,283 | - | 1,641,065 |
| Balances-end of the year | $ 1,116,106 | $ 1,178,954 | $ 27,728 | $ - | $ 2,322,788 |

See accompanying notes to the basic financial statements

**CITY OF CLOVERDALE**
**Statement of Cash Flows**
**Proprietary Funds**
**For the Year Ended June 30, 2015**

| | Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Water | Wastewater | Transit | Airport | Totals |
| **Reconciliation of operating income (loss) to net cash provided by operating activities:** | | | | | |
| Operating income (loss) | $ 391,743 | $ 202,275 | $ (103,206) | $ (77,073) | $ 413,739 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | | |
| Depreciation expense | 458,002 | 357,779 | - | 42,515 | 858,296 |
| Change in assets and liabilities: | | | | | |
| Decrease (increase) in accounts receivable | (77,947) | 21,976 | - | - | (55,971) |
| (Increase) decrease in prepayments | 10,718 | (434) | 3 | 276 | 10,563 |
| Increase (decrease) in deferred pension items | 119,297 | 81,496 | 13,440 | 5,891 | 220,124 |
| Increase (decerease) in net pension liability | (131,771) | (90,018) | (14,844) | (6,510) | (243,143) |
| Increase (decrease) in other liabilities | 11,151 | (897) | (599) | (3,550) | 6,105 |
| Increase (decrease) in accounts payable | (22,464) | (29,478) | (921) | 2,074 | (50,789) |
| Net cash provided by (used for) operating activities | $ 758,729 | $ 542,699 | $ (106,127) | $ (36,377) | $ 1,158,924 |

**Noncash capital financing activities:**

During the fiscal year, there were none.

See accompanying notes to the basic financial statements

**CITY OF CLOVERDALE**
**Statement of Fiduciary Net Position**
**June 30, 2015**

| | Successor Agency to Cloverdale Community Development Agency | Housing Successor to to Cloverdale Community Development Agency | Totals |
|---|---|---|---|
| ASSETS: | | | |
| Cash and cash equivalents | $ 3,509,240 | $ 1,921,809 | $ 5,431,049 |
| Cash with trustees | 971,354 | - | 971,354 |
| Taxes receivable | 23,799 | - | 23,799 |
| Interest receivable | 1,665 | 753 | 2,418 |
| Notes receivable | 405,944 | 250,000 | 655,944 |
| Total assets | $ 4,912,002 | $ 2,172,562 | 7,084,564 |
| LIABILITIES: | | | |
| Accounts payable | $ 4,172 | $ - | $ 4,172 |
| Deposits | - | - | - |
| Interest payable | 533,201 | - | 533,201 |
| Bank Loan | 2,385,368 | - | 2,385,368 |
| Tax allocation bonds | 25,510,000 | - | 25,510,000 |
| Total liabilities | 28,432,741 | - | 28,432,741 |
| NET POSITION (DEFICIT): | | | |
| Held in trust for Taxing Agencies | (23,520,739) | 2,172,562 | (21,348,177) |
| Total Net Position | $ (23,520,739) | $ 2,172,562 | (21,348,177) |

See accompanying notes to the basic financial statements

**CITY OF CLOVERDALE**
**Statement of Changes in Fiduciary Net Position**
**For The Fiscal Year Ended June 30, 2015**

| | Successor Agency to Cloverdale Community Development Agency | Housing Successor to to Cloverdale Community Development Agency | Totals |
|---|---|---|---|
| ADDITIONS: | | | |
| Distributions for enforceable obligations | $ 2,187,160 | $ - | $ 2,187,160 |
| Interest | 9,058 | 753 | 9,811 |
| Contribution from housing successor | 57,907 | - | 57,907 |
| Other additions - long term notes | 8,865 | - | 8,865 |
| Total additions | 2,262,990 | 753 | 2,263,743 |
| DEDUCTIONS: | | | |
| Interest | 1,334,749 | - | 1,334,749 |
| Contribution to successor agency | - | 57,907 | 57,907 |
| Administration | 261,060 | - | 261,060 |
| Total deductions | 1,595,809 | 57,907 | 1,653,716 |
| Increase (decrease) in net position | 667,181 | (57,154) | 610,027 |
| **Net position, June 30, 2014** | (24,187,920) | 2,229,716 | (21,958,204) |
| Net position (deficit), June 30, 2015 | (23,520,739) | 2,172,562 | (21,348,177) |

See accompanying notes to the basic financial statements

## 1. Summary of Significant Accounting Policies

### A. Reporting Entity

The City of Cloverdale is a municipal corporation governed by an elected Mayor and four City Council members. The accompanying financial statements present the government, and the financial activities entities for which the government is considered to be financially accountable.

The Community Development Agency of the City of Cloverdale was dissolved effective February 1, 2012. The City elected to serve as the successor custodian of the non-housing and housing related residual assets and obligations of the former redevelopment agency. These activities are accounted for as private purpose trust funds and are reported separately in these financial statements as fiduciary funds. Fiduciary fund assets, liabilities and financial activity are not reported in the City's government-wide statement of net position, statement of activities, or fund statements.

### B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the City. 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 segment is 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 program 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. Fiduciary funds are reported separately from City funds.

### 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 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 fund 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. 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 compensated absences and claims and judgments, are recorded only when payment is due.

## Note 1. Summary of Significant Accounting Policies (continued)

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, sales taxes, transient occupancy taxes, 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 City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The *Employees Retirement* fund is used to account for a special voter approved tax to fund employee pension costs.

The City reports the following major proprietary funds:

The *water enterprise fund* accounts for the operations of the City's water treatment and distribution system, a *wastewater fund* accounts for the operation of the City's wastewater treatment plant and collection facilities, and an *airport enterprise fund* is used for account for the operations of the City's municipal airport and runway facilities.

The City applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989 in accounting and reporting for its proprietary operations and the provisions of GASB statement Number 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water, wastewater and airport function and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions 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 the proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. Operating expenses for the enterprise and internal service funds include the costs of sales and services, administration costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## Note 1. Summary of Significant Accounting Policies (Continued)

### D. Assets, Liabilities, and Net Assets or Equity

#### *1. Deposits and Investments*

The City is authorized by its most recent investment policy to invest in the State of California Local Agency Investment Fund, U.S. Treasury bonds, bills, and notes, obligations issued by US Government agencies, banker's acceptances, repurchase agreements, and time deposits and savings and demand accounts.

The City'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.

Investments for the City are reported at fair value. The State Treasurer's 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.

#### *2. Receivables and Payables*

Activity 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 business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Sonoma collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The City receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the City. The City recognizes property tax revenues in the fiscal year in which they are due to the City.

#### *3. Inventories and Prepaid Items*

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when used or consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepayments in the governmental funds are accounted for using the consumption method.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

***4. Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental-type or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 ($100,000 for infrastructure type assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of 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 the business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the City are depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Buildings and improvements | 25-50 |
| Public domain infrastructure | 7-50 |
| Furniture and fixtures | 5-12 |
| Vehicles and equipment | 2-20 |

***5. Compensated Absences and Other Post Employment Benefit Obligations***

It is the government's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is a liability for unpaid accumulated vacation and a portion of unpaid sick leave since the City does have a policy to pay employees for unused benefits when they separate from service with the City. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured and have not been paid when due, for example, as a result of employee resignations and retirements. Other post employment benefit obligations, such as those related to retiree medical benefit plans, are accrued in the government-wide financial statements based upon actuarial and other plan information.

***6. Long-term Obligations***

In the government-wide financial statements, and the 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 assets.

***7. Fund Balances – Governmental Funds***

Fund balances for governmental funds are reported in classifications based primarily on the extent to which the City is bound to honor constraints about the specific purposes for which amounts in those funds can be spent. These classifications include (1) non-spendable, (2) restricted, (3) committed, (4) assigned and (5) unassigned amounts. Non-spendable amounts generally are items not expected to be converted into cash such as inventories, prepaid items and certain long-term receivables. Restricted amounts include those where constraints placed on the use of resources are externally imposed by grantors, contributors, other governments or by laws and regulations. Committed amounts are those that can only be used for a specific purpose as determined by the City Council. Such committed amounts may be redeployed for other uses only by the direction of the City Council.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**7. Fund Balances – Governmental Funds (Continued**

Assigned amounts are fund balance amounts constrained by the City's intent to be used for a specific purpose as determined by the City Manager or Finance Manager. Unassigned amounts are the residual amounts reported in the general fund. When expenditures are incurred for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, the City considers restricted amounts to have been spent first. When expenditures are incurred for which any class of unrestricted fund balance could be used, the City considers committed amounts would be reduced first, followed by assigned, and then unassigned amounts.

**8. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of California Public Employees Retirement System (PERS) and additions to or deductions from the PERS fiduciary net position have been determined on the same basis as they are reported by the PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**2. Reconciliation of Government-wide and Fund Financial Statements**

**A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statements of net position. One element of that reconciliation explains that "capital assets are not financial resources and are not reported in the funds." The details of this $56,615,441 difference are as follows:

| | |
|---|---|
| Capital assets | $ 79,351,972 |
| Less: Accumulated depreciation | (22,736,531) |
| Net adjustment to increase *fund balance – total governmental* funds to arrive at net position – governmental activities | $ 56,615,441 |

Another element of the reconciliation explains that "long-term liabilities" are not due and payable in the current period and, therefore, are not reported in the funds. The details of this $317,773 difference are as follows:

| | |
|---|---|
| Compensated absences | $ (317,773) |
| Net adjustment to decrease fund balance total governmental funds to arrive at net position - governmental activities | $ (317,773) |

**B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this ($1,510,454) difference and other significant components of the difference are as follows:

**2. Reconciliation of Government-wide and Fund Financial (Continued)**

| | |
|---|---|
| Capital outlay | $ 39,680 |
| Depreciation expense | (1,296,162) |
| Other post-employment benefits | (318,683) |
| Change in net pension liability `and related deferred items | (22,220) |
| Other items | 87,231 |
| Net adjustment to increase *net changes in fund balances – total governmental funds* to arrive at *changes in net position of governmental activities* | $ (1,510,454) |

**3. Stewardship, Compliance, and Accountability**

**A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. Appropriations lapse at fiscal year end. The appropriated budget is prepared by fund, function and department. The City Manager may make transfers of appropriations within a department. Transfers between departments and other changes require City Council approval. The legal level of control is the department and fund level. The Council made no supplemental appropriations during the fiscal year. Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year end lapse and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. The Safe Route to School fund had a $950 deficit. The deficit will be funded by future fund transfers or revenues

**4. Detailed Notes on All Funds**

**A. Deposits and Investments**

Deposits and investments at June 30, 2015 consisted of the following:

| | |
|---|---|
| Pooled and other demand deposits | $ 4,483,663 |
| Investments | 1,918,007 |
| Total deposits and investments | $ 6,401,670 |

*Custodial Credit Risk* - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's policy for deposits is that they will be made only in institutions in California, they shall be insured or collateralized with United States backed securities, and time certificates of deposit shall have a maturity of less than three years. At June 30, 2015, $4,315,352 of the City's bank balances of $ 4,565,352 was exposed to credit risk as follows:

| | |
|---|---|
| Uninsured and collateral held by pledging banks agent but not in the City's name: | $ 4,315,352 |

Investments - At June 30, 2015 the City had the following investments.

| Type Investment | Average Maturity | Fair Value |
|---|---|---|
| State Investment Pool (LAIF) | 239 Days | $ 7,088,643 |
| Sonoma County Treasurers Pool | 514 days | 350,413 |
| Dreyfus Institutional Reserve Treasury Fund | 57 days | 971,354 |
| | | $ 8,410,410 |

The City's holdings include $8,410,410 in investments and $4,483,663 in demand deposits for a total of $12,894,073. Of the total, $6,402,403 is held in a fiduciary fund for the private purpose trust.

## 4. Detailed Notes on All Funds (Continued)

### A. Deposits and Investments (Continued)

*Interest Rate Risk* - As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to securities having a maturity date of five years or less at the date of purchase.
*Credit Risk* - The City's policy is to mitigate this risk by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the investment portfolio. The City's investment in money market funds was rated Aaa by Moody's Investor Service, AAA by Standard and Poor, and AAA by Fitch. The State Investment Pool and the Sonoma County Investment Pool are unrated.
*Custodial Credit Risk* - For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the City's investments were held in investments not evidenced by specific securities and not collateralized by other investments or deposits.

### B. Receivables

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows:

| | General | Employees Retirement | Nonmajor Funds | Total Governmental | Water Wastewater | Airport Transit |
|---|---|---|---|---|---|---|
| Accounts | $ 123,999 | $ - | $ - | $ 123,999 | $ 385,681 | $ 58,886 |
| Taxes | 363,337 | 33,054 | - | 396,391 | - | - |
| Assessments | - | - | 5,525 | 5,525 | - | - |
| Interest | 237 | 227 | 1,135 | 1,599 | - | - |
| Governments | - | - | 36,546 | 36,546 | 213,262 | - |
| Totals | $ 487,573 | $ 33,281 | $43,206 | $ 564,060 | $ 598,943 | $ 58,886 |

### C. Interfund Transfers, Receivables and Payables

1. The composition of interfund transfers of June 30, 2015 is as follows:

| Transfers In: / Transfers Out: | General Fund | Enterprises | Non-Major | Total Transfers Out |
|---|---|---|---|---|
| Enterprises | $ 604,919 | $ - | $ - | $ 604,919 |
| General fund | | | 15,748 | 15,748 |
| Retirement Tax | 512,889 | 219,643 | 27,365 | 759,897 |
| Non-major | 319,647 | - | 65,212 | 384,859 |
| Totals | $ 1,437,455 | $ 219,643 | $ 108,325 | $ 1,765,423 |

The primary purpose of the transfers into the general fund were to provide $512,889 in special pension tax funds to cover retirement costs as approved by voters, pay the general fund for $604,919 in services provided to the water and wastewater funds, and provide $319,647 to the general fund for support provided to special funds of the City for specific purpose such as streets and public safety. These types of transfers are normal recurring funding transfers between City funds. The $420,000 loan payable to the wastewater fund by the water fund matures January 2016, bears interest at .22 percent, and was made to help finance system improvements. The $135,500 due to the general fund was made for temporary cash flow purposes to fund costs in the airport fund ($113,987), the CDBG fund ($20,563) and the Safe Routes fund ($950).

## 4. Detailed Notes on All Funds (Continued)

### D. Capital Assets

Capital asset activity relating to governmental activities for the year ended June 30, 2015 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| Capital assets, not being depreciated | | | | |
| Land | $ 26,867,609 | $ - | $ - | $ 26,867,609 |
| Total capital assets, not being depreciated | 26,867,609 | - | - | 26,867,609 |
| Capital assets, being depreciated: | | | | |
| Buildings | 2,271,123 | 1,868 | - | 2,272,991 |
| Storm drains and culverts | 10,458,900 | - | - | 10,458,900 |
| Streets and sidewalks | 31,833,443 | - | - | 31,833,443 |
| Parks and lighting improvements | 5,877,371 | 37,512 | - | 5,914,883 |
| Equipment and vehicles | 2,004,146 | - | - | 2,004,146 |
| Total capital assets being depreciated | 52,444,983 | 39,380 | - | 52,484,363 |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,163,569) | - | (44,241) | (1,207,811) |
| Storm drains and culverts | (4,216,817) | - | (207,780) | (4,424,597) |
| Streets and sidewalks | (11,264,496) | - | (803,385) | (12,067,881) |
| Parks and lighting systems | (2,924,760) | - | (202,148) | (3,126,908) |
| Equipment and vehicles | (1,870,726) | - | (38,608) | (1,909,334 |
| Total accumulated depreciation | (21,440,369) | - | (1,296,162) | (22,736,531) |
| Total capital assets, being depreciated, net | 31,004,614 | 39,380 | (1,296,162) | 29,747,832 |
| Governmental activities capital assets, net | $ 57,872,223 | $ 39,380 | $ (1,296,162) | $ 56,615,441 |

## 4. Detailed Notes on All Funds (Continued)

### D. Capital Assets (Continued)

Capital asset activity relating to business-type activities for the year ended June 30, 2015 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Business-type activities:** | | | | |
| Capital assets, not being depreciated | | | | |
| Land | $ 17,795,413 | $ - | $ - | $ 17,795,413 |
| Construction in progress | 1,143,111 | 3,128,270 | - | 4,271,381 |
| Total capital assets, not being depreciated | 18,938,524 | 3,128,270 | - | 22,066,794 |
| Capital assets, being depreciated: | | | | |
| Buildings | 12,040,821 | 16,809 | - | 12,057,630 |
| Improvement | 1,877,937 | - | | 1,877,937 |
| Pipelines | 23,311,556 | - | - | 23,311,556 |
| Appurtenances | 4,289,524 | - | - | 4,289,524 |
| Vehicles | 867,517 | 46,287 | - | 913,804 |
| Equipment | 413,414 | 9,743 | - | 423,157 |
| Total capital assets being depreciated | 42,800,769 | 72,839 | - | 42,873,608 |
| Less accumulated depreciation for: | | | | |
| Buildings | (4,670,209) | - | (239,453) | (4,909,662) |
| Improvements | (643,632) | - | (39,509) | (683,141) |
| Pipelines | (8,824,288) | - | (465,781) | (9,290,069) |
| Appurtenances | (1,749,778) | - | (67,685) | (1,817,463 |
| Vehicles and equipment | (1,008,475) | - | (45,865) | (1,054,340) |
| Total accumulated depreciation | (16,896,382) | - | (858,293) | (17,754,675) |
| Total capital assets, being depreciated, net | 25,904,387 | 72,839 | (858,293) | 25,118,933 |
| Business-type activities capital assets, net | $ 44,842,911 | $ 3,201,109 | $ (858,293) | $ 47,185,727 |

Construction in progress of $4,271,381consists primarily of costs related to the City's water system improvement project.

## 4. Detailed Notes on All Funds (Continued)

### D. Capital Assets (Continued)

Depreciation and amortization expense was charged to functions/programs of the City as follows:

| | |
|---|---|
| **Governmental activities:** | |
| General government | $ 63,096 |
| Parks | 202,148 |
| Safety | 19,753 |
| Infrastructure-Streets | 1,011,165 |
| Total depreciation expense-governmental activities | $ 1,296,162 |
| **Business-type activities:** | |
| Water | $ 458,002 |
| Wastewater | 357,779 |
| Airport | 42,512 |
| Total depreciation/amortization-business activities | $ 858,293 |

### E. Long-Term Debt

**Safe Water Drinking Loan**

The City entered into an agreement with the Department of Water resources for a $2,520,000 loan for the purpose of financing water system improvements. The loan bears interest at 2.955 percent, is repayable in semiannual payments each April 1 and October 1, and matures April 2026. The City is obligate to set system revenue rates sufficient to cover system expenses plus debt service payments on the loan. In addition, the City is required to maintain a reserve fund equal to two semiannual payments or $126,088. At June 30, 2015, there was $154,273 on deposit in the reserve fund held by the fiscal agent.

Future debt service on the total loan amount is:

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 91,919 | $ 34,169 | $ 126,088 |
| 2017 | 94,790 | 31,298 | 126,088 |
| 2018 | 97,546 | 28,542 | 126,088 |
| 2019 | 100,490 | 25,598 | 126,088 |
| 2020 | 103,395 | 22,693 | 126,088 |
| 2021-2025 | 565,296 | 65,144 | 630,440 |
| 2026 | 123,304 | 2,783 | 126,087 |
| Totals | $ 1,176,740 | $ 210,227 | $ 1,386,967 |

## 4. Detailed Notes on All Funds (Continued)

### E. Long-Term Debt (Continued)

**Water Loan (2014)**

The City entered into a loan agreement for $1,059,000 with the Municipal Finance Corporation which loan was funded by and assigned to City National Bank. The loan was made for the purpose of refinancing the City's 2000 installment purchase agreement with the California Statewide Communities Development Authority in the amount of $1,010,000. The loan bears interest at 2.3 percent, is payable in semi-annual installments and matures October 1, 2020. The loan is secured by the net revenues of the water system as defined in the loan agreement. There was no significant gain or loss on the refinancing transaction. The refinancing reduced total debt service payments over the next six years by $60,775. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $57,233.

Future debt service on the loan is:

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 167,000 | $ 22,437 | $ 189,437 |
| 2017 | 170,000 | 18,561 | 188,561 |
| 2018 | 174,000 | 14,605 | 188,605 |
| 2019 | 178,000 | 10,557 | 188,557 |
| 2020 | 183,000 | 6,405 | 189,405 |
| 2021 | 187,000 | 2,150 | 189,150 |
| Totals | $ 1,059,000 | $ 74,715 | $ 1,133,715 |

Future debt service on the loan is $1,133,715. The City expects that the annual debt service on the loan will require about 22 percent of system net revenues. For the fiscal year ended June 30, 2015, debt service payments on the loan was $10,284 and system net revenues as defined were $853,057.

**Wastewater State Revolving Fund Loan**

The City obtained a State Revolving Fund Loan in an original amount of $1,258,028 for the purpose of financing system improvements. The loan bears interest at 2.8 percent, is payable each May 2 in annual installments of $84,339 interest and principal taken together, and matures May 2, 2017. Under the arrangement, the City is obligated to maintain rates sufficient to generate revenues to cover operating costs and debt service requirements. The future debt service is:

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 79,809 | $ 4,530 | $ 84,339 |
| 2017 | 81,973 | 2,295 | 84,268 |
| Totals | $ 161,782 | $ 6,829 | $ 168,607 |

Annual principal and interest payments on the loan are expected to require less than 15 percent of net revenues as defined. The total principal and interest remaining to be paid on the loans is $168,607. Principal and interest paid for the current year and total system net revenues were $84,339 and $572,404 respectively.

## 4. Detailed Notes on All Funds (Continued)

### E. Long-Term Debt (Continued)

**Airport Loan:**

The city obtained a loan in an original amount of $85,000 from the California Department of Transportation, Aeronautics Division, for the purpose of financing an airport fuel facility. The Loan bears interest at 5.63 percent, and matures in 2018. Future debt service is:

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 6,912 | $ 660 | $ 7,572 |
| 2017 | 7,206 | 634 | 7.840 |
| 2018 | 4,064 | 229 | 4,293 |
| Totals | $ 18,182 | $ 1,523 | $ 19,705 |

**2014 Water Installment Sale Agreement**

The City has entered into an installment sale agreement with the Public Property Financing Corporation of California for the purpose of obtaining funds to finance the construction of improvements to the City's municipal water system. Under the arrangement, the Corporation is to sell $4,000,000 in Series 2014A Certificates of Participation which Certificates are to be purchased and funded by the Rural Utilities Service, United States Department of Agriculture (USDA). The City's obligation to make payments under the installment agreement is a special obligation limited solely to the net revenues, as defined, of the City's water enterprise. The agreement bears interest at 2.75 percent, and installment payments are due each May 1 and November 1 commencing May 1, 2015 and continuing through May 1, 2054.The first principal payment is to be made November 1, 2015. The agreement is an as drawn down/reimbursement basis loan arrangement wherein the interest to be paid is to be determined based upon the dates that the proceeds are advanced to the City. As of June 30, 2015, the City had incurred $3,454,247 in project costs eligible for funding under this borrowing arrangement. Accordingly, the City in its water enterprise has drawn down $3,240,985 in loan proceeds and has accrued a receivable for the $213,262 and an installment agreement payable in the same amount. Future debt service under the arrangement, if all proceeds are eventually drawn down by the City, would be as follows:

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 58,000 | $ 110,000 | $168,000 |
| 2017 | 60,000 | 108,406 | 168,406 |
| 2018 | 62,000 | 106,756 | 168,756 |
| 2019 | 64,000 | 105,050 | 169,050 |
| 2020 | 65,000 | 103,290 | 168,290 |
| 2021-2025 | 353,000 | 488,620 | 841,620 |
| 2026-2030 | 406,000 | 437,282 | 843,282 |
| 2031-2035 | 468,000 | 378,096 | 846,096 |
| 2036-2040 | 532,000 | 309,282 | 841,282 |
| 2041-2045 | 606,000 | 233,202 | 839,202 |
| 2046-2050 | 696,000 | 144,956 | 840,956 |
| 2051-2054 | 630,000 | 43,918 | 673,918 |
| Totals | $ 4,000,000 | $ 2,568,858 | $ 6,568,858 |

## 4. Detailed Notes on All Funds (Continued)

Long-term debt activity for 2015 fiscal year was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Compensated absences | $ 405,004 | $ 200,000 | $ 287,231 | $ 317,773 | $ 200,000 |
| Total | $ 405,004 | $ 200,000 | $ 287,231 | $ 317,773 | $ 200,000 |
| **Business-type Activities:** | | | | | |
| Safe Water Loan | $ 1,266,069 | $ - | $ 89,329 | $ 1,176,740 | $ 91,919 |
| Water installment agreement | 1,150,000 | - | 1,150,000 | - | - |
| Water loan (2014) | - | 1,059,000 | - | 1,059,000 | 167,000 |
| Wastewater State Loan | 239,418 | - | 77,636 | 161,782 | 79,809 |
| 2014 Water agreement | 611,718 | 2,842,529 | - | 3,454,247 | 58,000 |
| Airport State Loan | 24,800 | - | 6,618 | 18,182 | 6,912 |
| Capital lease | 25,186 | - | 25,186 | - | - |
| Compensated absences | 231,758 | 100,000 | 103,761 | 227,997 | 227,997 |
| Total | $ 3,548,949 | $ 4,001,529 | $ 1,452,530 | $ 6,097,948 | $ 631,637 |

## 5. Other Information

### A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City is a member in the Redwood Empire Municipal Insurance Fund (REMIF); a joint powers authority which provides joint protection programs for public entities covering automobile, general liability, errors and omissions losses, property and workers compensation claims. Under the program, the City has a $5,000 general liability retention limit similar to a deductible with the Fund being responsible for losses above that amount up to $500,000. The Fund carries excess liability coverage to a total of $40 million in excess of its $500,000 retention limit through the California Joint Powers Risk Management Authority and its excess insurers.

The Fund covers workers compensation claims up to its self-insurance limit of one million. A purchased excess policy insures the fund for an additional $ 1 million to provide aggregate coverage of up to $ 2miilion per claim. The city pays an annual premium to the Fund, and the City may share in any surplus revenues or may be required to pay additional assessments based upon the Fund's operating results. The Fund provides property coverage up to $300 million per occurrence. The city paid no material uninsured losses during the 2014-2015 fiscal years. Financial statements of the JPA Fund may be obtained from their administrative offices located at 414 W. Napa Street, Sonoma, California, 95476. Liabilities of the City are reported in the statement of net assets for the governmental activities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Settlements have not exceeded coverage for each of the past three fiscal years.

## 5. Other Information

### B. Contingencies and Commitment

*Litigation.* The City is involved in litigation incurred in the normal course of conducting City business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.
*Grants and allocations.* Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

### C. Restricted Net Position and Non-Spendable Fund Balances

The $3,353,065 restricted amount in the governmental activities and the $658,413 in the business-type activities statement net position represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments. Nonspendable fund balance in the general fund consisted of, loans and deposits.

### D. Other Post Employment Benefits (OPEB)

*Plan Description.* The City of Cloverdale administers the City's Retired Employees Healthcare Plan, a single employer defined benefit healthcare plan. The plan provides medical insurance benefits to eligible retirees and their spouses. City resolutions and agreements assign the authority to establish and amend benefit provisions to the City. Separate financial statements of the Plan are not issued by the City. A separate OPEB trust or equivalent arrangement has not been established by the City.

*Funding Policy.* The contribution requirements of plan members and the City of Cloverdale are established by and may be amended by the City.The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the City Council. For the fiscal year ended June 30, 2015, the City contributed $48,242 for current year premiums (100 percent of total premiums) and zero to prefund benefits. Plan members receiving benefits contributed no amounts of the total premiums.

*Annual OPEB Costs and Net OPEB Obligation.* The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation to the Plan:

| | |
|---|---|
| Annual required contribution (ARC) | $ 393,854 |
| Less interest on net OPEB asset | 47,736 |
| Add adjustment to annual required contribution (ARC) | (74,665) |
| Subtotal annual OPEB expense | 366,925 |
| Less contributions made | (48,242) |
| Increase in net OPEB Obligation | 318,683 |
| Net OPEB (Asset) obligation, beginning of year | 1,909,435 |
| Net OPEB (Asset ) obligation, end of year | $ 2,228,118 |

**5. Other Information (Continued)**

**D. Other Post Employment Benefits (OPEB) (Continued)**

The City's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the last three years was as follows:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|
| June 30, 2015 | $ 366,925 | 13.1% | $ 2,228,118 |
| June 30, 2014 | $ 363,115 | 16.2% | $ 1,909,435 |
| June 30, 2013 | $ 432,350 | 12.4% | $ 1,605,215 |

*Annual OPEB Costs and Net OPEB Obligation (Continued)*

*Funding Status and Funding Progress.* As of June 30, 2014, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was $4,549,244 and the actuarial value of plan assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $4,549,244. The covered payroll (annual payroll of active employees covered by the plan) was $2,524,560 and the ratio of the UAAL to the covered payroll was 180.2 percent.

Actuarial valuations of an ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplemental information, following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations.

In the June 30, 2014 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 2.5 percent investment rate of return which is a blended rate of the expected long-term invested returns on plan assets and on the employers own investments calculated based on the funded level of the plan at the valuation date, and an annual health care cost trend of 4.7 to 8 initially, reduced to an ultimate rate of 5.0 percent after eight years. There were no plan assets to value at the latest plan valuation date. The UAAL is being amortized as a level percentage of projected payroll over 27 years, the remaining amortization period as of June 30, 2014. The amortization period is closed.

**E. Public Employee Pension Plans**

*Plan Description* - The plans are a cost-sharing multiple-employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS).The CalPERS is governed by a 13 member Board of Administration with six elected members, three appointed members and four ex officio members which include the State Treasurer, the State Controller, the Director of the California Department of Human Services and a designee of the State Personnel Board.

**5. Other Information (Continued)**

**E. Public Employee Pension Plans (Continued)**

Benefits Provided - The CalPERS provides retirement, disability and death benefits. Retirement benefits are defined as 2.5 percent of the employees final 12 months average compensation times the employee's years of service (2.0 percent for safety employees) Employees with 10 years of continuous are eligible to retire at age 55 (age 50 for safety employees) Employees are eligible for service-related disability benefits regardless of the length of service. Five years of service is required for non-service-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Pre-retirement death benefits equal an employee's final full-year salary. Both plans provide for a 2 percent Cost of Living Adjustment (COLA). The public safety plan is closed to new entrants.

Contributions – Section 20814 of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employees 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. The total plan contributions are determined through the CalPERS annual actuarial valuation process. 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ending June 30, 2014 (the measurement date), the average active employee contribution rate is 6.891 percent of annual pay, and the average employer contribution rate is 15.727 percent of annual payroll (8.986 and 32.511 percent for the safety plan). Contributions (employer) to the plan in were $664,537 for the fiscal year ended June 30, 2015.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred inflows of Resources Related to Pensions - At June 30, 2014 the City reported a liability of $6,357,208 for its proportionate share of the net pension liability for all plans. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. 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 participating governments, actuarially determined. At June 30, 2014, the City's proportion was 0.04982 percent for the miscellaneous plan and 0.05234 percent for its safety plan. For the measurement period ending June 30, 2014, the City recognized pension expense of $241,688 for the miscellaneous Plan and $330,623 for the safety plan. .At June 30, 2014, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| Miscellaneous Plan | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience: | $ - | $ - |
| Changes in assumptions | - | - |
| Net difference between projected and actual Earnings on pension plan investments | - | (769,824) |
| Changes in proportions and differences between City contributions and proportionate share of contributions | 37,398 | - |
| City contributions subsequent to the Measurement date | 312,896 | - |
| Totals | $ 350,294 | $ (769.824) |

## 5. Other Information (Continued)

### E. Public Employee Pension Plans (Continued)

The $312,896 reported as deferred outflows of resources related to pensions from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2016 City financial statements as part of the June 30, 2015 plan measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ended June 30 | Deferred Outflows (Inflows) of Resources |
|---|---|
| 2015 | $(179,099) |
| 2016 | (179,099) |
| 2017 | (181,772) |
| 2018 | (192,456) |
| 2019 | - |
| Thereafter | - |

| Safety Plan | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ - |
| Changes in assumptions | - | - |
| Net difference between projected and actual Earnings on pension plan investments | - | (729,824) |
| Changes in proportions and differences between City contributions and proportionate share of contributions | - | (45,649) |
| City contributions subsequent to the Measurement | 351,641 | - |
| Totals | $ 351,641 | $ (775,473) |

The $351,641 reported as deferred outflows of resources related to pensions from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015 plan measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ended June 30 | Deferred Outflows (Inflows) of Resources |
|---|---|
| 2015 | $(198,759) |
| 2016 | (198,759) |
| 2017 | (195,499) |
| 2018 | (182,456) |
| 2019 | - |
| Thereafter | - |

5. **Other Information (Continued)**

**E. Public Employee Pension Plans (Continued)**

*Actuarial Assumptions* – The total pension liability in the June 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.75 percent |
| Salary increases | 3.0 percent |
| Investment rate of return | 7.50 percent, net of pension plan investment expense, including inflation |

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the fiscal years 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study can be obtained at the CalPERS website under Forms and Publications.

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 cash flows. The expected rate of return was then set equivalent to a single equivalent rate calculated by CalPERS and rounded down to the nearest one quarter of one percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | New Strategic Allocation | Real Return Years 1-10 | Real Return Years 11+ |
|---|---|---|---|
| Global Equity | 47.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0 | .99 | 2.43 |
| Inflation Sensitive | 6.0 | .45 | 3.36 |
| Private Equity | 12.0 | 6.83 | 6.95 |
| Real Estate | 11.0 | 4.50 | 5.13 |
| Infrastructure & Forestland | 3.0 | 4.50 | 5.09 |
| Liquidity | 2.0 | (.55) | (1.05) |

*Discount Rate* – The discount rate used to measure the total pension liability was 7.50 percent. 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 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 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent will be applied to all plans in the Public Employee Retirement Fund.

*Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate*-The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 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 (6.50 percent) or 1-percentage higher (8.50 percent) than the current rate:

| City's proportionate share of the net pension liability | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Miscellaneous Plan | $4,998,295 | $3,100,203 | $1,524,967 |
| Safety Plan | $5,111,966 | $3,257,005 | $1,728.597 |

*Pension plan fiduciary net position* - Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial report.

## 5. Other Information (Continued)

### F. Successor to the Community Development Agency of the City of Cloverdale

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X26 that provides for the dissolution of all redevelopment agencies in the State of California. As a result, all redevelopment agencies are dissolved effective February 1, 2012.

The Agency's assets were transferred to a Successor Agency. The Successor Agency is to be the City or County that originally created the former agency unless an election is made to not be the Successor Agency. The Successor Agency is to take control of all redevelopment assets, properties, contracts, leases, records, buildings and equipment and dispose of all assets and properties of the former redevelopment agency. The City has elected to be the Successor Agency for both housing and non-housing purposes.

The Successor Agency is to establish a Redevelopment Obligation Retirement Fund, review the Agency's enforceable obligation payment schedule (which schedule includes agency obligations and for that matter excludes certain defined obligations), modify the schedule and readopt it if necessary. The Successor Agency may only make payments for those obligations in a Recognized Obligation Payment Schedule (ROPS) as approved by regulatory bodies. The respective County Auditor-Controller, is required, among other matters, to (1) establish a redevelopment obligation retirement fund, (2) establish a property tax trust fund, (3) and periodically distribute property taxes to the Successor Agency in an amount equal to the cost of obligations specified in the ROPS and (4) perform other functions.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City and others are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on these issues is not a position of settled law and there is considerable legal uncertainty regarding these issues. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority or other authorized body that would resolve any of the dissolution matters unfavorable to the City.

After the date of the dissolution, the assets and financial activities of the dissolved redevelopment agency are reported in a fiduciary fund (the private purpose trust fund) in the financial statements of the City of Cloverdale. The assets and liabilities of the private purpose trust are excluded from the government-wide statement of net assets of the City of Cloverdale and from the Statement of Activities of the City of Cloverdale because fiduciary assets are not available in any fashion for use by the City.

*Enforceable Obligations of the Successor Agency:*

*2006 Tax Allocation Refunding Bonds*

The Cloverdale Improvement Authority in 2006 purchased from the Community Development Agency of the City of Cloverdale $21,465,000 in 2006 Tax Allocation Refunding Bonds. The bonds bear interest at rates from 4 to 5 percent, and consist of serial bonds maturing each August 1 through 2026 and term bonds maturing in 2031 and 2036. The bonds had been secured by a pledge of incremental property tax revenues including a proportionate share of tax revenues allocated to the Agency's Low and Moderate Income Housing Fund. The bonds are also secured by a Surety Bond reserve requirement of $1,595,250 and a Financial Guaranty Policy that guarantees payment of principal and interest on the bonds.

**5. Other Information (Continued)**

**F. Successor to the Community Development Agency of the City of Cloverdale (Continued)**

*Enforceable Obligations of the Successor Agency: (Continued)*

2007 Subordinate Tax Allocation Bonds

The Cloverdale Improvement Authority in 2007 purchased from the Community Development Agency of the City of Cloverdale $6,155,000 in 2007 Subordinate Tax Allocation Bonds. The bonds bear interest at 5.5 percent, and consist of term bonds maturing September 2038. The bonds are secured by a pledge of the subordinate incremental property tax revenues plus a $615,000 reserve fund maintained by a bank trustee.

Future debt service on the 2006 bonds is:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 500,000 | $ 899,721 | $ 1,399,721 |
| 2017 | 520,000 | 878,696 | 1,398,696 |
| 2018 | 540,000 | 857,496 | 1,397,496 |
| 2019 | 565,000 | 835,114 | 1,400,114 |
| 2020 | 590,000 | 811,363 | 1,401,363 |
| 2021-2025 | 3,365,000 | 3,649,750 | 7,014,750 |
| 2026-2030 | 4,220,000 | 2,802,505 | 7,022,505 |
| 2031-2035 | 6,025,000 | 1,568,625 | 7,593,625 |
| 203562037 | 3,030,000 | 153,500 | 3,183,500 |
| Totals | $ 19,355,000 | $ 12,456,770 | $ 31,811,770 |

Future debt service on the 2007 bonds is:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ - | $ 338,525 | $ 338,525 |
| 2017 | - | 338,525 | 338,525 |
| 2018 | - | 338,525 | 338,525 |
| 2019 | - | 338,525 | 338,525 |
| 2020 | | 338,525 | 338,525 |
| 2021-2025 | - | 338,525 | 338,525 |
| 2026-2030 | 162,500 | 1,692,630 | 1,855,130 |
| 2031-2035 | 1,825,000 | 1,457,502 | 3,282,502 |
| 2036-2038 | 4,167,500 | 631,538 | 4,799,038 |
| Totals | $ 6,155,000 | $ 5,812,820 | $ 11,967,820 |

**5. Other Information (Continued)**

**F. Successor to the Community Development Agency of the City of Cloverdale (Continued)**

*Enforceable Obligations of the Successors (Continued)*

California Infrastructure and Economic Development Bank Tax Allocation Loan

The Community Development Agency entered into a loan agreement with the Bank for an initial amount of $3,658,600 to assist in financing Cloverdale roadway improvements. The loan is secured by a pledge of incremental property tax revenues. The loan bears interest at 3.53 percent, is payable semiannually each February 1 and August 1, and matures August 31, 2031.

Future debt service on the total loan amount is:

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2016 | $ 104,791 | $ 89,510 | $ 194,301 |
| 2017 | 108,490 | 85,431 | 193,921 |
| 2018 | 112,320 | 81,208 | 193,528 |
| 2019 | 116,284 | 76,836 | 193,120 |
| 2020 | 120,389 | 72,309 | 192,698 |
| 2021-2025 | 668,772 | 287,861 | 956,633 |
| 2026-2030 | 795,445 | 148,191 | 943,636 |
| 2031-2032 | 358,877 | 15,000 | 373,877 |
| Totals | $ 2,385,368 | $ 856,346 | $ 3,241,714 |

*Cash and Investments Held in Trust*

The cash and investments of the successor agency and housing successor at June 30, 2015 consisted of $6,402,403 with $971,354 being held by a bond trustee bank. The remaining $5,828,865 consisted of demand deposits and primarily investments held by the City in the Local Agency Investment Fund of the State of California (LAIF).

*Asset Transfer Pending Matters*

In October of 2014, the California State Controller issued a report relating to the review of asset transfers made by the City in connection with the dissolution of the former redevelopment agency and its successor. The report took exception to certain transactions and contained a finding that there were $925,520 in unallowable transfers that must be turned over by the City to the Successor Agency.

The City's financial statements and those of the fiduciary trust contain no provisions for the repayment by the City of the $925,520 transfer referred to above. The City is in the process of determining the ultimate disposition of this matter, and it is pending approval of all required oversight and regulatory bodies.

**5. Other Information (Continued)**

**G. Subsequent Events**

1) Transfer of Excess Bond Proceeds to the City of Cloverdale

The State Department of Finance has approved a Bond Expenditure Agreement between the City of Cloverdale and the Successor Agency. The transfer of up to $6 million in excess bond proceeds will enable the City to use those funds in accordance with the original bond covenants and undertake projects and programs not previously funded or obligated by the City or the Agency. About $1.9 million of those excess bond proceeds represent housing bond proceeds that will be transferred to the City of Cloverdale as the Housing Successor and are to be used for affordable housing related programs and projects.

2) Reimbursement Liability Payable by the City of Cloverdale

The City approved a reimbursement agreement wherein the City has agreed to reimburse the Successor Agency for an unallowable transfer made to the City by the Successor Agency during the redevelopment agency dissolution process. The agreement provides that the City shall repay $925,520 to the Successor Agency. The agreement provides for a 15 year repayment term with annual payments of about $61,701 and matures January 31, 2031. On October 15, 2015, the Oversight Board approved the repayment agreement, and a copy of the agreement has been forwarded to the State Controller for review.

3) Reinstatement of a City Loan as an Enforceable Obligation of the Successor Agency

The City has received approval to reinstate as an enforceable obligation of the successor agency a $826,600 loan from the City's general Fund to the former redevelopment agency. The loan was originally disallowed as an enforceable obligation of the successor agency during the dissolution process. Because the City has now fulfilled certain requirements related to the dissolution process and has received a letter of completion, regulatory agencies have approved the reinstatement of the loan. The loan terms provide for an eight year repayment term to the extent that there will be residual monies available after all other enforceable obligations are funded through the Recognized Obligation Payments (ROPS) process.

The above transfers, liabilities and receivables have not been recognized in these fiscal June 30, 2015 financial statements pending final approvals by all regulatory parties

**H. Change in Accounting Principle**

The City in fiscal 2015 implemented the Governmental Accounting Standards Board Statement Number 68, Accounting and Financial Reporting for Pensions. Implementation of the accounting standard resulted in the restatement of the beginning of year net position of the City's governmental and business-type activities as follows:

| | Governmental Type Activities | Business Type Activities | Total Government |
|---|---|---|---|
| Net position, June 30, 2014 as originally reported | $60,106,522 | $43,126,140 | $103,232,662 |
| Change in accounting principle: | | | |
| Beginning of year net pension Liability (NPL) | (6,100,257) | (1,101,113) | (7,201,370) |
| Correction to airport fund liabilities | - | (37,292) | (37,292) |
| Net position, June 30, 2014 as restated | $54,006,265 | $41,987,735 | $95,994,000 |

**Required Supplementary Information**
**CITY OF CLOVERDALE**
**Budgetary Comparison Schedule - General Fund**
**For the Fiscal Year Ended June 30, 2015**

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Variance with Final Budget Positive (Negative) |
| **Fund Balance, July 1** | $ 553,732 | $ 797,983 | $ 797,983 | $ - |
| Resources (inflows): | | | | |
| General taxes | 3,200,863 | 3,200,863 | 3,365,143 | 164,280 |
| License permits | 117,900 | 117,900 | 99,190 | (18,710) |
| Intergovernmental | 140,074 | 140,074 | 193,321 | 53,247 |
| Charges for services | 67,600 | 67,600 | 109,009 | 41,409 |
| Fines and forfeitures | 35,000 | 35,000 | 46,649 | 11,649 |
| Interest | 1,500 | 1,500 | 2,619 | 1,119 |
| Miscellaneous | 283,200 | 283,200 | 457,110 | 173,910 |
| Transfers in | 1,509,130 | 1,509,130 | 1,437,455 | (71,675) |
| Amounts available for charges to appropriations | 5,908,999 | 6,153,250 | 6,508,479 | 355,229 |
| **Charges to appropriations and** | | | | |
| *General government:* | | | | |
| City Council | 60,266 | 59,366 | 62,199 | (2,833) |
| City manager | 313,462 | 313,462 | 239,798 | 73,664 |
| Clerk | 77,915 | 77,915 | 62,060 | 15,855 |
| Community support | 28,000 | 28,000 | 28,618 | (618) |
| Human resources | 181,921 | 181,921 | 206,604 | (24,683) |
| Risk management | 140,000 | 140,000 | 148,217 | (8,217) |
| Finance | 221,303 | 221,303 | 277,540 | (56,237) |
| General services | 342,120 | 342,120 | 308,592 | 33,528 |
| Public safety: | | | | |
| Police administration | 796,502 | 796,552 | 796,803 | (251) |
| Police operations | 1,605,075 | 1,605,075 | 1,666,834 | (61,759) |
| Police communications records | 799,182 | 799,182 | 797,281 | 1,901 |
| Police auxilary services | 139,671 | 139,671 | 130,381 | 9,290 |
| *Public works* | | | | |
| Facilities maintenance | 54,353 | 54,353 | 103,816 | (49,463) |
| Streets | 268,027 | 268,027 | 286,068 | (18,041) |
| Storm drain and creek maintenance | 31,726 | 31,726 | 28,654 | 3,072 |
| *Parks and Recreation:* | | | | |
| Park maintenance and improvements | 206,995 | 206,995 | 246,786 | (39,791) |
| *Planning:* | | | | |
| Planning commission | 2,500 | 2,500 | 2,291 | 209 |
| Current planning | 34,572 | 34,572 | 28,216 | 6,356 |
| Long range planning | 13,795 | 13,795 | 8,000 | 5,795 |
| Engineering and building services | 43,029 | 43,029 | 77,079 | (34,050) |
| Plan checking and inspection | 30,830 | 30,830 | 93,610 | (62,780) |
| Transfers out | - | - | 15,748 | (15,748) |
| Total charges to approriations | 5,391,244 | 5,390,394 | 5,615,195 | (224,801) |
| Fund Balance, June 30 | $ 517,755 | $ 762,856 | $ 893,284 | $ 130,428 |

## CITY OF CLOVERDALE

### Budgetary Comparison Schedule - General Fund
### Note to RSI
### For the Fiscal Year Ended June 30, 2015

**Note A. Explanation of Difference between Budgetary Inflows and Outflows and GAAP Revenues and expenditures:**

| | |
|---|---|
| **Sources/Inflows of resources:** | |
| Actual amounts "available for appropriation" from budgetary comparison schedule: | $ 6,508,479 |
| Differences - budget to GAAP: | |
| The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes | (797,983) |
| Transfers in from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes | (1,437,455) |
| Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds | $ 4,273,041 |
| **Uses/outflows of resources:** | |
| Total charges to appropriation" from budgetary comparison schedule: | $ 5,615,195 |
| Differences - budget to GAAP: | |
| Transfers out to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes | (15,748) |
| Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds | $ 5,599,447 |

**Required Supplementary Information**
**CITY OF CLOVERDALE**
**Budgetary Comparison Schedule - Employee Retirement Special Revenue Fund**
**For the Fiscal Year Ended June 30, 2015**

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | Variance with Final Budget Positive (Negative) |
| **Fund Balance, July 1** | $ 734,119 | $ 734,119 | $ 734,119 | $ - |
| Resources (inflows): | | | | |
| Special pension tax | 694,224 | 694,224 | 531,052 | (163,172) |
| Interest | 1,500 | 1,500 | 911 | (589) |
| Amounts available for charges to appropriations | 1,429,843 | 1,429,843 | 1,266,082 | (163,761) |
| **Charges to appropriations:** | | | | |
| Current: | | | | |
| *Transfers out* | 878,450 | 878,450 | 759,897 | 118,553 |
| Total charges to appropriations | 878,450 | 878,450 | 759,897 | 118,553 |
| Fund Balance, June 30 | $ 551,393 | $ 551,393 | $ 506,185 | $ (45,208) |

**Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:**

| | |
|---|---|
| **Sources/inflows of resources:** | |
| Actual amounts available for appropriations from budgetary data above: | $ 1,266,082 |
| Differences-budget to GAAP: | |
| Beginning fund balances are financial resources for budgetary purposes, but are not considered as revenues for financial reporting purposes | (734,119) |
| Total revenues as reported in the statement of revenues, expenditures , and changes in fund balances | $ 531,963 |

| | |
|---|---|
| **Uses/outflows of resources:** | |
| Actual amounts for charges to appropriations from budgetary data above: | $ 759,897 |
| Differences-budget to GAAP: | |
| Transfers out are a use of financial resources for budgetary purposes, but are not considered as exoenditues for financial reporting purposes | (759,897) |
| Total revenues as reported in the statement of revenues, expenditures , and changes in fund balances | $ - |

**CITY OF CLOVERDALE**
Required Supplemental Information
Other Post Employment Benefits (OPEB)
Schedule of Funding Progress
June 30, 2015

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) Entry Age | Unfunded ALL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 6/30/2009 | $ - | $ 2,330,716 | $ 2,330,716 | 0.00% | $ 3,704,566 | 62.91% |
| 6/30/2012 | $ - | $ 4,927,318 | $ 4,927,318 | 0.00% | $ 3,808,698 | 129.37% |
| 6/30/2014 | $ - | $ 4,549,244 | $ 4,549,244 | 0.00% | $ 2,892,353 | 157.29% |

**CITY OF CLOVERDALE**
**Schedule of the City of Cloverdale's Proportionate Share of the Net Pension Liability**
**(Last Ten Fiscal Years)**
**As of June 30, 2015**

| **Miscellaneous Plan** | Plan Measurement Date June 30, 2014 |
|---|---|
| Plan's proportion of the net pension liability | 0.04982% |
| Plan's proportionate share of the net pension liability | $ 3,100,203 |
| Plan's covered employee payroll | $ 1,800,790 |
| Plan's proportionate share of the net pension liability as a percentage of covered employee payroll | 172.16% |
| Plan's fiduciary net position (City's proportionate share) | $ 11,207,448 |
| Plan's fiduciary net position as a percentage of the total pension liability | 78.33% |
| **Safety Plan** | |
| Plan's proportion of the net pension liability | 0.05234% |
| Plan's proportionate share of the net pension liability | $ 3,257,005 |
| Plan's covered employee payroll | $ 1,209,227 |
| Plan's proportionate share of the net pension liability as a percentage of covered employee payroll | 269.35% |
| Plan's fiduciary net position (City's proportionate share) | $ 10,591,411 |
| Plan's fiduciary net position as a percentage of the total pension liability | 76.48% |

Notes to the schedule:

**Benefit changes:** There were no plan benefit changes

**Changes in Assumptions**: There were no changes in plan assumptions

**Last Ten Years:** Fiscal 2015 was the first year of implementation, therefore only one year is shown

**CITY OF CLOVERDALE**
**Schedule of the City of Cloverdale's Employers Pension Plan Contributions**
**(Last Ten Fiscal Years)**
**As of June 30, 2015**

| **Miscellaneous Plan** | Plan Measurement Date June 30, 2014 |
|---|---|
| Contractually required contribution | $ 299,125 |
| Contribution in relation to the contractually required contribution | $ (299,125) |
| Contribution deficiency (excess) | $ - |
| City's covered employee payroll | $ 1,800,790 |
| Contribuitions as a percentage of covered employee payroll | 16.61% |
| **Safety Plan** | |
| Contractually required contribution | $ 395,224 |
| Contribution in relation to the contractually required contribution | $ (395,224) |
| Contribution deficiency (excess) | $ - |
| City's covered employee payroll | $ 1,209,227 |
| Contribuitions as a percentage of covered employee payroll | 32.68% |

Notes to the schedule:

**Plan valuation date:** June 30, 2013

**Last Ten Years:** Fiscal 2015 was the first year of implementation, therefore only one year is shown

# OPTIONAL SUPPLEMENTARY INFORMATION

## *NONMAJOR FUNDS' COMBINING FINANCIAL STATEMENTS*

**CITY OF CLOVERDALE**
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2015

| | Special Revenue | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Gas Tax | Measure M | Safe Routes to School | Surface Transportation | Transportation Development | Lighting and Landscaping Assessment | Inclusionary Housing | Clover Springs |
| **Assets** | | | | | | | | |
| Cash and investments | $ 17,230 | $ 148,927 | $ - | $ 17,467 | $ 13,309 | $ 104,427 | $ 726,036 | $ 244,613 |
| Receivables: | | | | | | | | |
| Assessments | - | - | - | - | - | 5,525 | | |
| Intergovernmental | - | 15,983 | - | - | - | - | - | - |
| Interest | - | - | - | - | - | 52 | 287 | 99 |
| Prepayments | - | - | - | - | - | 1,589 | 1,037 | - |
| Total assets | $ 17,230 | $ 164,910 | $ - | $ 17,467 | $ 13,309 | $ 111,593 | $ 727,360 | $ 244,712 |
| **Liabilities and Fund Balances** | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable | $ - | $ - | $ - | $ 17,441 | $ - | $ 8,876 | $ 46 | $ 18,063 |
| Accrued liabilities | - | - | - | - | - | 21,348 | 14,228 | - |
| Due to other funds | - | - | 950 | - | - | - | - | - |
| Total liabilities | - | - | 950 | 17,441 | - | 30,224 | 14,274 | 18,063 |
| Fund balances: | | | | | | | | |
| Nonspendable | - | - | - | - | - | 1,589 | 1,037 | - |
| Restricted for: | | | | | | | | |
| Affordable housing | - | - | - | - | - | - | 712,049 | - |
| Streets, landscaping and lighting | 17,230 | 164,910 | (950) | 26 | 13,309 | 79,780 | - | - |
| Thoroughfares | - | - | - | - | - | - | - | - |
| Storm drains | - | - | - | - | - | - | - | - |
| Animal control | - | - | - | - | - | - | - | - |
| Police facilities | - | - | - | - | - | - | - | - |
| Civic center facilities | - | - | - | - | - | - | - | - |
| Corporation yard facilities | - | - | - | - | - | - | - | - |
| Parks and recreation | - | - | - | - | - | - | - | 226,649 |
| Parkland and facilities | - | - | - | - | - | - | - | - |
| Total fund balances | 17,230 | 164,910 | (950) | 26 | 13,309 | 81,369 | 713,086 | 226,649 |
| Total liabilities and fund balances | $ 17,230 | $ 164,910 | $ - | $ 17,467 | $ 13,309 | $ 111,593 | $ 727,360 | $ 244,712 |

**CITY OF CLOVERDALE**
Combining Blance Sheet
Non-Major Governmental Funds
June 30, 2015

| | Special Revenue | | | | | Capital Projects | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Pets | Asset Forfeiture | COPS | Cemetery | CDBG | Parks, Storm Drain and Admin Impact Fees | Public Facilities Impact Fees | Thoroughfare Impact Fees | Quimby Act Impact Fees | Total Nonmajor Governmental Funds |
| **Assets** | | | | | | | | | | |
| Cash and investments | $ 3,900 | $ 166,853 | $ - | $ - | $ - | $ 62,769 | $1,033,006 | $ 307,349 | $206,871 | $ 3,052,757 |
| Receivables: | | | | | | | | | | |
| Assessments | - | - | | | - | - | - | - | - | 5,525 |
| Intergovernmental | - | - | - | - | 20,563 | - | - | - | - | 36,546 |
| Interest | 2 | 65 | - | - | - | 25 | 404 | 120 | 81 | 1,135 |
| Prepayments | - | - | - | - | - | - | - | - | - | 2,626 |
| Total assets | $ 3,902 | $ 166,918 | $ - | $ - | $ 20,563 | $ 62,794 | $1,033,410 | $ 307,469 | $206,952 | $ 3,098,589 |
| **Liabilities and Fund Balances** | | | | | | | | | | |
| Liabilities: | | | | | | | | | | |
| Accounts payable | $ 35 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 44,461 |
| Accrued liabilities | - | 129,596 | - | - | - | - | - | - | - | 165,172 |
| Due to other funds | - | - | - | - | 20,563 | - | - | - | - | 21,513 |
| Total liabilities | 35 | 129,596 | - | - | 20,563 | - | - | - | - | 231,146 |
| Fund balances: | | | | | | | | | | |
| Nonspendable | - | - | - | - | - | - | - | - | - | 2,626 |
| Restricted for: | | | | | | | | | | |
| Affordable housing | - | - | - | - | - | - | - | - | - | 712,049 |
| Streets, landscaping and lighting | - | - | - | - | - | - | - | - | - | 274,305 |
| Thoroughfares | - | - | - | - | - | - | - | 307,469 | - | 307,469 |
| Storm drains | - | - | - | - | - | 62,794 | - | - | - | 62,794 |
| Animal control | 3,867 | - | - | - | - | - | - | - | - | 3,867 |
| Police facilities | - | 37,322 | - | - | - | - | 457,338 | - | - | 494,660 |
| Civic center facilities | - | - | - | - | - | - | 107,742 | - | - | 107,742 |
| Corporation yard facilities | - | - | - | - | - | - | 468,330 | - | - | 468,330 |
| Parks and recreation | - | - | - | - | - | - | - | - | - | 226,649 |
| Parkland and facilities | - | - | - | - | - | - | - | - | 206,952 | 206,952 |
| Total fund balances | 3,867 | 37,322 | - | - | - | 62,794 | 1,033,410 | 307,469 | 206,952 | 2,867,443 |
| Total liabilities and fund balances | $ 3,902 | $ 166,918 | $ - | $ - | $ 20,563 | $ 62,794 | $1,033,410 | $ 307,469 | $206,952 | $ 3,098,589 |

**CITY OF CLOVERDALE**
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For The Fiscal Year Ended June 30, 2015

| | Special Revenue | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Gas Tax | Measure M | Safe Route to Schools | Surface Transportation | Transportation Development | Lighting and Landscaping Assessment | Inlcusionary Housing | Clover Springs |
| Revenues: | | | | | | | | |
| Sales taxes | $ - | $ 66,435 | $ - | $ - | $ - | $ - | $ - | $ - |
| Intergovernmental | 252,226 | - | 4,050 | - | - | - | - | - |
| Special assessments | - | - | - | - | - | 164,255 | - | - |
| Charges for services | - | - | - | - | - | - | - | - |
| Interest | - | - | - | - | - | 153 | 1,189 | 393 |
| Miscellaneous | - | - | - | - | - | - | - | - |
| Total revenues | 252,226 | 66,435 | 4,050 | - | - | 164,408 | 1,189 | 393 |
| Expenditures: | | | | | | | | |
| Current: | | | | | | | | |
| Public safety | - | - | - | - | - | - | - | - |
| Landscaping and lighting | - | - | - | - | - | 184,908 | - | 30,227 |
| Capital outlay | - | - | 70,214 | - | | | | |
| Inclusionary housing | - | - | - | - | - | - | 124,700 | - |
| Total expenditures | - | - | 70,214 | - | - | 184,908 | 124,700 | 30,227 |
| Excess (deficiency) of revenues over expenditures | 252,226 | 66,435 | (66,164) | - | - | (20,500) | (123,511) | (29,834) |
| Other financing uses: | | | | | | | | |
| Transfers in | - | 14,675 | 65,214 | - | - | 15,982 | 11,380 | - |
| Transfers out | (300,465) | (79,209) | - | - | - | (4,207) | (978) | - |
| Total other financing sources (uses) | (300,465) | (64,534) | 65,214 | - | - | 11,775 | 10,402 | - |
| Net change in fund balances | (48,239) | 1,901 | (950) | - | - | (8,725) | (113,109) | (29,834) |
| Fund balances, July 1 | 65,469 | 163,009 | - | 26 | 13,309 | 90,094 | 826,195 | 256,483 |
| Fund balances, June 30 | $ 17,230 | $ 164,910 | $ (950) | $ 26 | $ 13,309 | $ 81,369 | $ 713,086 | $ 226,649 |

**CITY OF CLOVERDALE**
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For The Fiscal Year Ended June 30, 2015

| | Special Revenue | | | | | Capital Projects | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Pets | Asset Forfeiture | COPS | Cemetery | CDBG | Parks,Storm Drain and Admin Impact Fees | Public Facilities Impact Fees | Thoroughfare Impact Fees | Quimby Act Impact Fees | Total Nonmajor Governmental Funds |
| Revenues: | | | | | | | | | | |
| Sales taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 66,435 |
| Intergovernmental | - | - | - | - | 61,983 | - | - | - | - | 318,259 |
| Special assessments | - | - | - | - | - | - | - | - | - | 164,255 |
| Charges for services | - | - | - | - | - | - | - | - | - | - |
| Interest | 6 | 191 | - | - | - | 97 | 1,587 | 1,572 | 318 | 5,506 |
| Miscellaneous | 47 | 40,870 | - | 25,300 | - | - | - | - | - | 66,217 |
| Total revenues | 53 | 41,061 | - | 25,300 | 61,983 | 97 | 1,587 | 1,572 | 318 | 620,672 |
| Expenditures: | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Public safety | 185 | 3,743 | | | | | | | | 3,928 |
| Landscaping and lighting | - | - | - | - | - | - | - | - | - | 215,135 |
| Capital outlay | | | | 26,374 | 52,979 | | | | | 149,567 |
| Inclusionary housing | - | - | - | - | - | - | - | - | - | 124,700 |
| Total expenditures | 185 | 3,743 | - | 26,374 | 52,979 | - | - | - | - | 493,330 |
| Excess (deficiency) of revenues over expenditures | (132) | 37,318 | - | (1,074) | 9,004 | 97 | 1,587 | 1,572 | 318 | 127,342 |
| Other financing uses: | | | | | | | | | | |
| Transfers in | - | - | - | 1,074 | - | - | - | - | - | 108,325 |
| Transfers out | - | - | - | - | - | - | - | | - | (384,859) |
| Total other financing sources (uses) | - | - | - | 1,074 | - | - | - | - | - | (276,534) |
| Net change in fund balances | (132) | 37,318 | - | - | 9,004 | 97 | 1,587 | 1,572 | 318 | (149,192) |
| Fund balances, July 1 | 3,999 | 4 | - | - | (9,004) | 62,697 | 1,031,823 | 305,897 | 206,634 | 3,016,635 |
| Fund balances, June 30 | $ 3,867 | $ 37,322 | $ - | $ - | $ - | $ 62,794 | $ 1,033,410 | $ 307,469 | $ 206,952 | $ 2,867,443 |

CITY OF
CLOVERDALE

**DRAFT MINUTES**
**SPECIAL MEETING OF THE CITY COUNCIL AND**
**JOINT MEETING OF THE CLOVERDALE COMMUNITY DEVELOPMENT SUCCESSOR AGENCY BOARD OF DIRECTORS**

**WEDNESDAY, DECEMBER 9, 2015**

**SPECIAL MEETING 5:00 p.m.**
**LOCATION: CITY HALL CONFERENCE ROOM, 124 N. CLOVERDALE BLVD. CLOVERDALE, CA 95425**

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- Call to Order: Mayor Cox called the meeting to order at 5:00
- Roll Call: Councilmember Palla, Vice Mayor Wolter, Councilmember Cox, Councilmember Russell, Mayor Brigham
- Agenda Review - (Changes and/or Deletions): None

**PUBLIC COMMENTS ON CLOSED SESSION AGENDA:** None

**RECESS TO CLOSED SESSION**

**CONFERENCE WITH LEGAL COUNSEL – POTENTIAL LITIGATION**
Pursuant to California Government Code Section 54956.9(d)(2)
Number of Cases: 2

**RESUME OPEN SESSION**

**REPORT OUT OF CLOSED SESSION:** Report out of Closed Session –Actions Taken: No reportable action

**ADJOURNMENT:** Mayor Cox adjourned the meeting at 5:29, adjourned to a regular meeting of the City Council and Cloverdale Community Development Successor Agency, Wednesday December 9, 2015, for Closed Session at 5:30 p.m. (at the City Hall Conference Room 124 N. Cloverdale Blvd., Cloverdale, CA95425) and Public Business Session at 6:30 p.m. (at the Cloverdale Performing Arts Center 209 N. Cloverdale Blvd., Cloverdale, CA 95425).

CITY OF
CLOVERDALE

**DRAFT MINUTES**
**REGULAR MEETING OF THE CITY COUNCIL AND**
**JOINTMEETING OF THE CLOVERDALE COMMUNITY DEVELOPMENT SUCCESSOR AGENCY BOARD OF DIRECTORS**

**WEDNESDAY, DECEMBER 9, 2015**

**CLOSED SESSION 5:30 p.m.**
**CLOSED SESSION LOCATION: CITY HALL CONFERENCE ROOM, 124 N. CLOVERDALE BLVD. CLOVERDALE, CA 95425**

**PUBLIC BUSINESS SESSION: 6:30 p.m.**
**PUBLIC BUSINESS SESSION LOCATION: CLOVERDALE PERFORMING ARTSCENTER, 209 N. CLOVERDALE BLVD., CLOVERDALE, CA 95425**

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**CONVENE PUBLIC BUSINESS SESSION – 6:30 p.m.**

**OPENING:**
- Call to Order: Mayor Cox called the meeting to order at 6:30
- Roll Call: Councilmember Palla, Vice Mayor Wolter, Councilmember Cox, Councilmember Russell, Mayor Brigham
- Report out of Closed Session –Actions Taken: No reportable action
- Conflict of Interest Declaration: None
- Agenda Review – Regular Session (Changes and/or Deletions): City Manager requested to move item number 10 up on the agenda since the representatives from W. J. Fawell Co. must travel a distance. Item number 10 was moved to the first item under New Business.

**PUBLIC COMMENTS:**
Marshall Kelly, Cloverdale, thanked the Council for their participation in marathon meeting of the previous evening , in which the Laulima project proposal was discussed, noting the most salient thing for him was the analogy that compared the importance of the decision for this project to that of the decision that was made in years past regarding the freeway bypass. He stated that this decision is huge for the City and has a lot of risks and rewards, adding that it is his hope that the decision can be made with as much transparency as possible. Mr. Kelly commented that he would like the developer to bend in areas that are important to the City and that the City, in return, will make reasonable requests of the developer. He stressed the importance of compromise.

Steve Nurse, Cloverdale, stated pertinent to last night's meeting, he meant to provide a letter from Ron Siegemund to the City Council that was to be entered into the record last night and he did not; therefore, he asked to present the letter at this meeting. The letter is attached to these minutes.

**PROCLAMATIONS / PRESENTATIONS:**

1. **PG&E Presentation on El Nino Preparedness**

City Manager Cayler introduced Mr. Bolttari, the representative from PG&E, to discuss El Nino preparedness. He stressed the importance of being prepared for emergencies, noting the biggest impact of El Nino is projected to be December through February. He discussed the many aspects of the PG&E emergency preparedness programs. Mr. Bolttari cautioned the public not to touch a downed power line and to call 911 immediately.

The Council thanked Mr. Bolttari for his presentation. Mayor Cox commented on PG& E's fabulous response to the Lake County fires. Councilmember Russell inquired about a link to add to the City website regarding downed wire safety and thanked PG&E for the helpful information they supply to the public.

**CONSENT CALENDAR:**

2. **Minutes of Previous Meeting – August, 26, 2015**
3. **Minutes of Previous Meeting – October 22, 2015**
4. **Minutes of Previous Meeting – October 28, 2015**
5. **Minutes of Previous Meeting – November 6, 2015**
6. **Resolution 070-2015 Authorizing the City Manager to Execute Profession Services Agreement with Strategies by Design for Cloverdale City Council Strategic Planning Services**

La Reva Myles, Cloverdale, requested item number 6 be pulled for discussion.

**Action:** Motion was made by Vice Mayor Brigham and seconded by Councilmember Russell to approve the consent calendar minus item number 6. The motion passed by unanimous roll call vote (5-ayes – Councilmember Palla, Vice Mayor Brigham, Councilmember Russell, Councilmember Wolter, Mayor Cox; 0-noes).

La Reva Myles, Cloverdale, stated regarding item number 6, an agreement for strategic planning that would cost the City about $10,000, she wished to call attention to the Council that the City paid for another survey conducted by the Lew Group during the time Measure O was going on the ballot. She commented that the report from that survey supplied a lot of useful data and the data has likely not changed much since then and suggested this information might be incorporated in the new Strategic Plan. Ms. Myles also wished to make mention of the Regional/Urban Design Assistance Team R/UDAT Program, which helps cities to determine planning needs and the best way to implement those needs. She supplied a hand-out (attached), which provided information on R/UDAT.

**Action:** Motion was made by Councilmember Palla and seconded by Councilmember Russell to approve item number 6, Resolution 070-2015 authorizing the City Manager to execute Profession Services Agreement with Strategies by Design for Cloverdale City Council Strategic Planning Services. The motion passed by unanimous roll call vote (5-ayes – Councilmember Palla, Vice Mayor Brigham, Councilmember Russell, Councilmember Wolter, Mayor Cox; 0-noes)

**COMMUNICATIONS:** None

**PUBLIC HEARINGS**: None

**NEW BUSINESS:** None

**SUBCOMMITTEE ACTION ITEM:**

Finance, Administration & Police

10. **Refunding of City's Successor Agency Debt (Cloverdale Redevelopment Project Area)-Approval of Lender Proposal from City National Bank.**

City Finance Manager, Joanne Cavallari, thanked the finance team for making the trip to Cloverdale. She introduced the City's financial advisor, Bill Fawell; the placement agent from Piper Jaffray, Steve Woodard; and the City's Bond Council, Chick Adams, and announced that they were present to answer any questions regarding the lender proposal. Ms. Cavallari discussed the details of the proposal. She explained that a Request for Proposal (RFP) was sent to approximately 40 lenders throughout the nation in order to obtain the very best rate and terms from prospective lenders and four lender proposals were received. She stated that after reviewing the four lender proposals received, it was the recommendation of the financial advisor and placement agent that the term sheet submitted by Municipal Finance Corp. on behalf of City National Bank was the best overall proposal, taking into account the proposed refunding rates and most importantly the proposed terms. Ms. Cavallari reported that of the four lender proposals received, only MFC / CNB agreed to hold their quoted interest rate firm through the end of the year (12/31/15). This fully eliminates the risk of rising interest rates between the date of their proposal (11/2/15) and when we plan to close the refunding on 12/23/15.

Councilmember Palla thanked Staff and the finance team for their outstanding work. Vice Mayor Brigham and Councilmember Russell agreed, with special acknowledgement to Ms. Cavallari. Mayor Cox also commented on the excellent work.

**PUBLIC COMMENTS:**
La Reva Myles, Cloverdale, stated she had difficulty understanding the information and requested a layman's explanation. Ms. Cavallari explained that the former Redevelopment Agency was dissolved by the State, at which time the City had three outstanding loans and bond Issues, with interest rates between 4% and 5%. She stated the proposal is to combine all the debts into one loan with an interest rate just under 4%. Ms. Myles thanked Ms. Cavallari for the clarification.

Elissa Morrash, Cloverdale, requested clarification about the debt being from the Redevelopment Agency and asked who would receive the payoff payment. Ms. Cavallari explained the details of the debt and the lenders.

**Action:** Motion was made by Councilmember Palla and seconded by Councilmember Wolter to approve and adopt Resolution No. SA 007-2015 of the Coverdale Community Development Successor Agency approving matters relating to the sale of Tax Allocation Refunding Bonds. The motion passed by unanimous roll call vote (5-ayes – Councilmember Palla, Vice Mayor Brigham, Councilmember Russell, Councilmember Wolter, Mayor Cox; 0-noes).

7. **Discussion and Possible Adoption of a Resolution Amending the Salaries of the Chief of Police and Finance Manager and Authorizing the City Manager to Amend At-Will Employment Agreements**

City Manager Cayler explained the bargaining units within the City and the recent bargaining agreements that provided a 2% COLA, retroactive to July 1, 2015 with a second salary adjust of an additional 2% on July, 1, 2016. He requested that the two At-Will Management position also receive the same 2% salary adjustments.

Mayor Cox opened and closed public comment period; none were received.

**Action:** Motion was made by Councilmember Russell and seconded by Councilmember Wolter to adopt Resolution 071-2015 of the City Council amending the Salaries of the Chief of Police and Finance Manager and authorizing the City Manager to amend At-Will Employment Agreements. The motion passed by unanimous roll call vote (5-ayes – Councilmember Palla, Vice Mayor Brigham, Councilmember Russell, Councilmember Wolter, Mayor Cox; 0-noes).

8. **Workshop Presentation and Discussion of Adopting a Comprehensive Medical Marijuana Cultivation Ordinance**

Chief Cramer discussed the proposed ordinance, which incorporated the feedback received from the Council and the public at the November 10th meeting. He discussed the community's history and legislative challenges regarding the cultivation of marijuana. Chief Cramer discussed public health and safety issues as well as public nuisance that has resulted due to marijuana grows. He explained the details of the new ordinance and possible option.

City Attorney Sanchez discussed the options and the March 1st deadline to adopt an ordinance to retain local control over the licensing process. Attorney Sanchez asked for Council direction regarding banning commercial growing of marijuana. He also discussed grow sizes, small grow exemptions, structures, and setbacks and asked for Council direction in these areas.

**PUBLIC COMMENTS:**
Patrick King, Cloverdale, thanked Chief Cramer for his presentation and the Council for the opportunity to discuss this topic, adding that he would like to also touch on commercial cultivation because future dispensaries will need to have product ready and available from commercial cultivation. He stated that Cloverdale deserved to become part of a new hub for this finally becoming legal business. If Cloverdale cannot grow commercially, dispensaries will buy elsewhere and Cloverdale would lose on the tax benefit and would not have control over testing of product to ensure quality and organic intent. Mr. King commented that we need to figure out a way to regulate in a way that is workable. He stated he is in favor of small commercial cultivations up to half an acre with the correct zoning, adding that he is not in favor of large commercial grows in town as it would have too much impact and be hard to manage.

Councilmember Russell thanked Mr. King for sharing his expertise and ability to explain in a way that all can understand. Mayor Cox also thanked Mr. King for his work and collaboration with the Chief.

Omar Figueroa, Sebastopol, stated that he has been defending medical cannabis patients and nonviolent defendants for the past 17 years and has developed some expertise on medical marijuana laws. He commented that Cloverdale already bans the outdoor cultivation of marijuana under of Section 9.36.050 of the Cloverdale Municipal Code; therefore, there is no rush to pass an ordinance by March 1st. He suggested proceeding in a deliberate, thoughtful manner to regulate marijuana rather than rush forward imposing a three plant limit. He discussed licensing options and what might be appropriate for Cloverdale. He recommended allowing small commercial medical marijuana grows in industrial zoned areas. Mr. Figueroa also commented that the allowable growing restriction of 20 feet for personal cultivation is insufficient and unrealistic. He suggested looking at the Sonoma County guidelines as well as the City of Adelanto, California, and to also look at Aspen, Colorado's approach to medical cannabis. He stated that he hopes that the Council can promote regulation rather than prohibition, which would just serve to push growers underground.

City Attorney Sanchez supplied clarification regarding the State law, which states that the City must have an ordinance or a land use regulation in place by March 1st or the State becomes the sole licensing authority. He commented that the exact interpretation of the law could be debated and the outcome unknown but to ensure local control and avoid possible arguments, he advised adopting an ordinance that will secure local control for Cloverdale. He stated that the ordinance does not address all issues or may not provide everything the Council may want but it does serves as a starting point.

Chief Cramer commented that due to time constraints to adopt an ordinance by March 1st, the focus has been on small grows to meet the needs of medical marijuana patients, without looking at commercial cultivation or dispensaries right now. He stated that he realizes that next year there will need to be discussions regarding dispensaries, the delivery system, and inventory, adding that it should be managed in a way that the City of Cloverdale can benefit from the tax and revenue streams.

La Reva Myles, Cloverdale, asked about the interplay between the Federal and State Government and how the State can regulate marijuana if it's still illegal with the Federal Government. She asked if the Feds could come in and look at the local data base used for marijuana permits. Chief Cramer responded that the Federal Government can pretty much do what they want because they have maintained that marijuana in all forms is illegal; however, the focus has been on the extremely large commercial grows and huge dispensaries. He reported that the ordinance has language that addresses the fact the Federal law states marijuana is illegal. Ms. Miles also asked about the practice of confiscating property when confiscating drugs. The Chief responded that asset forfeiture laws are in place to inhibit criminal grows. He remarked that Cloverdale Police Department has not been seizing property because most of the illegal grows they have come in contact with have been small. He stated that in the ten years he has been with Cloverdale Police Department, only one motorcycle has been seized and that was because the motorcycle was purchased with funds from the sale of illegal drugs. Charges for illegal grows and fines were discussed.

Elissa Morrash, Cloverdale, asked if it would be possible for three of four people living in one house to cultivate 30 plants each since it applies to individuals. The Chief answered that the draft ordinance is set up to be a designated number of plants or processed marijuana per parcel.

Michelle Winterbottom, Cloverdale, asked for clarification regarding the amount of marijuana that could be transported. The Chief responded since the State allows up to eight ounces of processes marijuana for personal possession, that is the amount determined appropriate for a delivery service to deliver. She asked if the allowable plants per person would yield more than eight ounces of processed marijuana. The Chief confirmed that a plant could yield over that amount. Ms. Winterbottom commented that to harvest only eight ounces at a time and leave the rest on the plant to comply with the law does not make sense.

Patrick King, owner of the Soil King, came to the podium to address Ms. Winterbottom's question. He stated that the State and County allows three pounds of processed marijuana and asked for clarification about the eight ounces. Chief Cramer stated that the eight ounces only applied to the amount the delivery service may deliver to a person.

Jeanne Cox, Cloverdale, asked if there would be a restriction regarding how many times a week a person could receive a delivery. The Chief responded that it would be cumbersome and challenging to regulate and enforce the number of deliveries, adding that the Police Department is not even engaging with the delivery service unless they have done

something illegal. Ms. Cox also asked about the definition of a primary caregiver and if the caregiver could grow the plants at their home. Chief Cramer reported that the law has a specific definition of the primary caregiver and that the ordinance states the patient's marijuana must be grown onsite. Ms. Cox asked if a garden service would be able to tend the plants.

Patrick King, owner of the Soil King in Cloverdale, stated he would be happy to donate his time to assist those needing help with cultivating their medicinal marijuana.

Jamie King, Cloverdale, offered her thanks stating that as a patient, marijuana is saving her life. She stated there are many other patients that are loving the idea that City Staff and City Council are open minded about the possibility of a dispensary down the road and the possibility for small, organic, commercial grows in Cloverdale. She voiced approval for creating revenue for Cloverdale.

Shawn Bovee, Cloverdale, stated that he wanted to speak on behalf of the Planning Commission. He commented that he suspects as of this time, we are not prepared to address what has been discussed at this meeting tonight due to the volume of information, uncertainty, unknown and gray areas. He discussed a disconnect between local cannabis growers and law enforcement and the challenges of the gray areas. He stated he may not be in a position to speak on behalf of all the Commissioners, but knowing them as well as he does, he believes they would agree we are not ready for to discuss commercial cultivation and need more information to be provided before the Planning Commission looks at this item.

Mayor Cox cautioned Mr. Bovee to wait for the Planning Commission agenda to come out to see what will be before the Commission, adding there is no time like the present to get the conversation started.

City Attorney Sanchez stated that this item could be before the Planning Commission next week if the Council gives direction on the ordinance. He added that the Chief's report gives a lot of information and further information could be provided if needed. Regarding the timing, Attorney Sanchez stressed the importance of meeting the March 1st deadline to ensure local control. He agrees the March 1st deadline is unreasonable but advised that the ordinance be adopted prior to the deadline even if the Council is not ready to tackle the commercial aspect.

Patrick Paquette, Cloverdale, commented that under current law all income is taxable. He discussed the limited deductions allowed for a commercial marijuana operations. He stated the IRS is very interested in businesses that have a lot of cash; hence, a lot of cash is not being deposited into banks due to the requirement to report any deposit that is over $10,000. He stated that until the laws are straightened out at the Federal level, this will continue to be a challenge. Chief Cramer responded, it is his understanding, that those laws have recently changed and banks are now allowing businesses involved in marijuana sales to deposit the funds into the bank.

Omar Figueroa, commented that there has been some guidance from the US Department of Justice informing banks that they can transact with cannabis businesses but it requires a currency transaction report, which some of the banks find cumbersome so they choose not to do business with cannabis businesses. Mr. Figueroa further stated that patients can have whatever amount is related to their medical needs. He reported that the Supreme Court recently struck down numerical limitations on quantities allowed for a medical marijuana patient.

Councilmember Palla asked for confirmation that medical marijuana delivery businesses would require a city business license. He stated he would also like to require the delivery businesses to provide the Police Department with a list of authorized drivers. He also asked what the penalty would be if a driver violates the ordinance and delivers over the eight ounces. Chief Cramer responded that the State law requires the drivers be associated with the dispensary and have identification to prove they are working for the dispensary. He further stated that the deliveries would have invoices and delivery sheets. The Chief reported that if a driver delivers more than the allowable eight ounces to the patient, it becomes illegal and a criminal offense for the driver.

Councilmember Russell commented that she believes it is important to move forward with the basics, adding that we are not in a position to discuss commercial cultivation at this point, but it will be an area that will require attention fairly quickly. She stated the March deadline is ridiculous and does not allow ample time for proper research and

communication, but we still need to act now, to do what we need to do, and that is get medical marijuana to the people who need it.

Councilmember Palla shared a conversation that he had with Assembly member Jim Wood on December 4th, where the March 1st deadline was discussed. Councilmember Palla reported that Jim Wood said the March deadline was in his Bill and was taken out before it went forward but was put back in, which was not his intention and the Bill will have some cleanup work to try to remove the deadline. Councilmember Palla advised that the Council should not bank on the removal of the deadline and move forward with the ordinance to ensure local control.

The Council discussed the ordinance, with the two primary areas of discussion being the qualified patient and caregiver requirements and the small cultivation exemption.

City Attorney Sanchez noted that the Council appeared to be on the same page regarding commercial grows, stating that commercial grows and dispensaries will need to be looked at in the future but not at this time.

It was determined that a 100 foot detached structure (within defined safety guidelines) per parcel (single family dwelling) and ability to grow up to 30 plants with 3 pounds processed in possession would be reasonable. Sensitive land use restrictions and required setbacks were discussed. City Attorney Sanchez suggested using the minimum State law requirement, which is a 600 foot setback. Chief Cramer noted that the small 3 plant grow is exempt from the 600 foot setback. Discussion ensued regarding requirements of the 3 plant grow.

Mayor Cox thanked all for participating in workshop, adding that he believes the Council's recommendation is to send the ordinance to the Planning Commission on December 16th. The Council members agreed.

**9. Discussion and Possible Action on the 2016 Council Subcommittee, Joint Committee and Regional Board/Council Assignments**

City Manager Cayler discussed the committee assignments for the 2016 year and requested Council members to review and discuss the Subcommittee, Joint Committee and Regional Board/Council Assignments, and then complete preference forms and return to him as soon as possible in order for him to make a recommendation for the January 12, 2016 City Council meeting. He added that the assignments list with modifications will be returned for formal adoption by resolution at the January 26, 2016, City Council meeting.

Public Works

**11. Consideration of Resolution No. 072-2015 Endorsing the City of Cloverdale's application for Program Year 2016-2017 Community Development Block Grant ("CDBG") funds.**

Vanessa Apodaca, contract City Engineer, discussed the DBDG Block Grant application, commenting that this is an ongoing annual commitment for CDBG funds. She explained that the City of Cloverdale is part of a county-wide consortium (excluding Santa Rosa and Petaluma) that makes funding decisions each year, based on applications submitted by both the public and member agencies. She shared projects in Cloverdale that have been funded in the past, which include Americans with Disabilities Act (ADA) improvements (pedestrian safety enhancements), and an economic development program. Ms. Apodaca reported that the ADA improvements will provide funds for improvements to S. Cloverdale Boulevard, specifically those improvements identified in the Traffic Calming and Pedestrian Safety Enhancements Study previously presented to the City Council. She further stated that the economic development program is intended to provide partial funding for the continuation of the micro-enterprise business development that was previously provided by CAFÉ and has been assumed by Community Action Partnership (CAP). Ms. Apodaca stated that the Staff report recommended the Council take a combined approach to use a portion of the funds for ADA improvements ($130,000) and the remainder to continue the economic development program ($10,000); however, when she spoke with the County they reported that economic development was not recommended at this time, noting that the capital projects were easier to process.

City Manager Cayler stated that the $10,000 portion to go to CAP is optional. The Council discussed the status and projects of CAP. Mayor Cox commented that they are in transition and having some problems. He stated he would be ok with eliminating the $10,000 for CAP. City Manager Cayler commented if that is the direction the Council wishes to take, the Resolution could be modified to designate the full amount to go to ADA improvements.

Councilmember Palla asked if the sidewalks to the Furber Ranch Plaza would be included in the projects funded by this grant. Ms. Apodaca confirmed the sidewalks would be included, adding that multiple years of funding can be applied to a single project so the Boulevard project will be on the list. Councilmember Palla asked if the Council could receive a timeline when there could enough funds to start the project. Ms. Apodaca explained that part of the application process is to spell out the budget and could be supplied to the Council.

**PUBLIC COMMENTS:**

La Reva Myles, Cloverdale, conveyed her experience with CAP to the Council, sharing that CAP has not really been continuing the CAFÉ programs as they were intended and do not hold the same office hours. She stated she would not recommend that CAP receive the $10,000 grant money. Ms. Myles added that she is sorry there is not another organization that is as well run as CAFÉ was to receive the funds.

**Action:** Motion was made by Councilmember Palla and seconded by Vice Mayor Brigham to adopt Resolution 072-2015 of the City Council endorsing the City of Cloverdale's application for Program Year 2016-2017 Community Development Block Grant ("CDBG") funds as amended to eliminate the economic development program portion and use the full amount for ADA improvements. The motion passed by unanimous roll call vote (5-ayes – Councilmember Palla, Vice Mayor Brigham, Councilmember Russell, Councilmember Wolter, Mayor Cox; 0-noes).

**SUBCOMMITTEE ACTION ITEMS (continued):**

Airport

12. **Continuation of Resolution of the City Council of the City of Cloverdale Authorizing the City Manager to Execute a Professional Services Agreement with C&S Companies for the Preparation of the Airport Taxiway Reconstruction Project**

City Manager Cayler reminded Council that on August 28, 2015, the City Council authorized a grant agreement with the Federal Aviation Administration to provide a 90 percent of the cost grant for preparation for the Cloverdale Municipal Airport's Taxiway Reconstruction Project. He reported that the total project cost provide by the grant is $246,335, which includes a City administrative expense reimbursable of $5,500 and the City's grant match will be $27,370. Mr. Cayler commented that the Council approved the grant agreement but delayed signing the Professional Services Agreement with C&S Companies. He stated that the uneven surfaces on the taxiway present a safety issue. He mentioned the Laulmia project, which could relieve the City of its obligation of the airport but since the project is in the planning stage and does not have a definite timeline, the City is responsible for continuing the maintenance of the airport. He advised the Council that they are running close to a deadline with FAA, wherein they will expect money to be spent under this grant because the grant period will end on September 30, 2016. Mr. Cayler informed the Council that he spoke with representatives from the C&S Companies and they indicated that the City can probably wait until their next meeting on January 12th to approve the contract. Mr. Cayler stated that, given the pending project, the Council may wish to keep options open and wait until January to act on this due to the sensitivity surrounding the possible closing of the airport.

**PUBLIC COMMENTS:**

Michelle Winterbottom, Cloverdale, expressed concerns about the safety issues at the airport, adding that putting off repairs would also increase liability. City Manager Cayler explained that this agreement is for the engineer work to rebuild the taxiway and actual construction work for the rebuild will not happen for several years because of the processes that must be followed. He stated that the safety issues would be dealt with ahead of the taxiway construction.

La Reva Myles, Cloverdale, said that it is her understanding from the Council meeting last night that the City Attorney, Staff, and the proposed project developer were going to try to put a plan together in the next 30 days. She added, if that is the case, information should be available prior to the January meeting.

Robin Andersen, Cloverdale, stated she is an airport tenant and requested the Council to move forward to approve the Professional Services Agreement with C&S Companies. She said the airport is still open and the City is obligated to maintain it. She added that Staff and Council are putting a lot of faith in a developer who has not provided a clear plan

on the project and has no financial guarantees in place, funds in escrow, or bond to ensure completion of the project, should it go forward.

Councilmember Russell commented that Robin Andersen summed it up very well.

Councilmember Palla said he did not disagree, but he does not think setting the timeframe back by one month will make that much difference, and added that the Council will need to be ready to make a decision on January 12th. He commented that he would like to get more information regarding the negotiations for the Laulima project prior to acting on this agreement.

**Action:** Motion was made by Councilmember Palla to continue this item to the January 12th meeting with the understanding that a decision would be made then, and seconded by Councilmember Wolter. The motion passed by unanimous roll call vote (5-ayes – Councilmember Palla, Vice Mayor Brigham, Councilmember Russell, Councilmember Wolter, Mayor Cox; 0-noes).

**SUBCOMMITTEE REPORTS:**

- Airport (Chair, Councilmember Russell and Mayor Cox) - Next Meeting: February 2, 2016, 8:00 am.
- Finance, Administration & Police (Chair, Mayor Cox and Vice Mayor Brigham) - Next Meeting: January 28, 2016, 2:00 pm.
- Planning & Community Development (Chair, Councilmember Wolter and Vice Mayor Brigham) - Next Meeting: December 15, 2015, 4:00 pm.
- Public Works (Chair, Mayor Cox and Councilmember Russell) - Next Meeting: January 26, 2016, 10:30 am.
- Joint City/Fire District (Chair, Councilmember Palla and Vice Mayor Brigham) - Next Meeting: December 14, 2015, 5:30 pm.
- Joint City/School District (Chair, Councilmember Palla and Councilmember Wolter) – Next Meeting: January 25, 2016, 5:00 pm.

**SPECIAL ITEM:**

**13. Election of Mayor and Vice Mayor**

City Manager Cayler commented that in past years, the selection of the new Mayor and Vice Mayor took place at the end of the last meeting in December and the new Mayor and Vice Mayor would take their seats at the first meeting in January. Mr. Cayler recommended the Council select a Mayor and Vice Mayor from among the Council members to serve for the terms beginning December 2015 and ending December 2016.

**Action:** Motion was made by Councilmember Wolter and seconded by Councilmember Russell for the Council to stay with tradition and offer the Mayor position to Vice Mayor Brigham. Mayor Cox asked if there were any other nomination. None were received; Mayor Cox announced Mary Ann Brigham as the new Mayor.

Mayor Cox opened nominations for Vice Mayor. Councilmember Palla nominated Councilmember Wolter for the position of Vice Mayor; Councilmember Russell seconded the motion. Mayor Cox asked if there were any other nomination. None were received; Mayor Cox announced Gus Wolter as the new Vice Mayor.

**COUNCIL REPORTS (INCLUDING STUDENT LIAISON):**

Councilmember Palla shared that he received a complaint regarding the lack of outreach regarding the change in transit service and the change in pick up locations. City Manager Cayler responded that he has been in communication with Brian Albee from Sonoma County Transit regarding addressing this request for outreach. The Council discussed possible methods of outreach.

Mayor Cox announced that Madolyn Agrimonti, a Councilmember from the City of Sonoma, joined him in Cloverdale for lunch. He stated that she had never been to Cloverdale and liked it very much.

Councilmember Russell shared new information from the Health Action Council. She stated that Sonoma County was in the top 15 in a Robert Wood Johnson Foundation contest with 343 entries.

Vice Mayor Brigham shared that this is the last weekend for the Miracle on 34th Street play. She stated that Saturday and Sunday are sold out but tickets are still available for Friday.

**LEGISLATIVE REPORT:** None

**CITY MANAGER/CITY ATTORNEY REPORT**: None

**COUNCIL DIRECTION ON FUTURE AGENDA ITEMS:** None

Mayor Cox expressed appreciation and thanked City Staff for all the assistance provided during his term as Mayor. He also thanked the public for their comments.

**ADJOURNMENT:** Mayor Cox adjourned the meeting at 10:07 adjourned to a regular meeting of the City Council and Cloverdale Community Development Successor Agency, Tuesday, January 12, 2016, for Closed Session at 5:30 p.m. (at the City Hall Conference Room 124 N. Cloverdale Blvd., Cloverdale, CA95425) and Public Business Session at 6:30 p.m. (at the Cloverdale Performing Arts Center 209 N. Cloverdale Blvd., Cloverdale, CA 95425).

Dear Mayor and City Council Members of Cloverdale,

You are about to make an important decision that will unequivocally affect our community. The voters of Cloverdale selected you to wisely evaluate and decide in proxy for them as a whole. I am writing on behalf of a group of individuals which make up a significant proportion of our community in population number and importance. They are our youth. They did not vote for you, yet you represent them. In making this decision, carefully consider the impact on them, for they are both the present and future of Cloverdale.

I am strongly supportive of the repurposing of the Airport for a much needed Sports and Recreation Park.

As a local pediatrician, I have a direct interest in securing the health of the under 18 year old population. A recent public health study showed that Cloverdale teens display high rates of unhealthy behaviors and resulting medical and mental health conditions. These include, among others, drug abuse, alcohol consumption, depression and obesity.

As a volunteer coach for the Cloverdale Youth Soccer League, I appreciate the direct impact sports bring to children. Sports build self-confidence and a sense of accomplishment which can extend academically into the classroom. Sports give sense of purpose and belonging. Children exposed to sports-rich environments tend to identify with teams rather than gangs. In addition to the mental-health benefits, sports encourage healthy bodies in terms of cardiopulmonary strength and appropriate body mass.
Cloverdale is in dire need for additional and improved athletic facilities. This is embarrassingly obvious when one compares our facilities with those of other nearby leagues, both in terms of adequate field space and quality.

As a father of two pre-teenagers, I fully support a dedicated area for all youth sports; a place for Cloverdalians of all ages to enjoy . I urge you to vote for replacing this airport which is not wanted nor used and wouldn't be used by the majority of our community members, especially our younger citizens, in favor of a beneficial sports and recreation Park. Let's invest in Cloverdale's future by providing a venue that leads to physical health and mental well-being.

Thank you for your attention,

Ron Siegemund, MD

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**About The AIA** Programs & Initiatives

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AIA CMD

**Regional/Urban Design Assistance Team (R/UDAT) Program**

AIA Communities by Design
ENVISION CREATE SUSTAIN

**Pratt City, AL R/UDAT**
In 2011, the Pratt City neighborhood in Birmingham, Alabama was destroyed by a massive tornado. City officials requested assistance from the AIA's Regional and Urban Design Assistance Team (R/UDAT) to help plan a recovery strategy. This short film presents the story of Birmingham's R/UDAT process and the community's recovery efforts.

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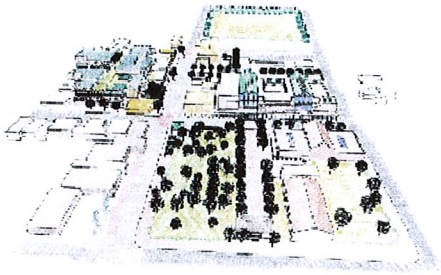
**AIA Center for Communities by Design Named "Organization of the Year"**
The Center for Communities by Design is honored to be named "Organization of the Year" by the International Association for Public Participation. We would like to extend our congratulations and gratitude to the many DAT volunteers, supporters, and participant communities who continue to make this initiative a success.

**What can R/UDAT do for your community?**
Communities across the country are constantly changing. Some of the challenges they encounter include the loss of major employers, new bypass roads, gridlock, unfocused suburban growth, crime, loss of open space, regional conflict, unaffordable housing, abandoned mills and industrial plants, environmental problems, vacant storefronts, and loss of identity. A R/UDAT can help you to respond to these kinds of issues, develop a vision for a better future for your community, and implement a strategy that will produce results. Because the R/UDAT process is highly flexible, it is effective in communities as small as villages and urban neighborhoods and as large as metropolitan regions.

**Why does the R/UDAT process work?**
The process works because it relies on three simple principles.
Quality: Team members are highly respected, interdisciplinary professionals selected on the basis of their experience with the specific issues facing your community. The energy and creativity that are generated by a top-notch, multidisciplinary team of professionals working collaboratively can produce extraordinary results.
Objectivity: Many communities are immobilized by conflicting agendas, politics, personalities, or even the overabundance of opportunity. The R/UDAT process ensures that all voices are given a fair hearing and that options are weighed impartially. The lack of bias, professional stature of the team members, and pro bono nature of the work generate community respect and enthusiasm for the process.
Public Participation: The process encourages the active participation of all sectors of the community. A common sentiment expressed after a R/UDAT is: "This experience really brought the community together. People who never talked before are now working together."
**What is the structure of the R/UDAT process?**
The R/UDAT process is flexible and unique, but there are typically four parts or phases, some of which occasionally overlap.

*Phase 1: Getting Started*
A local leader or citizen calls the AIA and asks for help, and the AIA sends information, initiating a conversation between the AIA and local leaders. A steering committee representing a variety of residents, local government, businesses, institutions, and community groups is formed, gathers community support, and prepares an application. A representative from the R/UDAT Task Group visits the community, suggests revisions to the application, and prepares an evaluation report for the AIA and the community. Upon review and approval of the application, the AIA makes a formal commitment to your community.
*Phase 2: Getting Organized*
A team chairperson selected by the Task Group meets with the steering committee. This visit introduces the chairperson to the community and its concerns and sparks broader community interest and participation in the process. Preparations begin for the team visit, including initial steps that will facilitate the eventual implementation of an action plan.
*Phase 3: Team Visit*
The Task Group selects a multidisciplinary team of 6 to 10 professionals who visit the community for four intense, productive days. After listening to the concerns and ideas of residents, community leaders, and interested groups and viewing both the study area and the surrounding community, the team prepares and publishes a report that is presented in a public meeting on the last day.
*Phase 4: Implementation*
The community analyzes the team recommendations, identifies priorities, undertakes immediate objectives, and prepares an action plan. Some team members return a year later to evaluate progress so far and advise on implementation.



**What are the products of the R/UDAT process?**
*Intangible products frequently include:*
- Objective look at the community
- Sense of purpose and direction
- New energy and commitment
- New levels of cooperation and collaboration throughout the community
- Consensus on community concerns
- Improved communication networks throughout the community.

*Tangible products include:*
- A coherent description of the community's condition and the challenges that must be addressed; this statement, generated by the steering committee during the application process, is frequently a community's first citizen-based self-analysis.
- A well-illustrated, professional report, published and distributed by the end of the team visit, that examines the community's concerns and aspirations and recommends a vision for the future, specific action items, and timetables for consideration by your community.
- An action plan, developed by the steering committee working with the broader community, that describes priorities for action, including a timetable.
- A report resulting from the follow-up visit that analyzes the action plan, assesses progress to date, and makes recommendations that will aid implementation.

**What are some results?**
R/UDATs have led to communities coming up with new processes to improve their quality of life. Some examples are new construction and development, new public agencies and organizations, new parks and open space, political change, affordable housing, commercial and economic revitalization, historic districts, landmark preservation, new zoning ordinances, pedestrian systems, comprehensive plans, changes in growth patterns, and stopping inappropriate development.

**How long does the process take?**
The first two phases, which are critical to the overall success of the R/UDAT effort, typically take 3 to 6 months to complete, depending on how quickly the community can organize. Phase Three, Team Visit, normally takes place 6 months after your initial phone call. Phase Four, Implementation, can take as long as needed to meet local needs and priorities, although the follow-up visit usually occurs a year after the team visit.

**How much does it cost? Who pays for it?**
Costs typically range from $50,000 to $60,000, some of which may be in the form of contributions and in-kind services solicited by the local steering committee to cover travel and living expenses, as well as report production costs. Funding must come from a variety of public and private sources that might include businesses, local government, nonprofits, foundations, organizations such as the chamber of commerce, arts councils, the local AIA chapter, and other community groups and individuals. Experience has shown that the best way to create broad community support is to ask everyone to contribute rather than to rely on one major funding source.

**How to get more information**
You can download the newly updated *R/UDAT Guide: Planning Your Community's Future*, a detailed publication that will help you decide if a R/UDAT is right for your community and how to apply. You can also see the list of communities that have hosted R/UDATs.
The AIA can provide article reprints, sample reports, and names of resource people. For more information and to help you decide if a R/UDAT is right for your community, call Erin Simmons, Director, AIA Center for Communities by Design at (202) 626-7492 or e-mail rudat@aia.org.

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CITY OF CLOVERDALE

# City Council/Redev. Agency Agenda Item Summary

Agenda Item: 5
Meeting Date: February 23, 2016

| Agenda Section | Staff Contact |
|---|---|
| Consent | Joanne Cavallari, Finance Manager |

**Agenda Item Title**

Adoption of a resolution No. 017-2016 approving he engagement of Terry E. Krieg, CPA, to perform auditing and financial reporting services for the fiscal year ended June 30, 2016.

**Summary**

The City's auditing services agreement with Terry Krieg, CPA, expired following the completion of the audit for fiscal year 2014/2015. Mr. Krieg completed the audits for Fiscal Years 2010/11, 2011/12, 2012/13, 2013/14 and 2014/15. Staff was very pleased with Mr. Krieg's work and would like to engage his services to complete the audit for Fiscal Year 2015/16. In addition to the financial statements, Mr. Krieg's proposal is to also complete the annual financial transactions report with the State Controller's office, and the required Audit of Federal Financial Assistance Programs report.

Mr. Krieg's price for the financial statements will be $24,950, the State Controller's report will be $5,000, and the Audit of Federal Financial Assistance Programs will be $4,500, for a total of $34,450. Mr. Krieg has not increased the fees for his services during the term of his engagements.

Mr. Krieg is being recommended because staff feels that he can best meet the needs of the City.

**Options**

1. Adopt a resolution approving the engagement of Terry E. Krieg, CPA to perform auditing and financial reporting services on behalf of the City of Cloverdale for the Fiscal Year 2015/16.
2. Give direction to staff for engagement of consultant for auditing and reporting services.

**Budget/Financial Impact**

The $34,450 proposal will be included in the 2015/16 budget.

**Subcommittee Recommendation**

The Finance, Administration, Police Subcommittee recommended approval for auditing and reporting services by Terry E. Krieg, CPA for the prior fiscal years.

**Recommended Council Action**

Adopt a resolution No. 017-2016 approving the engagement of Terry E. Krieg, CPA to perform auditing and financial reporting services for the fiscal year ended June 30, 2016.

**Attachments:**

1. Resolution approving the engagement of Terry E. Krieg, CPA, to perform auditing and financial reporting services for the Fiscal Year 2015/16, including Exhibit A.

**cc:**

**CITY OF CLOVERDALE**
**CITY COUNCIL**
**RESOLUTION NO. 017-2016**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CLOVERDALE APPROVING THE ENGAGEMENT OF TERRY E. KRIEG, CPA, TO PERFORM AUDITING AND FINANCIAL REPORTING SERVICES FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**WHEREAS**, the City of Cloverdale has received an engagement letter from Terry E. Krieg to provide auditing and reporting services for the 2016 fiscal year; and

**WHEREAS**, Terry E. Krieg, CPA is a qualified professional in the area of local government auditing and reporting services; and

**WHEREAS,** Mr. Krieg's years of experience auditing California cities and special districts makes him qualified to perform such professional services for the City of Cloverdale; and

**WHEREAS,** a mutually acceptable engagement letter has been provided by Mr. Krieg and is recommended by the City Attorney, City Manager and Finance Manager; and

**WHEREAS,** the proposed engagement is for the following tasks: 1) Prepare audited financial statements for the Fiscal Year 2015-2016; 2) Compile the City's 2016 Annual Report of Financial Transactions to the State Controller; 3) Prepare Single Audit Report of Federal Awards; and

**WHEREAS,** the proposed engagement is for a term of one year; and

**WHEREAS**, the proposed engagement letter sets forth a not to exceed compensation limit; and

**WHEREAS**, the work performed by Terry E. Krieg, CPA will be of limited scope and risk appropriate for an engagement letter.

**NOW, THEREFORE, BE IT RESOLVED** that:

1) The Cloverdale City Council approves the engagement of Terry E. Krieg, CPA for the performance of auditing and reporting services for the 2016 fiscal year, substantially in the form attached hereto as Exhibit A and in a form approved by the City Attorney.

It is hereby certified that the foregoing Resolution No. 017-2016 was duly introduced and adopted as amended by the City Council of the City of Cloverdale at its regular meeting held on the 23rd day of February, 2016, by the following voice vote: -Ayes, -Noes, -Absent

AYES IN FAVOR:
NOES:
ABSENT:
ABSTAIN:

Approved:

Mary Ann Brigham, Mayor

Attested:

Linda Moore, Deputy City Clerk

**Terry E. Krieg, CPA**
Certified Public Accountant

January 31, 2016

Ms. Joanne Cavallari
Finance Manager
City of Cloverdale
124 N. Cloverdale Blvd.
Cloverdale, California 95425

Dear Ms. Cavallari:

I am pleased to confirm our understanding of the services I am to provide to the City of Cloverdale for the fiscal year ending June 30, 2016. I will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the City of Cloverdale as of and for the fiscal year ending June 30, 2016. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as the management's discussion and analysis (MD&A) to supplement the City of Cloverdale's basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board (GASB) 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.

As part of my engagement, I will apply certain limited procedures to the City of Cloverdale's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency measurement's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements.

I will not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's Discussion and Analysis (MD&A)
2. General Fund Budgetary Comparison Schedule and related reconciliation to GAAP Basis Financial Statement of Revenues and Expenditures
3. Major Special Revenue Fund Budgetary Comparison Schedules
4. Other post employment benefits schedule of funding progress
5. GASB 68 net pension liability and contribution schedules

I have also been engaged to report on supplementary information other than RSI that accompanies the City of Cloverdale's basic financial statements. I will subject the following supplementary information to the auditing procedures applied in my 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the basic financial statements as whole.

1. Combining balance sheet of the non-major governmental funds
2. Combining statement of revenues, expenditures and changes in fund balances of the non-major governmental funds.

131-A Stony Circle, Suite 500 | Santa Rosa, California 95401
P: 707-544-5684 E: Kriegcpa@msn.com

I shall also apply certain agreed upon procedures to the City's Gann Limit as contemplated in the League of California Cities Publication titled Article XIIIB Appropriations Limitation Uniform Guidelines and shall provide you with the recommended agreed-upon procedures report.

AUDIT OBJECTIVES

The objective of my audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the basic financial statements as a whole. *The objective also includes reporting on:*

a) Internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the financial statement amounts in accordance with Government Auditing Standards

***b)*** Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Amendments of 1996 and OMB Circular A-133, Audits of States, Local governments, and Non-Profit Organizations. These standards have now been superseded by the new ***OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (The Uniform Guidance) which are effective for the June 30, 2016 fiscal year.***

My audit will be conducted in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller general of the United States, *the Single Audit Act Amendments of 1996 and the provisions* **of OMB's Uniform Guidance** and will include tests of the accounting records of the City of Cloverdale , *a determination of major programs in accordance with* **OMB's Uniform Guidance** and other procedures I consider necessary to enable me to express such opinions *and to render the required reports.* If my opinions on the financial *statements or* **the Uniform Guidance** *Compliance opinions* are other than unqualified (unmodified), I will discuss the reasons with you in advance. If, for any reason, I am unable to complete the audit or are unable to form or have not formed opinions, I may decline to express opinions or to issue a report as a result of the engagement. I would, however, communicate with you and attempt to develop a mutually acceptable course of action or methods to provide for the resolution of matters that might preclude me from issuing my independent auditor's reports.

The report on internal control and compliance will include a statement that the report is intended solely for the information and use of management, the body charged with governance, others within the City, and specific legislative or regulatory bodies, *federal awarding agencies, and if applicable, pass through entities,* and is not intended to be and should not be used by anyone other than these specified parties.

MANAGEMENT RESPONSIBILITIES

Management is responsible for the basic financial statements and accompanying information as well as all representations contained therein. Management is also responsible for identifying government awards programs and understanding and complying with the compliance requirements, and for the preparation of the schedule of expenditures of federal awards in accordance with the requirements of ***OMB's Uniform Guidance***.

As part of the audit, I will assist with the preparation of your financial statements, *schedule of expenditures of federal awards,* and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements, *schedule of expenditures of federal awards,* and related notes and for accepting full responsibility for such decisions.

You will be required to acknowledge in the written representation letter my assistance with the preparation of the basic financial statements *and schedule of expenditures of federal awards* and that you have reviewed and approved the basic financial statements, *schedule of expenditures of federal awards* and related notes prior to their issuance and have accepted responsibility for them. Further you are required to designate an individual with suitable skill, knowledge, and experience to oversee any non-audit services I provide and for evaluating the adequacy and results of those services and accepting responsibility for them. I understand that the City has appointed you, as its Finance Manager, to be that person.

Management is responsible for establishing and maintaining effective internal controls, *including internal controls over compliance*, and *for* evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and *that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible* for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the governmental activities, business-type activities ,each major fund, and the aggregate remaining fund information of the City of Cloverdale, and the respective changes in financial position and cash flows, where applicable, in conformity with US generally accepted accounting principles; *and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.*

Management is also responsible for making all financial records and related information available to me and for ensuring that management is reliable and financial information is reliable and properly recorded. You are also responsible for providing me with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that I may request for the purpose of the audit, and (3) unrestricted access to persons within the City from whom we determine it necessary to obtain audit evidence.

Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and for confirming to me in the written representation letter that the effects of uncorrected misstatements aggregated by me, if any, during the current audit, and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent fraud, and for informing me about all known or suspected fraud or illegal acts affecting the City involving (1) management, (2) employees who have significant roles in internal control, and (3) others where fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing me of your knowledge of any allegations of fraud or suspected fraud affecting the City received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements, and grants. Additionally as required ***by OMB's Uniform Guidance***, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan. The summary schedule of prior audit findings should not be necessary other than to state that there were no prior year findings.

You are responsible for the preparation of the schedule of expenditures of federal awards in conformity with ***OMB's Uniform Guidance***. You agree to include my report on the schedule of expenditures of federal awards in any document that contains and indicates that I have reported on the schedule of expenditures of federal awards. Your responsibility also includes acknowledging to me in the written representation letter (a) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with ***OMB's Uniform Guidance***, (b) that you believe that the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with ***OMB's Uniform Guidance***, and (c) that the methods of measurements and presentation have not changed from those used in the prior period (or if they have changed, the reasons for the changes), and (d) you have disclosed to me any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

You are *also* responsible for the preparation of the *other* supplementary information, *which I have been engaged to report on*, in conformity with U.S. generally accepted accounting principles. You agree to include my report on the supplementary information in any document that contains and indicates that I have reported on the supplementary information.

Your responsibilities include acknowledging to me in the written representation letter (a) that you are responsible for the presentation of the supplementary information in accordance with GAAP, (2) that you believe that the supplementary information, including its form and content, is fairly presented in accordance with GAAP, (3) that the methods of measurement or presentation have not changed from those of the prior fiscal period ( or if changed the reasons for such changes ) and (d) you have disclosed to me any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to me corrective actions taken to address significant findings and recommendations relating from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on my current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

## AUDIT PROCEDURES GENERAL

An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements; therefore, my audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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. I will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the City or to acts by management or employees acting on behalf of the City. Because the determination of abuse is subjective, Government Auditing Standards do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because I will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by me, even though the audit is properly planned and performed in accordance with US generally accepted auditing standards and Government Auditing Standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, I will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that comes to my attention. I will also inform you of any violations of laws or government regulations that come to my attention, unless clearly inconsequential. I will include such matters in the reports required *for a Single Audit and* ***OMB's Uniform Guidance***. My responsibility as auditor is limited to the period covered by my audit and does not extend to any later periods for which I am not engaged as auditor.

My procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include direct confirmation of receivables, cash, investments and other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. I will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of my audit, I will require certain written representations from you about the financial statements and related matters.

## AUDIT PROCEDURES-INTERNAL CONTROLS

My audit will include obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that I consider relevant to preventing and detecting errors and fraud material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. My tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in my report on internal control issued pursuant to Government Auditing Standards.

As required by ***OMB's Uniform Guidance,*** I will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that I consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major award program. However, my tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in my report on internal control issued pursuant to ***OMB's Uniform Guidance.***

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, I will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, Government Auditing *Standards and* ***OMB's Uniform Guidance.***

AUDIT PROCEDURES- COMPLIANCE

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, I will perform tests of the City's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of my audit will not be to provide an opinion on overall compliance and I will not express such an opinion in my report on compliance issued pursuant to Government Auditing Standards.

***OMB's Uniform Guidance*** requires that I also plan the audit and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. My procedures will consist of tests of transactions and other applicable procedures described in the ***OMB's Uniform Guidance*** Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of the City of Cloverdale's compliance with requirements applicable to each of its major programs. The purpose of these procedures will be to express an opinion on the City of Cloverdale's compliance with requirements applicable to its major programs in my report on compliance issued pursuant to ***OMB's Uniform Guidance***.

AUDIT ADMINISTRATION, FEES AND OTHER MATTERS

We understand that your employees will prepare all cash, investment, accounts receivable, and other confirmations we request.

At the conclusion of the engagement, I will complete the appropriate sections of the Data Collection form that summarizes my audit findings. It is management's responsibility to submit the reporting package (including the City's basic financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports and corrective action plan) along with the Data Collection Form to the Federal Audit Clearinghouse. I will coordinate with you the electronic submission and certification. If applicable, I will provide you with copies of my reports for you to include with the reporting package you submit to pass through entities.

The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditor's reports or nine months after the end of the audit period, unless a longer period is agreed to by the cognizant or oversight agency for audit.

As you know, the filing deadline for the June 30, 2016 fiscal year is March 31, 2016.

Upon completion and your approval to issue our reports, I will provide you with 25 bound copies of the audited financial statements of the City of Cloverdale. The City of Cloverdale is responsible for the distribution of my reports and the City's audited financial statements.

The workpapers for this engagement are the property of Terry E. Krieg, CPA, and constitute confidential information. However, we may be requested to make certain workpapers available to Federal Awarding Agencies pursuant to authority given to it by law or regulation.

If requested, access to such workpapers will be provided under the supervision of Terry E. Krieg, CPA. Furthermore, upon request, we may provide photocopies of selected workpapers to federal agencies. These other federal agencies may intend, or decide, to distribute photocopies or information contained therein to others, including other governmental agencies. We will notify you of any such request. The work papers for this engagement will be retained for a minimum of seven years after the date the auditor's report is issued or for any additional period requested by the Federal Awarding Agencies or other appropriate federal agency. If we are aware that a federal agency or the City is contesting an audit finding, we will contact the contesting parties for guidance prior to destroying the work papers. I expect to begin the audit on at a mutually agreeable date and complete audit fieldwork in time to permit delivery of the 2016 financial statements by December 31, 2016.

My fee for these additional services shall be as follows for the 2016 fiscal year:

| | | | |
|---|---|---|---|
| Audit of City's basic financial statements | | | $24,950 |
| | | | |
| Audit of Federal Financial Assistance Programs | | | $4,500 |
| | | | |
| Compilation of State Controllers Report of Financial Transactions | | | $5,000 |
| | | | |
| Total for all services | | | $34,450 |

My invoices/progress billings shall be rendered no more frequently than twice a month and are payable upon presentation. In accordance with firm policy, my work may be suspended if your accounts becomes more than 7 days past due and may not be resumed until your account is paid in full. The above fee is based upon anticipated cooperation from your personnel, the assumption that unexpected circumstances will not be encountered during the audit, and the assumption that this will be a normal governmental audit. If significant additional time is required because of extraordinary circumstances not anticipated by us or the City, we will discuss it with you and will not perform any such additional work until we have obtained the City's written approval to perform such additional work.

The references to OMB's Uniform Guidance is ***bolded and underlined*** to bring to your attention that the types of and extent of audit tests of federal awards to be applied under the Uniform Guidance may differ in some respects to the procedures and test performed under the previous Circular A-133 standards. The application of the new standards may result in reports that differ from past practice and may require reporting of matters not emphasized under past practices.

I appreciate this opportunity to serve the City of Cloverdale and believe that this letter accurately summarizes the significant terms of the additional services applicable to federal financial assistance programs. If you have any questions, please call me. If you agree with the terms of this engagement as described in this letter, please sign in the space provided below and return a signed copy to us as authorization to perform the work specified herein

Sincerely yours,

Terry E. Krieg, CPA

Accepted By: _____

Title: _____

Date: _____

**Heidenreich & Heidenreich, CPAs, PLLC**
10201 S. 51st Street, Suite #170
Phoenix, AZ 85044
(480)704-6301 fax 785-4619

System Review Report

February 11, 2014

To the Owner of
Terry Earl Krieg, CPA
and the Peer Review Committee of the CA Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Terry Earl Krieg, CPA (the firm) in effect for the year ended August 31, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards.*

In our opinion, the system of quality control for the accounting and auditing practice of Terry Earl Krieg, CPA in effect for the year ended August 31, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass, pass with deficiency(ies)* or *fail.* Terry Earl Krieg, CPA has received a peer review rating of *pass.*

*Heidenreich & Heidenreich*

Heidenreich & Heidenreich, CPAs, PLLC

CITY OF CLOVERDALE

# City Council/Successor Agency Agenda Item Summary

Agenda Item: 6
Meeting Date: February 23, 2016

| Agenda Section | Staff Contact |
|---|---|
| Consent | David Kelley, Assistant City Manager/ Community Development Director |

**Agenda Item Title**

Waive the second reading and adopt Ordinance No. 703-2016, amending the Cloverdale Municipal Code, Title 18 (Zoning Ordinance), Chapter 18.08.040, changing development standards for the SP-1 (Specific Plan 1) Zoning District and rezoning a 12.3-acre parcel of land located at the southeast corner of Asti Road and Santana Drive (APN 117-050-026) from the "MP-Business Park" District to the "SP-1-Specific Plan 1 District." And, waive the second reading and adopt Ordinance No. 704-2016 approving a Development Agreement between the City of Cloverdale and Spight Properties II LCC pertaining to the development of the Alexander Valley Resort project.

**Summary**

On February 9, 2016, the City Council approved a CEQA Addendum, a General Plan Amendment, a Specific Plan Amendment, a Zoning Ordinance Amendment and Development Agreement making revisions to the approved Alexander Valley Resort project and approving an agreement setting forth deal terms related to the development of the project. The site is located on an approximately 267 acres of land located on the former Louisiana Pacific mill site, generally located east of Asti Road between Asti Road and the Russian River, south of Santana Drive. Assessor's Parcels for the site include 116-260-012, 116-310-013 & -014, 117-050-010, -011, -012, -017, -024, -026, -027, -028 & -029.

**Background**

The project was approved by the City Council in 2009 and included a 100-150 room resort hotel complex, up to 170 dwellings at various densities and configurations, a golf course and an entry commercial area. Since that time, the project owner, Spight Properties II LLC/Tyris Corporation, has attempted to market the project to a hotel builder and operator without success. Of specific concerns were the requirement to construct an 18-hole golf course on the site and limitations on the use of the 12.3-acre site on the southeast corner of Asti Road and Santana Drive.

Tyris Corporation therefore filed an application with the City in mid-2014 to amend the General Plan, amend the Alexander Valley Resort Specific Plan to include the 12.3-acre site into the Specific Plan and to rezone the 12.3-acre site to accommodate future limited commercial uses as well as industrial uses permitted in the Business Park zoning district. A Development agreement was also requested to "lock in" (vest) City approvals and set forth certain deal terms for the development of the project.

The 2009 project approval included certification of an Environmental Impact Report (EIR) to assess potential impacts of approving and developing the project. A Mitigation Monitoring and Reporting Program (MMRP) as also approved that specifies the responsible parties for implementing the various mitigation measures, the parties responsible for monitoring the measures and a place to verify that the mitigation measure was carried out.

**Discussion**

As noted above, the City Council held a noticed public hearing on the General Plan Amendment, Specific Plan Amendment, Rezoning and Development Agreement on February 9, 2016. Each of the requested applications were approved. The approvals included:

a) A change to the status of the on-site 18-hole golf course from a mandatory to an optional open space feature. A future developer could build a golf course or choose to construct an alternative open space feature with the approval of the City.
b) Incorporating the 12.3-acre parcel at the southeast corner of Asti Road and Santana Drive into the Alexander Valley Resort Specific Plan and designating this site as "Resort Mixed Use." This land use designation would allow a limited number of targeted commercial uses to support the adjacent resort use as well as business park light industrial uses. Other minor changes were made to the Specific Plan to bring it current.

c) Rezoning the 12.3-acre site from the "Business Park" District to the SP-1 District. This action also revised development standards in the SP-1 district and allowed a number of commercial uses to support the resort use as well as business park light industrial uses.

d) A Development Agreement that locks in the current approvals for a 15-year period as well as providing for potential project developer oversizing of infrastructure subject to reimbursement and a schedule for sharing of the project Transient Occupancy Tax (TOT) for a specified number of years.

e) An Addendum to the certified 2009 EIR with the finding that there would be no new or more severe significant impacts to the environment than were analyzed in the previous EIR.

Ordinances require two readings for adoption. Since both the Zoning Code and Development Agreement are required to be adopted by Ordinance, the Council is asked to waive the second reading and adopt these Ordinances at this meeting. All material is substantially the same as was presented to the City Council at the February 9, 2016 meeting, except for minor changes to the Development agreement clarifying that the Developer would only receive park credit for private facilities (private trail and the open space/recreation component of the project) if the amenities were open to the general public pursuant to the goals of the Specific Plan, and a clarification that the transient occupancy tax sharing and reimbursement provisions would survive the expiration of the Development Agreement (meaning that if the Resort began operations towards the end of the term of the Development Agreement, the sharing and reimbursement as set out in the agreement would continue). Both of these changes were discussed at the February 9, 2016 public hearing.

**Options**

Waive second readings and adopt Ordinances 703-2016 and 704-2016 to complete the approval of the amendments to the Alexander Valley Resort project, or provide staff with an alternative direction.

**Budget/Financial Impact**

If approved and constructed, the Resort would result in potentially significant increases in property tax, sales taxes and Transient Occupancy Tax (TOT) revenues to the City, although the approved Development Agreement includes sharing of TOT tax with the landowner for a fixed period of time. The amount of revenues is unknown. The project would also increase short-term construction jobs and offer long-term employment opportunities to the community with secondary economic benefits.

**Subcommittee Recommendation:**

N/A

**Recommended Council Action**

1) Waive the second reading and adopt Ordinance No. 703-2016 amending Title 18, "Zoning" of the Municipal Code, making certain changes to the standards of the SP-1 District and rezoning one parcel of land (APN 117-050-026) to the SP-1 District.

2) Waive the second reading and adopt Ordinance No. 704-2016 approving a Development Agreement between the City of Cloverdale and Spight Properties II LLC pertaining to the Alexander Valley Resort project generally located on approximately 267 acres of land located east of Asti Road, west of the Russian River, south of Santana Drive and north of Cloverdale Municipal Airport.

**cc: Property Owner**

**Attachments:** City of Cloverdale City Council Ordinance No. 703-2016
City of Cloverdale City Council Ordinance No. 704-2016
Development Agreement

2606635.1

**CITY OF CLOVERDALE**
**CITY COUNCIL**
**ORDINANCE NO.703-2016**

**AN ORDINANCE OF THE CITY OF CLOVERDALE AMENDING TITLE 18, "ZONING," OF THE CITY MUNICIPAL CODE, MAKING CERTAIN CHANGES TO THE STANDARDS OF THE SP-1 (SPECIFIC PLAN) ZONING DISTRICT AND REZONING ONE PARCEL OF LAND TO THE SPECIFIC PLAN-1 (SP-1) ZONING DISTRICT WITHIN THE ALEXANDER VALLEY RESORT PROJECT, (APNs 116-260-012, 116-310-013 & -014, 117-050-010, -011, 012, -017, -024, -026, -027, -028 & -029)**

**THE CITY COUNCIL OF THE CITY OF CLOVERDALE HEREBY ORDAINS AS FOLLOWS:**

**SECTION 1. RECITALS**

A. The Alexander Valley Resort Project ("Project"), is generally located south of Santana Drive, east of Asti Road, west of the Russian River and north of Cloverdale Municipal Airport.

B. The Project was originally approved by the City Council in 2009. The Project consisted of a resort, golf course, resort mixed-use site and housing. Tyris Corporation/Spight Properties II LLC (the "Applicant"), has requested certain changes to the Project.

C. The Applicant is requesting a General Plan Amendment to change the land use designation of 12.3 acre site on the southeast corner of Asti Road and Santana Drive owned by the applicant from "BP-Business Park" to "DSC-Destination Commercial" and other minor amendments to the Cloverdale General Plan, including but not limited to allowing a golf course within the Project as an optional recreational use, not a mandatory feature, and other minor amendments to ensure internal consistency within the General Plan.

D. The application also includes a request for an amendment to the Alexander Valley Resort Specific Plan, a Zoning Ordinance amendment rezoning the 12.3 acre site, which would now be included within the Specific Plan, from "MP-Industrial Park" to "Specific Plan-SP-1," and a Development Agreement. The Zoning Ordinance amendment designating the 12.3 acre site as Specific Plan-SP-1 would allow resort-oriented uses to be developed on the 12.3 acre site.

E. The California Environmental Quality Act ("CEQA"), together with the State Guidelines and City environmental regulations, require that certain projects be reviewed for environmental impacts and that environmental documents be prepared. To comply with CEQA, the City prepared an Addendum to the environmental impact report that

was certified by the City in 2009, Alexander Valley Resort Project Environmental Impact Report, State Clearinghouse No. 2003072142 (the "2009 EIR").

F. The City Council has makes the following findings related to (1) the rezoning the parcel of land described as County Assessor's Parcel Number (APN) 117-050-026 to the SP-1 district; (2) the amendment to Section 18.08.040 of the Zoning Ordinance to add a "Resort Mixed-Use" category to the SP-1 district; (3) adding a list of permitted and conditional uses for the Resort Mixed-Use category; and (4) establishing development standards for future buildings within the Resort Mixed-Use land use category:

1. The proposed change of zone is consistent with the goals, objectives, policies and programs of the Cloverdale General Plan and is necessary and desirable to implement the provisions of the General Plan.

    a. *The proposed rezoning to the SP-1 zoning district for the 12.3 acre parcel located on the southeast corner of Asti Road and Santana Drive is consistent with the Alexander Valley Resort Specific Plan, which implements portions of the General Plan.*

    b. *Proposed development standards will provide guidance to the City, project owners and future developers as to the intent of the City to allow the orderly development of the affected property.*

2. The proposed change of zone will not adversely affect the public health, safety and welfare, or result in an illogical land use pattern.

    a. *The 2004 draft Alexander Valley Resort Environmental Impact Report has evaluated the public health, safety and welfare issues, and mitigation measures and the Addendum's Mitigation Monitoring and Reporting Program have provisions for eliminating or mitigating all such issues.*

    b. *The land use pattern proposed for the Project is consistent with the General Plan. The proposed option of an 18-hole golf course, Resort Hotel and other land uses are envisioned within the Area II Destination Commercial land use designations contained in the General Plan.*

3. The proposed change of zone is consistent with the purpose and intent of Chapter 18.03 of the Cloverdale Zoning Ordinance.

    a. *The proposed rezoning and revisions to the SP-1 District meets the Zoning Ordinance purpose of implementing the General Plan. The General Plan requires Specific Plan zoning for the Project site, and the Specific Plan and zoning provide for such land uses.*

4. The potential environmental impacts of the proposed rezoning are less-than-significant.

   a. *The rezoning will not adversely affect public health, safety or welfare as demonstrated by the analysis of public health and safety conditions contained in the draft 2004 Alexander Valley Resort EIR and Recirculated* DEIR (the "EIR"). *The EIR analyzed potential public health impacts, airport land use compatibility impacts, traffic safety impacts, geotechnical safety impacts, air quality and greenhouse gas emissions, potential flooding and safety impacts, impacts to public safety providers, and impacts related to soil and groundwater contamination. The EIR concludes that, with adherence to mitigation measures as set forth in the two DEIR documents including the Addendum, all safety impacts and conditions will be less than significant. The Mitigation Monitoring and Reporting Program will assure that all EIR mitigation measures are implemented.*

G. On February 9, 2016, the City Council held a properly noticed public hearing regarding this Zoning Ordinance Amendment and considered all comments received in writing and all testimony received at the public hearing.

**SECTION 1. PURPOSE AND INTENT**

The purpose and intent of these changes is to amend the Zoning Ordnance Text to rezone the 12.3 acre parcel at the southeast corner of Asti Road and Santana Drive to the SP-1 District and to amend the SP-1 District to add a "Resort Mixed-Use" land use category with a listing of permitted and conditional uses and development standards as shown on Exhibit 1.

**SECTION 2. FINDINGS**

The above recitals are hereby declared to be true and correct and hereby incorporated herein as the required Findings of the City Council of the City of Cloverdale.

**SECTION 3. AMENDMENTS TO TITLE 18 OF THE CLOVERDALE MUNICIPAL CODE**

Section 18.08.040, SP-1 Alexander Valley Resort, is amended to read as set forth in Exhibit A.

**SECTION 4. RECLASSIFIED PROPERTIES**

Title 18, "Zoning," of the City of Cloverdale Municipal Code is hereby amended by amending the "Zoning Map of the City of Cloverdale" so as to reclassify the 12.3 acre site on the southeast corner of Asti Road and Santana Drive to the Specific Plan 1 (SP-1) zoning district, as shown in Exhibit 1.

**SECTION 5. SEVERABILITY**

If any section, subsection, sentence, clause or phrase of this Chapter is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Chapter. The City Council hereby declares that it would have passed the ordinance codified in this Chapter, and each and every section, subsection, sentence, clause or phrase not declared invalid or unconstitutional without regard to whether any portion of this Chapter would be subsequently declared invalid or unconstitutional.

**SECTION 6. EFFECTIVE DATE**

This Ordinance shall be and the same is hereby declared to be in full force and effect from and after thirty (30) days after the date of its passage and shall be published once before the expiration of fifteen (15) days after said passage, with the names of the Council Members voting for or against the same, in a newspaper of general circulation published in the County of Sonoma, State of California.

I hereby certify that the foregoing is a true and complete copy of an ordinance duly and regularly adopted by the City at a regular meeting thereof held on February 9, 2016, by the following vote:

**PASSED, APPROVED AND ADOPTED this xxx day of February, 2016 by the following vote:** (Ayes-x; Noes-x; Absent-x)

AYES: NOES:

ABSENT: None

ABSTAIN: None

**Mary Ann Brigham, Mayor**

**ATTEST:**

**Linda Moore, Deputy City Clerk**

Attached: Exhibit 1- Amended Zoning

**Section 18.08.040 Alexander Valley Resort Specific Plan Zoning District Development Standards**

**A. SP-1 Alexander Valley Resort Specific Plan**

This Section provides regulations and standards for the development of the Alexander Valley Resort Project site and the SP-1 Zoning District. All capitalized terms used in this Section 18.08.040 that are not specifically defined herein shall have the meanings set forth in the Alexander Valley Resort Specific Plan, as amended.

**B. Precise Development Plan Required**

1. A Precise Development Plan ("PDP") shall be required prior to any development in each of the six (6) land use areas in this Plan: Resort/Resort Residential, Recreation/Open Space, Single-Family Residential, Estate Residential, Entry Commercial, and Resort Mixed-Use. Each PDP shall be consistent with the General Plan, the Alexander Valley Resort Specific Plan, and this Section 18.08.040. For purposes of Section 18.03.100A of this Title, the Alexander Valley Resort Specific Plan is deemed to be, and shall be considered as, the approved Preliminary Development Plan that would otherwise be required, and no other Preliminary Development Plan shall be required for development in the Alexander Valley Resort Specific Plan area.

2. A visual "gateway" or entrance theme shall be submitted by the Developer and approved by the City prior to or with the first PDP approval. A visual analysis of the rough grading plan for the site, including the grading for the proposed western hill with the serpentine outcropping shall be prepared prior to or with the first PDP, together with the proposed "gateway" theme.

3. A PDP amendment, in accordance with this Section, shall be required for any change to the approved PDP, except for minor changes in golf course design and alignment, if applicable.

4. PDPs for all phases of the development may be submitted and approved simultaneously, provided that no temporary or permanent occupancy permits for the Resort Residential, Single-Family Residential and Estate Residential Units shall be issued until (i) the Resort is substantially complete, as determined by the Director of Community Development, and (ii) a PDP has been submitted to the City for the Recreation/Open Space Area that describes the Developer's proposal for use of the Recreation/Open Space.

5. Construction of any golf course (either a Regulation Course or a Nine-Hole Course) is dependent on the availability of Recycled Water and transportation of that water to the west side of the NWP tracks.

   If the Developer is unable to obtain sufficient Recycled Water to develop any golf course, or if Developer elects not to develop any golf course, Developer shall propose an alternate use for the remaining acreage as provided herein. Such use may require an amendment to the Alexander Valley Resort Specific Plan.

**C. Relationship to the Zoning Ordinance**

All otherwise applicable provisions of this Title shall apply in the SP-1 Zoning District, except as specifically modified by this Section. In the event of a conflict between other provisions of this Title and the provisions of this Section, the provisions of this Section shall prevail.

**D. Pedestrian/Bicycle Trails**

Each PDP shall provide for a linked pedestrian/bicycle trail to connect the various development areas of the Specific Plan, and to connect the Specific Plan area to the remainder of the City.

**E. Resort/Resort Residential Area**

1. The 100-150 room hotel and a full-service spa facility will function together as a wine country destination resort ("Resort") and as the anchor of the Alexander Valley Resort Project. Amenities will include those normally found in a resort complex, including, but not limited to, a restaurant, conference center and gift shop. The Resort shall be consistent with all aspects of the Cloverdale General Plan Destination Commercial land use designation and applicable goals of the Land Use Element.
2. The Resort will be sited on a knoll overlooking Resort/Resort Residential and Recreation/Open Space Areas, capitalizing on Alexander Valley/Russian River vistas. The Resort is assigned a visually prominent location on the Project site and shall be designed to quality resort style standards.
3. The mass of the building(s) shall be broken up by favoring terraced roofs and offsets in wall planes. The maximum height of buildings for the Resort complex shall be 62 feet above ground level, including towers and similarly distinct architectural elements.
4. The spa shall be confined within the Resort complex. Outdoor facilities, to include a swimming pool and other recreational activity areas, shall be sited and buffered to reduce noise intrusion on the Resort.
5. Parking areas shall be off-street, landscaped and screened from view. The Resort complex, the Resort Residential Units and the Recreation/Open Space Area facilities may share parking areas, based on and subject to a shared parking analysis, using Urban Land Institute or similar methodologies, that has been approved by the City's Community Development Department Director.
6. Resort Residential Units shall meet the requirements of the R-2 or R-3 Multi-Family Residential Zoning Districts as they exist or may be modified.
7. The PDP for the Resort/Resort Residential Area shall conform to Specific Plan policies to mitigate impacts from the adjoining industrial area.
8. An Acoustic Study shall be submitted with the PDP for the Resort Residential Units, and building assemblies shall be designed so that interior noise levels shall not exceed 45dBA inside all living units.

**F. Recreation/Open Space Area**

1. The Recreation/Open Space Area may be developed with a golf course (either a Regulation Course or a 9-Hole Course as described in Section II.B.13 of the

Alexander Valley Resort Specific Plan), or with an alternate recreation use approved by the City Council, or preserved as open space.

2. If the Recreation/Open Space Area is developed with a Regulation Course, it should include multiple tee areas providing varying lengths up to 6,500 yards, a clubhouse, practice facilities, and maintenance areas. Any golf course should be open to golf club members, guests of the Resort and the general public on a daily fee basis.

3. Recreation/Open Space Area uses and building structures

   a. Maximum height of the any Recreation/Open Space Area building shall be 35 feet.

   b. Allowable uses are golf course facilities, including golf course management offices, pro shop, men and women's locker rooms, restaurant and banquet facilities, and golf cart storage; picnic areas; other resort-compatible uses that the City Council may approve subject to a conditional use permit; and preserved open space. Any expansion or change after PDP approval shall require a PDP amendment.

   c. The PDP shall provide adequate parking to serve peak demand for banquet or similar activities, if applicable. The Recreation/Open Space Area may share parking areas with the Resort complex and the Resort Residential Area based on and subject to a shared parking analysis, using Urban Land Institute or similar methodologies, that has been approved by the City's Community Development Department Director.

4. Maintenance facilities:

   a. Maximum height of any maintenance building structures shall be 24 feet.

   b. All maintenance and activity equipment storage shall be within enclosed buildings, except for sand, gravel and similar bulk construction materials, which shall be screened from public view with fences, landscaping, buildings or similar features.

5. The Natural Resource Preserve Area shall meet all applicable requirements of the Alexander Valley Resort Specific Plan.

6. Accessory structures, including snack shop, restrooms and a maintenance building shall be allowed.

7. All improvements shall conform to the "gateway" design concept.

8. A minimum 20-foot front setback with City-approved landscaping is required for all development along Asti Road.

**G. Single-Family Residential**

1. Single-Family Residential Units shall meet the requirements of the R-2 Zoning District, as it exists or may be amended, except that lot sizes may be reduced to 4,000 square feet and the lot width, depth and setback requirements reduced based on the Zoning Ordinance PUD Permit provisions in Section 18.03.130. No more than one dwelling unit may be built on each lot.

2. A visual analysis shall be submitted with the PDP application for the Single-Family Residential Area. Steps to minimize views of houses from the City shall be detailed.

3. Site and building design shall conform to the gateway design concept.

4. A PDP amendment shall be required for any addition to or expansion of housing units after initial construction, including accessory structures.

**H. Estate Residential**

1. Estate Residential Units shall meet the requirements of the R-1 Zoning District, except that setbacks and lot sizes may be modified to save significant trees and oak forest groupings.

2. A visual analysis shall be submitted with the PDP application for the Estate Residential Area. Steps to minimize views of houses from the City and Alexander Valley shall be detailed.

3. An arborist report shall be provided with PDP submittal. The report shall identify significant individual trees and significant groupings of trees (oak forest). Houses and lots shall be sited to preserve trees and forest groupings to the extent possible.

4. A PDP amendment shall be required for any addition to, or expansion of, housing units after initial construction, including accessory structures and removal of significant trees identified in the arborist report.

**I. Entry Commercial**

1. An entry design theme and visual analysis shall be submitted with the PDP application for the Entry Commercial Area. Design shall include a visual buffer, such as landscape and berms, between Asti Road and the development on the site.

2. Design shall conform to the "gateway" design concept.

3. Entry Commercial development shall meet the requirements of the G-C Zoning District, except that minimum 20-foot front, side, and rear setbacks with City-approved landscaping are required for all development along Asti Road. Additionally, the following uses shall be permitted by right:

   a. Administrative and Executive Offices

   b. Clerical and Professional Offices

   c. Restaurants (with alcoholic beverage service; with indoor and outdoor seating; with catering operations; no on-site entertainment without City approval)

   d. Wine Tasting Facility

   Service stations, drive-through uses and internally illuminated signs shall not be allowed.

4. A PDP amendment shall be required for any expansion of buildings after initial construction. A use permit shall be required for any uses that require a use permit in the G-C Zoning District (or any successor zoning district), with the exception of the permitted uses listed in the preceding subsection I.3 of this Section.

**J. Resort Mixed-Use**

1. A design compatibility analysis shall be submitted with the PDP application for development in the Resort Mixed-Use Area, to ensure that development in the Resort Mixed-Use Area is compatible with the Resort/Resort Residential and Entry Commercial Areas.

2. Uses.

   A. The following uses shall be permitted by right in the Resort Mixed-Use Area, subject to the PDP requirement set forth in subsection B.1 above:

      i. Automobile rental agencies (excluding outdoor storage of vehicles not for on-site rental)

      ii. Educational Institutions involving culinary, viticulture and brewing arts, schools and instructional programs

      iii. Gymnasiums, Athletic and Health Clubs, Spas and similar commercial recreation uses

      iv. Hotels (13 rooms or more)

      v. Restaurants with Bar/Cocktail Lounges (but not including fast-food restaurants or drive-thru restaurants)

      vi. Specialty grocery markets and food stores up to 5,000 square feet

   B. In addition, and except as otherwise set forth above, those uses set forth in Table 18.06.030-A of Chapter 18.06 of the City of Cloverdale Zoning Code for the Industrial Park (M-P) Zoning District shall be permitted in the Resort Mixed-Use Area, subject to applicable conditional use permit requirements as set forth therein. Where a Plot Plan is required for any use allowed under the M-P zoning requirements, the PDP required under this SP-1 zoning designation shall serve as the required Plot Plan, and no other Plot Plan shall be required.

   C. In addition, and except as otherwise set forth above, the following uses shall also be permitted subject to the limitations set forth in Table 18.05.030-A of the City of Cloverdale Zoning Code for the General Commercial (G-C) Zoning District, and subject to applicable conditional use permit requirements as set forth therein:

      i. Antique collections and shops

      ii. Arts and crafts stores

      iii. Artist and photographic studios and galleries (including the accessory sale of artwork)

      iv. Bakeries

      v. Barber and beauty shops

      vi. Bicycle shops

      vii. Book shops and stationary stores

      viii. Candy stores

ix. Clothing stores

x. Commercial recreation facilities (outdoor)

xi. Flower shops

xii. Furniture and home goods

xiii. Gift shops

xiv. Jewelry stores

xv. Liquor stores

xvi. Medical Services

xvii. Off-Street Parking Facilities (subject to conditional use permit)

xviii. Outside Sales or Display Areas (for uses allowed in the underlying Zoning District)

xix. Toy stores

xx. Transportation terminals and providers, including livery and shuttle services (subject to conditional use permit)

xxi. Wine/Beer Tasting/Sampling and Sales

xxii. Accessory uses (located on the same site as a permitted use)

xxiii. Other uses similar to, and no more objectionable than the uses identified above, as determined by the Planning Commission

Where a Plot Plan is required for any of the above uses under the G-C zoning requirements, the PDP required under this SP-1 zoning designation shall serve as the required Plot Plan, and no other Plot Plan shall be required.

D. The following uses are NOT permitted in the Resort Mixed-Use Area:

i. Automobile Service Stations/Gasoline Service Stations

ii. Sales and repair of automobiles, light trucks, boats, campers, and motorcycles; car washes; tire sales & service

iii. Bar/Cocktail Lounges without food service

iv. Bowling alleys

v. Drive-In Restaurants

vi. Drive Through Facilities

vii. Hardware stores

viii. Internally-illuminated signs

ix. Motion picture theaters

x. Multi-line traditional shopping centers with major anchor tenants

xi. Multi-tenant, freeway-oriented strip mall type facilities

xii. Drug Store/Pharmacies not related to medical, dental or related health

services permitted above

xiii. Residential (temporary lodging permitted as provided herein)

xiv. Variety superstores and big box stores

3. The development standards for the Resort Mixed-Use Area shall be those set forth below in Table 18.08.040-A of the City of Cloverdale Zoning Code. Where the applicable development standard is set forth below as a range, the applicable standard shall be a specific standard within the range, as determined by the City Council at the time of approval of the required PDP.

## Table 18.08.040-A
## Site Development Standards for Resort Mixed-Use District

| | |
|---|---|
| Lot Area (minimum) | 6,000 – 20,000 |
| Lot Width (minimum) | 60' – 100' |
| Lot Depth (minimum) | 100' |
| Front Setback (minimum)<br>• Asti Road (must include City-approved landscaping) | 15'<br>20' |
| Side Setback (minimum)<br>• Interior<br>• Street Side<br>• Asti Road (must include City-approved landscaping) | <br>0'<br>10' – 15'<br>20' |
| Rear Setback (minimum)<br>• Asti Road (must include City-approved landscaping) | 10'<br>20' |
| Lot Coverage (maximum) | 60% |
| Building Height (maximum) | 35' – 50' |

4. A PDP amendment shall be required for any expansion of buildings after initial construction.

**CITY OF CLOVERDALE**
**CITY COUNCIL**
**ORDINANCE NO. 704-2016**

**AN ORDINANCE OF THE CITY OF CLOVERDALE APPROVING A DEVELOPMENT AGREEMENT WITH SPIGHT PROPERTIES II LLC PERTAINING TO THE DEVELOPMENT OF THE ALEXANDER VALLEY RESORT PROJECT LOCATED ON APPROXIMATELY 267 ACRES OF LAND LYING EAST OF ASTI ROAD, WEST OF THE RUSSIAN RIVER, SOUTH OF SANTANA DRIVE AND NORTH OF CLOVERDALE MUNICIPAL AIRPORT (APNs 116-260-012; 116-310-013 AND -014; 117-050-010, -011, -012, -017, -024, -026, -027, -028, AND -029)**

**THE CITY COUNCIL OF THE CITY OF CLOVERDALE HEREBY ORDAINS AS FOLLOWS:**

**SECTION 1. RECITALS**

A. In order to strengthen the public land use planning process, to encourage private participation in comprehensive planning, to reduce the economic risk of development and to reduce the waste of resources, the Legislature of the State of California adopted the "Development Agreement Statute" (Government Code Section 65864 et seq.). The Development Agreement Statute authorizes the City and an applicant for a development project, having legal or equitable interest in the real property, to enter into a development agreement establishing certain development rights in, and obligations with respect to, the property which is the subject of a development project application. Pursuant to the Development Agreement Statute, the City adopted rules and regulations establishing procedures and requirements for consideration of development agreements on January 5, 1987 ("Development Agreement Resolution"). City staff and representative of Tyris Corporation/Spight Properties II LLC (the "Landowner") have processed, considered and executed a Development Agreement in accordance with those City rules and regulations.

B. The Development Agreement Statute permits cities and counties to contract with private interests for their mutual benefit in a manner not otherwise available to the contracting parties. Such agreements, as authorized by the Development Agreement Statute, can assure property owners and developers that development approvals granted by public agencies will not change during the period of development of their projects. Cities and counties are equally assured that costly infrastructure such as roads, sewers, schools, fire protection facilities, etc., will be available at the time development projects come on line.

C. Landowner is the owner of approximately 267 acres in the City of Cloverdale more particularly described in Exhibit A of the attached Development Agreement.

D. On June 10, 2009, the City Council of the City took the following actions with respect to the Property (collectively, the "2009 Approvals"):

1. By Resolution 027-2009, approved a Water Supply Assessment for the Alexander Valley Resort Project;

2. By Resolution 028-2009, certified the Final Environmental Impact Report consisting of a 2004 Draft Environmental Impact Report, a 2008 Recirculated Draft Environmental Impact Report and a 2009 Final Environmental Impact Report (collectively the "FEIR") and adopted a Mitigation Monitoring and Reporting Program for the Alexander Valley Resort Project;
3. By Resolution No. 029-2009, adopted the Alexander Valley Resort Specific Plan (the "2009 Specific Plan") and directed staff to file an annexation application for the Alexander Valley Resort Project; and
4. By Ordinance No. 671-2009, amended Chapter 18 of the City of Cloverdale Zoning Ordinance and prezoned the Property to the SP-1 Zoning District for the Alexander Valley Resort Project.

E. On February 10, 2010, the City Council of the City, by Resolution No. 014-2010, approved a revised Mitigation Monitoring and Reporting Program (the "MMRP") for the Alexander Valley Resort Project.

F. On April 7, 2010, the Sonoma County Local Agency Formation Commission, by Resolution No. 2579, approved a Sphere of Influence Amendment and a Reorganization of Territory designated as Cloverdale Reorganization No. 2009-001 (Alexander Valley Resort) approving the annexation of the Property to the City of Cloverdale. Such approval resulted in confirmation of the SP-1 zoning.
Since then, Landowner has completed the clean closure of the 22-acre wood waste landfill area which contained approximately 600,000 cubic yards of non-hazardous wood chips, bark, sawdust, soil and rock. Owner's clean closure has accomplished the following: (1) removal of potential future environmental liability associated with groundwater and surface water quality issues; (2) elimination of future monitoring and maintenance activities associated with the disposal site cap and drainage controls; (3) removal of the wood waste landfill from regulatory oversight; (4) reuse of the materials for beneficial purposes; and (5) preparation of the site for future uses, including the Project. The North Coast Regional Water Quality Control Board ("RWQCB") issued the final Waste Discharge Requirements ("WDRs"), Order No. R1-2005-0032, in June 2005, and Owner received clean closure certification in June 2012.

H. Landowner also completed extensive soil and groundwater remediation activities for the petroleum hydrocarbon-affected soil and groundwater east of the former head rig and for the affected soil south of the former mechanic shop in order to remove the source of petroleum hydrocarbons and to minimize future impacts to groundwater. PES Environmental, Inc. ("PES"), performed these remediation activities and has requested that the RWQCB consider "no further action" with regard to the hydrocarbons in soil and groundwater in these areas.

I. In addition, International Paper, Inc., as the successor in interest to Masonite Corporation, a former site operator, has been working with the RWQCB to investigate and remediate groundwater contamination at the site, including contamination of a deep aquifer under a portion of the Site. In August 2013, the RWQCB concurred with International Paper's proposed final cleanup remedy of Monitored Natural Attenuation ("MNA") for shallow and bedrock groundwater in certain areas of the Property. The Remedial Action Work Plan

approved by the RWQCB includes: (1) verification groundwater monitoring until the site groundwater achieves the cleanup goals; (2) deed restriction on a portion of the site where residual levels of wood treatment chemicals are present in soil; (3) a restricted area where groundwater use is prohibited; (4) destruction of certain groundwater monitoring wells and an old water supply well; and (5) a soil management plan to identify and address any contamination found during redevelopment. In accordance with Monitoring and Reporting Program No. R1-2013-0057, different MNA processes are occurring in different areas on the Property and reports are to be submitted to the RWQCB semi-annually. The five (5) remaining monitoring wells on the Property are not expected to impact Project development.

J. In 2015, Landowner applied to the City for certain revisions to the City's General Plan, the 2009 Specific Plan, and the Zoning Ordinance, and, as contemplated by the 2009 Specific Plan, Landowner also applied to the City for a Development Agreement to govern future development of the Property (collectively, the "Proposal"). The Proposal requests revision of the Specific Plan to make the golf course component an allowed rather than required use, and to provide for the possibility of an alternate recreation use if approved by the City Council. The Proposal also seeks to re-introduce a 12.3 acre parcel into the planning area that had been part of the original project assessed by the Draft Environmental Impact Report, and provides land use development standards for those 12.3 acres consistent with the existing zoning (M-P, Industrial Park) and the originally-proposed zoning (G-C, General Commercial).

K. In response to the 2015 application, the City undertook review of the FEIR prepared for the 2009 Approvals and determined that an addendum to the FEIR was appropriate for consideration and action on the 2015 application ("2015 Addendum").

L. On December 2, 2015 and January 5, 2016, at a duly-noticed public hearing, the City's Planning Commission considered the FEIR and the 2016 Addendum, Landowner's application for certain General Plan, 2009 Specific Plan, and Zoning Ordinance amendments; and this Agreement. Following due consideration, by Resolutions No. 00-2016, No. 003-2016, and No. 004-2016, the Planning Commission recommended to the City Council that the City Council not approve Landowner's application, although the Commission did support the preparation of the CEQA Addendum. The Landowner appealed the Planning Commission's action to the City Council.

M. On February 9, 2016, at a duly-noticed public hearing, the City Council of the City took the following actions relating to the Landowner's application:

1. By Resolution No. 013-2016, approved and adopted the 2015 Addendum to the FEIR;
2. By Resolution No. 014-2016, amended the City of Cloverdale General Plan;
3. By Resolution No. 015-2016, amended the 2009 Specific Plan (as amended, the "Specific Plan"); and
4. By Ordinance No703-2016, amended Chapter 18 of the City of Cloverdale Zoning Ordinance. Approvals 2, 3, and 4 above are collectively referred to herein as the "Project Approvals."

N. Landowner desires to sell the Property to a developer with the qualifications, expertise, and experience to develop the Property in accordance with the Project Approvals and as

contemplated in the draft Development Agreement. The development of the Property in accordance with the draft Development Agreement and the Project Approvals will provide for orderly growth within the City, consistent with the goals, policies, and other provisions of the City's General Plan and the Specific Plan.

O. The City recognizes that the economic success of the Project depends greatly upon the certainty and timing of the City's regulations and fees.

P. As contemplated by the Specific Plan, the City and Landowner desire to enter into the attached Development Agreement to identify and assign key implementing responsibilities, including but not limited to, vesting of entitlements, the construction of infrastructure, and continuing maintenance responsibilities and agreements.

Q. For the reasons recited herein, Landowner and the City have determined that the Project is the type of development for which the attached Agreement is appropriate. The Development Agreement will eliminate uncertainty in planning and provide for the orderly development of the Property and otherwise achieve the goals and purposes for which the Development Agreement Statute and the Development Agreement Resolution were enacted.

R. In exchange for these benefits to the City, together with the public benefits that will result from the development of the Property pursuant to the Project Approvals, Landowner desires to receive the assurance that it may proceed with development of the Property, including receipt of building permits and all other permits and approvals required to complete construction of the Project in accordance with the terms and conditions of the draft Development Agreement.

S. On February 9, 2016, the City Council, as the legislative body for purposes of Development Agreement approval, held a properly noticed public hearing pursuant to Government Code section 65867 regarding the Development Agreement, and considered all comments received in writing and all testimony received at the public hearing.

**SECTION 2. FINDINGS.**

Therefore, on the basis of: (a) the foregoing recitals, which are hereby incorporated herein; (b) the City of Cloverdale's General Plan; and (c) the Alexander Valley Resort Project FEIR and Addendum to said FEIR, the City Council finds and determines that:

A. Pursuant to Government Code section 65867.5, the Development Agreement is consistent with the objectives, policies, general land uses and programs specified and contained in the City's General Plan and the approved Alexander Valley Resort Special Plan in that the property is designated for a destination resort hotel project that includes a spa, restaurant and conference center along with a major open space use, residential use and related commercial uses.

B. The Development Agreement is compatible with the uses authorized in, and the regulations prescribed for, the land use area in which the real property is located and

entitlements associated with such land use area, is consistent with the overall zoning for the site, Alexander Valley Resort Specific Plan and General Plan.

C. The Development Agreement is in conformity with public convenience, general welfare and good land use policies in that the Development Agreement will continue to implement land use guidelines set forth in the General Plan and help ensure a successful development that meets community and market needs. The Development Agreement is consistent with the policies of the Housing Element within the applicable General Plan, in that it allows for future construction of dwelling units as part of the resort development.

D. The Development Agreement will not be detrimental to the health, safety and general welfare in that the Project will proceed in accordance with the programs and policies of the General Plan and other Project Approvals.

E. The Development Agreement will not adversely affect the orderly development of the property, or the preservation of property values, in that the amendment is consistent with the applicable General Plan and the Alexander Valley Resort Specific Plan, and there is no evidence to suggest that this Project will lower property values.

F. The Development Agreement is consistent with and includes the substantive elements of Government Code sections 65864 through 65869.5, and has been processed consistent with all the procedural requirements thereof.

**SECTION 3. APPROVAL OF DEVELOPMENT AGREEMENT**

The City Council hereby approves the Development Agreement between the City of Cloverdale and Spight Properties attached to this ordinance as Exhibit 1, and authorizes the City Manager to execute the Development Agreement. Within ten (10) days after the Development Agreement is executed by the City Manager and Spight Properties, the City Clerk shall submit the Development Agreement to the County Recorder for recordation.

**SECTION 4. SEVERABILITY**

If any section, subsection, sentence, clause or phrase of this Chapter is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Chapter. The City Council hereby declares that it would have passed the ordinance codified in this Chapter, and each and every section, subsection, sentence, clause or phrase not declared invalid or unconstitutional without regard to whether any portion of this Chapter would be subsequently declared invalid or unconstitutional.

**SECTION 5. EFFECTIVE DATE**

This Ordinance shall be and the same is hereby declared to be in full force and effect from and after thirty (30) days after the date of its passage and shall be published once before the expiration of fifteen (15) days after said passage, with the names of the Council Members

voting for or against the same, in a newspaper of general circulation published in the County of Sonoma, State of California.

I hereby certify that the foregoing is a true and complete copy of an ordinance duly and regularly adopted by the City at a regular meeting thereof held on February 9, 2016, by the following vote:

**PASSED, APPROVED AND ADOPTED this xx day of February, 2016 by the following vote:** (Ayes-x; Noes-x; Absent-x)

AYES: NOES:
ABSENT: None
ABSTAIN: None

**Mary Ann Brigham, Mayor**

**ATTEST:**

**Linda Moore, Deputy City Clerk**

**Attachment: Exhibit 1-Development Agreement between City of Cloverdale and Spight Properties II, LLC**

| RECORDING REQUESTED BY:<br>City Clerk<br>City of Cloverdale<br>124 N. Cloverdale Blvd.<br>Cloverdale, CA 95425<br><br>AND WHEN RECORDED MAIL TO:<br>City of Cloverdale<br>124 Cloverdale Blvd.<br>Cloverdale, CA 95425<br>Attn: City Manager | |
|---|---|

APN: 116-260-012

APN: 116-310-013
APN: 116-310-014

APN: 117-050-010
APN: 117-050-011
APN: 117-050-012
APN: 117-050-017
APN: 117-050-024
APN: 117-050-026
APN: 117-050-027
APN: 117-050-028
APN: 117-050-029

Space Above for Recorder's Use

This Agreement is recorded at the request and for the benefit of the City of Cloverdale and is exempt from the payment of a recording fee pursuant to Government Code §§ 6103 and 27383

# DEVELOPMENT AGREEMENT

**between**

**CITY OF CLOVERDALE**

**and**

**SPIGHT PROPERTIES II LLC**

**ALEXANDER VALLEY RESORT**

[Ordinance No._____Adopted on_____, 20___]

# DEVELOPMENT AGREEMENT
**between**
**CITY OF CLOVERDALE**
**and**
**SPIGHT PROPERTIES II LLC**

This DEVELOPMENT AGREEMENT ("**Agreement**") is made and entered into on this __ day of _____, 2016, by and between the CITY OF CLOVERDALE, a political subdivision of the State of California ("**City**") and SPIGHT PROPERTIES II LLC, a California limited liability corporation ("**Landowner**"). Landowner and City each may be referred to herein individually as a "Party" and collectively as the "Parties." This Agreement is entered into with reference to the following facts:

## RECITALS

**A.** In order to strengthen the public land use planning process, to encourage private participation in comprehensive planning, to reduce the economic risk of development and to reduce the waste of resources, the Legislature of the State of California adopted the "**Development Agreement Statute**" (Government Code Section 65864 et seq.). The Development Agreement Statute authorizes the City and an applicant for a development project, having legal or equitable interest in the real property, to enter into a development agreement establishing certain development rights in, and obligations with respect to, the property which is the subject of a development project application. Pursuant to the Development Agreement Statute, the City adopted rules and regulations establishing procedures and requirements for consideration of development agreements on January 5, 1987 ("**Development Agreement Resolution**"). This Agreement has been processed, considered, and executed in accordance with those City rules and regulations.

**B.** The Development Agreement Statute permits cities and counties to contract with private interests for their mutual benefit in a manner not otherwise available to the contracting Parties. Such agreements, as authorized by the Development Agreement Statute, can assure property owners and developers that development approvals granted by public agencies will not change during the period of development of their projects. Cities and counties are equally assured that costly infrastructure such as roads, sewers, schools, fire protection facilities, etc. will be available at the time development projects come on line.

**C.** Pursuant to Government Code Section 65865(a), Landowner is the owner of approximately 267 acres in the City of Cloverdale more particularly described in **Exhibit A** hereto.

**D.** On June 10, 2009, the City Council of the City took the following actions with respect to the Property (collectively, the "**2009 Approvals**"):

1. By Resolution 027-2009, approved a Water Supply Assessment for the Alexander Valley Resort Project;

2. By Resolution 028-2009, certified the Final Environmental Impact Report consisting of a 2004 Draft Environmental Impact Report, a 2008 Recirculated Draft Environmental Impact Report and a 2009 Final Environmental Impact Report (collectively the "**FEIR**") and adopted a Mitigation Monitoring and Reporting Program for the Alexander Valley Resort Project;

3. By Resolution No. 029-2009, adopted the Alexander Valley Resort Specific Plan (the "**2009 Specific Plan**") and directed staff to file an annexation application for the Alexander Valley Resort Project; and

4. By Ordinance No. 671-2009, amended Chapter 18 of the City of Cloverdale Zoning Ordinance and prezoned the Property to the SP-1 Zoning District for the Alexander Valley Resort Project.

**E.** On February 10, 2010, the City Council of the City, by Resolution No. 014-2010, approved a revised Mitigation Monitoring and Reporting Program (the "**MMRP**") for the Alexander Valley Resort Project.

**F.** On April 7, 2010, the Sonoma County Local Agency Formation Commission, by Resolution No. 2579, approved a Sphere of Influence Amendment and a Reorganization of Territory designated as Cloverdale Reorganization No. 2009-001 (Alexander Valley Resort) approving the annexation of the Property to the City of Cloverdale. Such approval resulted in confirmation of the SP-1 zoning.

**G.** Since then, Landowner has completed the clean closure of the 22-acre wood waste landfill area which contained approximately 600,000 cubic yards of non-hazardous wood chips, bark, sawdust, soil, and rock. Owner's clean closure has accomplished the following: (i) removal of potential future environmental liability associated with groundwater and surface water quality issues; (ii) elimination of future monitoring and maintenance activities associated with the disposal site cap and drainage controls; (iii) removal of the wood waste landfill from regulatory oversight; (iv) reuse of the materials for beneficial purposes; and (v) preparation of the site for future uses, including the Project. The North Coast Regional Water Quality Control Board ("**RWQCB**") issued the final Waste Discharge Requirements ("**WDRs**"), Order No. R1-2005-0032, in June 2005, and Owner received clean closure certification in June 2012.

**H.** Landowner also completed extensive soil and groundwater remediation activities for the petroleum hydrocarbon-affected soil and groundwater east of the former head rig and for the affected soil south of the former mechanic shop in order to remove the source of petroleum hydrocarbons and to minimize future impacts to groundwater. PES Environmental, Inc. ("**PES**") performed these remediation activities and has requested that the Regional Water Quality Control Board consider "no further action" with regard to the hydrocarbons in soil and groundwater in these areas.

**I.** In addition, International Paper, Inc., as the successor in interest to Masonite Corporation, a former site operator, has been working with the RWQCB to investigate and remediate groundwater contamination at the site, including contamination of a deep aquifer under a portion of the Site. In August 2013, the RWQCB concurred with International Paper's proposed

final cleanup remedy of Monitored Natural Attenuation ("**MNA**") for shallow and bedrock groundwater in certain areas of the Property. The Remedial Action Work Plan approved by the RWQCB includes: (1) verification groundwater monitoring until the site groundwater achieves the cleanup goals; (2) deed restriction on a portion of the site where residual levels of wood treatment chemicals are present in soil; (3) a restricted area where groundwater use is prohibited; (4) destruction of certain groundwater monitoring wells and an old water supply well; and (5) a soil management plan to identify and address any contamination found during redevelopment. In accordance with Monitoring and Reporting Program No. R1-2013-0057, different MNA processes are occurring in different areas on the Property and reports are to be submitted to the RWQCB semi-annually. The five (5) remaining monitoring wells on the Property are not expected to impact Project development.

**J.** In 2015, Landowner applied to the City for certain revisions to the City's General Plan, the 2009 Specific Plan, and the Zoning Ordinance; and, as contemplated by the 2009 Specific Plan, Landowner also applied to the City for a development agreement to govern future development of the Property (collectively, the "**Proposal**"). The Proposal requests revision of the Specific Plan to make the golf course component an allowed rather than required use, and to provide for the possibility of an alternate recreation use if approved by the City Council. The Proposal also seeks to re-introduce a 12.3-acre parcel into the planning area that had been part of the original project assessed by the Draft Environmental Impact Report, and provides land use development standards for those 12.3 acres consistent with the existing zoning (M-P, Industrial Park) and the originally-proposed zoning (G-C, General Commercial).

**K.** In response to the 2015 application, the City undertook review of the FEIR prepared for the 2009 Approvals and determined that an addendum to the FEIR was appropriate for consideration and action on the 2015 application ("**2015 Addendum**").

**L.** On January 5, 2016, at a duly-noticed public hearing, the City's Planning Commission considered the FEIR and the 2015 Addendum; Landowner's application for certain General Plan, 2009 Specific Plan, and Zoning Ordinance amendments; and this Agreement. Following due consideration, by Resolution Nos. 001-2016, 002-2016, 003-2016, 004-2016, the Planning Commission made recommendations to the City Council regarding each component of Landowner's application.

**M.** On February 9, 2016, at a duly-noticed public hearing, the City Council of the City took the following actions relating to the Landowner's application:

1. By Resolution No. 013-2016, approved and adopted the 2015 Addendum to the FEIR;

2. By Resolution No. 014-2016, amended the City of Cloverdale General Plan;

3. By Resolution No. 015-2016, amended the 2009 Specific Plan (as amended, the "**Specific Plan**"); and

4. By Ordinance No. 703-2016, amended Chapter 18 of the City of Cloverdale Zoning Ordinance.

5. By Ordinance No. 704-2016, approved this Agreement.

Approvals 2, 3, 4, and 5 above are collectively referred to herein as the "**Project Approvals**."

**N.** Landowner desires to sell the Property to a developer with the qualifications, expertise, and experience to develop the Property in accordance with the Project Approvals and as contemplated in this Agreement. The development of the Property in accordance with this Agreement and the Project Approvals will provide for orderly growth within the City, consistent with the goals, policies, and other provisions of the City's General Plan and the Specific Plan.

**O.** City recognizes that the economic success of the Project depends greatly upon the certainty and timing of the City's regulations and fees.

**P.** As contemplated by the Specific Plan, the City and Landowner desire to enter into a Development Agreement to identify and assign key implementing responsibilities, including but not limited to, vesting of entitlements, the construction of infrastructure, and continuing maintenance responsibilities and agreements.

**Q.** For the reasons recited herein, Landowner and City have determined that the Project is the type of development for which this Agreement is appropriate. This Agreement will eliminate uncertainty in planning and provide for the orderly development of the Property and otherwise achieve the goals and purposes for which the Development Agreement Statute and the Development Agreement Resolution were enacted.

**R.** In exchange for these benefits to the City, together with the public benefits that will result from the development of the Property pursuant to the Project Approvals, Landowner desires to receive the assurance that it may proceed with development of the Property, including receipt of building permits and all other permits and approvals required to complete construction of the Project in accordance with the terms and conditions of this Agreement.

**S.** The Parties shall cooperatively collect this Agreement, all documents mentioned in Recital M and elsewhere in this Agreement, and place them in a three ring binder to be maintained at all times by the City Clerk. Two (2) true and correct conformed copies of such binder shall be prepared and given to Landowner and to the Director of Community Development of the City. The Parties shall rely on the documents in such binder to determine the approvals granted by the City and the ordinances, policies and regulations in effect on the Effective Date of this Agreement, as defined below.

**NOW, THEREFORE**, it is agreed by and between the Parties as follows:

## ARTICLE 1
## GENERAL PROVISIONS

**1.1.** The Property. Landowner represents and warrants that it owns the fee interest in that certain real property consisting of approximately 267 acres, located in the City of Cloverdale and Sonoma County, and more particularly described in Exhibit A attached hereto (the "**Property**").

**1.2.** The Project. The Landowner proposes to develop, and the Parties desire to provide for the development, subject to the provisions of this Agreement and the Specific Plan, of a project (the "**Project**") on the Property that includes:

- A multi-story, 100-150 room resort hotel with a restaurant, other retail facilities complimentary to the destination resort theme, conference and meeting facilities, and a full-service spa (the "**Resort**");

- Approximately 218 acres of recreational and/or open space uses compatible with the Resort, which may include a golf course, an alternate recreation use, or preserved open space. Development of an alternate recreation use is not a vested right under this Agreement and is subject to such review and approval as described in Section II.B of the Specific Plan;

- Up to 40 attached residential units adjacent to the Resort area (the "**Resort Residential Units**");

- Up to 105 single-family detached residential units (the "**Single Family Residential Units**");

- Up to 25 Estate Residential units (the "**Estate Residential Units**");

- An entry commercial parcel at the main entry to the Project which may include a wine tasting facility, related food service uses, and retail uses complimentary to the destination resort theme and associated uses pursuant to the process outlined in the Specific Plan (the "**Entry Commercial Area**"); and

- A mixed-use parcel at the main entry to the Project immediately to the north of the Entry Commercial Area, which may include resort-compatible commercial and/or light industrial uses pursuant to the process outlined in the Specific Plan (the "**Resort Mixed-Use Area**").

**1.3. Definitions**

Unless the context requires otherwise, any word or phrase defined by the introductory paragraph and Recitals of this Agreement, the following words and phrases hereinafter defined shall apply throughout the Agreement:

**"Administrative Amendment"** means: (1) any change to an exhibit to this Agreement; and (2) any amendment to this Agreement which does not relate to (a) the term of the Agreement, (b) the permitted uses of the Property, (c) the reservation or dedication of land, (d) the location and maintenance of off-site improvements, (e) the density or intensity of uses of the Property, (f) the maximum height or size of proposed buildings, (g) the fees payable by Landowner as provided in Section 2.10 of this Agreement, (h) monetary contributions by Landowner required by this Agreement; or (i) the phasing or timing of development and construction of the improvements.

"**Certificate of Occupancy**" means a certificate issued after inspections by City authorizing a person or persons in possession of residential property to dwell or otherwise use a specified building or dwelling unit.

"**CEQA**" means the California Environmental Quality Act, Sections 21000, et seq., of the Public Resources Codes of the State of California, and its implementing regulations, Title 14, Chapter 3, Sections 15000, et seq., of the California Code of Regulations (also referred to as the "**CEQA Guidelines**").

"**City Council**" shall mean the duly elected legislative body governing the City of Cloverdale, CA.

"**Development Impact Fees**" means those fees that are set forth in City's "2015 Development Impact Fee Schedule- Effective July 1, 2015," attached hereto as **Exhibit B**, with any adjustments required pursuant to this Agreement.

"**Development Notice**" has the meaning described in Section 2.5 of this Agreement.

"**Director of Community Development**" shall mean the acting Director of the Community Development Department for the City of Cloverdale.

"**Effective Date**" shall mean the 30th day following (a) the date of adoption by the City Council of the ordinance approving this Agreement, (b) publication of the ordinance pursuant to Government Code Section 25214, or (c) date upon which this Agreement is executed by Landowner and by the City, whichever is later.

"**Existing Standards**" means the ordinances, resolutions and regulations adopted by the City Council of the City of Cloverdale in effect and applicable to the Property on the Effective Date, including the adopted ordinances that govern the permitted uses of land, the density and intensity of use, the timing of development, and the design, improvement, construction standards, the General Plan, the zoning ordinance and all other ordinances, codes, rules, and regulations of the City establishing subdivision standards, park regulations, impact or development fees and building standards, but subject to the limitations set forth in Section 2.3.1 and only to the extent that such ordinances, resolutions and regulations are not inconsistent with this Agreement and the Specific Plan. Existing Standards do not include design and/or construction requirements for public improvements or improvements to be acquired by a public entity, except where such requirements are explicitly addressed by the Specific Plan. Existing Standards do not include non-land use regulations, which include taxes. Existing Standards do not include prior CEQA review.

"**General Plan**" means the General Plan of the City of Cloverdale including the text and maps, as amended in connection with the Project.

"**Infrastructure Improvements**" are the water, recycled water, sewer, drainage and street improvements, necessary to serve the Project area as set forth in the Specific Plan and Section 2.8 of this Agreement.

"**Landowner**" means Spight Properties II LLC and any "Transferees" as defined in Section 8.5.1 of this Agreement.

"**Mortgagee**" means the holder of any mortgage or the beneficiary of any deed of trust covering all or part of the Property or any successor or assignee of any such mortgage holder or beneficiary, identified by name and mailing address in a written notice received by City by personal delivery or overnight mail, mailing costs prepaid. Such notice shall state whether such mortgagee desires to receive a notice of default as provided by this Agreement.

"**Planning Commission**" means the Planning Commission of the City of Cloverdale, California.

**"Project"** means the development of the Property as described in Section 1.2 of this Agreement.

**"Project Approvals"** has the meaning described in Recital M of this Agreement.

**"Regulatory Processing Fees"** means any and all fees, costs and charges adopted or otherwise imposed by City as a condition of regulatory approval of the Project for the purpose of defraying City's actual costs incurred or to be incurred in the processing and administration of any form of permit, approval, license, entitlement, or formation of a financing district or mechanism, or any and all costs adopted or otherwise imposed by City for the purpose of defraying City's actual costs of periodically updating its plans, policies, and procedures, including, without limitation, the fees and charges referred to in Government Code Section 66014.

"**Resort**" has the meaning set forth in Section 1.2 of this Agreement.

"**Specific Plan**" means the amended Alexander Valley Resort Specific Plan adopted by the Cloverdale City Council by Resolution No. 015-2016 on February 9, 2016.

"**Term**" has the meaning set forth in Section 1.6 of this Agreement, and includes any extension of the initial Term agreed to by the Parties in accordance with the requirements of this Agreement.

**"Transferee"** has the meaning described in Section 8.5.1 of this Agreement.

**"Vested Components"** has the meaning described in Section 1.15 of this Agreement.

**1.4. Incorporation of Recitals and Exhibits.** The Parties agree that the Recitals and Exhibits to this Agreement are true and correct and are incorporated into the Agreement as if they were set forth in the Agreement. In the event of inconsistency between the Recitals and the provisions of Articles 1 through 9, the provisions of Articles 1 through 9 shall prevail.

**1.5. Public Benefits.** The completion of the Project will provide long-term benefits for the residents of the City and its visitors in furtherance of the planning objectives contained in the City's General Plan, and will, in conjunction with other approved developments within the City: (a) maintain an economic and social balance between housing supply and employment opportunities; (b) provide to the City additional revenues to pay expenditures necessary to provide an adequate level of municipal services; (c) promote tourism to the area; and (d) establish a balance of land uses on the Property that will enable the City to provide municipal services not only to the Property, but to all residents of the City.

**1.6. Term.** The term of this Agreement shall commence on the Effective Date and shall extend for a term of fifteen (15) years thereafter ("**Term**") unless otherwise terminated, modified, or extended as provided by this Agreement.

**1.7. Project is a Private Undertaking.** It is agreed among the Parties that the Project is a private development and that City has no interest therein except as authorized in the exercise of governmental functions. Nothing in this Agreement shall preclude the Landowner from forming any form of investment entity for the purpose of completing any portion of the Project.

**1.8. Consistency with General Plan.** City hereby finds and declares that this Agreement furthers the public health, safety, and general welfare of the community and that the provisions of this Agreement and all Project Approvals are consistent with the General Plan and the Specific Plan.

**1.9. Orderly Growth and Development.** Development of the Project pursuant to the terms and conditions of this Agreement and the Project Approvals will provide for orderly growth and development consistent with the General Plan and the City's other developmental policies and programs.

**1.10. Need for Services and Facilities.** Development of the Project pursuant to this Agreement will create a need for municipal services and facilities, some of which services and facilities will be provided by the City, subject to the performance of Landowner's obligations hereunder.

**1.11. Exercise of City Contracting Authority.** The City, by electing to enter into this Agreement, acknowledges that the obligations of the City shall survive beyond the term or terms of the present City Council and that such action will serve to bind the City and future city councils to the obligations thereby undertaken. By approving this Agreement, the City Council has elected to exercise certain governmental powers at the time of entering into this Agreement rather than deferring its actions to some undetermined future date. The terms and conditions of this Agreement have undergone extensive review by both the City and the City Council and have been found to be fair, just and reasonable, and the City has concluded that the pursuit of the Project will serve the best interests of its citizens, and the public health, safety and welfare will be best served by entering into this obligation.

**1.12. Development Agreement Regulations.** City and Landowner have taken all actions mandated by, and fulfilled all requirements set forth in, the Development Agreement Statute and the Development Agreement Resolution.

**1.13. Substantial Costs to the Parties.** The Parties, at their sole cost and expense, have incurred and will incur substantial costs in order to process the Project Approvals, to comply with conditions of approval and environmental mitigation measures of the Project Approvals, and to assure development of the Property in accordance with the Project Approvals and the terms of this Agreement.

**1.14. Priority of Enactment.** In the event of conflict between the Agreement and the Existing Standards, the Parties agree that the following sequence of approvals establishes the relative priority of the approvals, each approval superior to the approvals listed thereafter: (1) the General Plan, as existed on the Effective Date; (2) this Agreement, the other Project Approvals, and all other exhibits attached hereto, and (3) the Existing Standards.

**1.15. Vested Rights of Landowner.** During the Term of this Agreement, and any extension or modification thereto, the Project Approvals and the Existing Standards are declared fully vested in the Landowner and Transferees and are referred to herein as the "**Vested Components**." No part of the Vested Components, including without limitation, the applicable Fees as set forth in Section 2.10, may be modified or changed by the City during the duration of this Agreement without the express consent of the Landowner of the Property to which the modification or change is applicable thereto, except as provided in Sections 2.3, 2.8 and 2.10 herein. The Vested Components shall be effective against, and shall not be amended by, any subsequent ordinance or regulation, whether adopted or imposed by the City Council or through initiative or referendum. Nothing herein shall be construed to limit the City's power of eminent domain.

**1.16. Assignment and Transfer of Development Rights.** Subject to the provisions of Section 8.5, this Agreement shall not prevent the Landowner from assigning or delegating, in any way, its rights and duties under this Agreement in connection with the sale, assignment, or other transfer of the Property, in whole or in part, with all its right, title and interest therein to any person, partnership, joint venture, firm or corporation at any time during the term of this Agreement. Landowner shall provide City with notice of the assignment and delegation within thirty (30) days of such sale or delegation as provided for in the Notice provisions of this Agreement. Landowner shall be deemed relieved of the rights assigned, and released from the duties delegated, under an assignment and assumption agreement, provided that the City Clerk receives a copy of the express written assignment and assumption agreement by such purchaser, assignee or transferee of the benefits and obligations of this Agreement.

**1.17. Successors in Interest/Covenants Run With Land.** The conditions and covenants set forth in this Agreement and incorporated herein shall run with the land and the benefits and burdens shall bind and inure to the benefit of the Parties. Each and every purchaser, assignee, or transferee of an interest in the Property, or any portion thereof, shall be obligated and bound by the terms and conditions of this Agreement, and shall be the beneficiary thereof and a Party thereto, but only with respect to the Property, or such portion thereof, sold, assigned, or transferred to it. Any such purchaser, assignee, or transferee shall observe and fully perform all duties and obligations of a Landowner contained in this Agreement, as such duties and obligations pertain to the portion of the Property sold, assigned, or transferred to it. Provided, however, notwithstanding anything to the contrary above, if any such sale, assignment or transfer is related to a completed residential unit that is not owned and operated by the Resort operator and that has been approved

by the City for occupancy, the automatic termination provisions of Section 8.3.2 herein shall apply thereto and the rights and obligations of Landowner hereunder shall not run with respect to such portion of the Property sold, assigned, or transferred in connection with such completed residential unit and shall not be binding upon such purchaser, assignee or transferee.

**1.18. Amendment.**

**a)** This Agreement may be modified, amended, changed, added to or subtracted from by the mutual consent of the Parties or their successors in interest, after notice and public hearing in conformance with, and pursuant to, the provisions of Government Code Section 65868. Any duly adopted amendment or change shall be in written form, executed with the same formalities as this Agreement, and attached to the original Agreement to maintain continuity.

**b)** Notwithstanding the provisions of subsection a) above, the Director of Community Development shall have authority, in its sole and exclusive discretion, to approve and agree to Administrative Amendments to this Agreement, which shall not require a noticed public hearing and shall not require approval of the Planning Commission, the City Council, or any further City approval; all other changes to the Agreement shall require approval of the City Council.

**1.19. Recordation.** Pursuant to Government Code Section 65868.5, the Clerk of the City Council shall record a copy of this Agreement with the Office of the County Recorder no later than ten (10) days after the ordinance approving this Agreement takes effect.

## ARTICLE 2
## PROJECT DEVELOPMENT

**2.1. General Permitted Uses.** Consistent with the requirements of Government Code Section 65865.2, the Project's permitted uses, density and intensity of use, the maximum height and size of the proposed buildings, provisions for reservations and dedications of land, payment of fees, payment of fees in lieu of dedications for public purposes, the location, construction, installation and extension of public improvements and utilities, and other terms and conditions of development applicable to the Project shall be those set forth in this Agreement and the Project Approvals, as they pertain to the Project, and any amendments thereto, as permitted herein.

**2.2. Subsequent Approvals.** The Parties acknowledge that in order to develop the Project on the Property, Landowner will need to obtain various ministerial and discretionary approvals from City in the future (**"Subsequent Approvals"**), which may include, without limitation, subdivision improvement plan review, tentative and final subdivision maps, parcels maps, lot line adjustments, use permits and conditional use permits, precise development plans, development review, site plan review, building permits, grading permits, encroachment permits, specific plan amendments and certificates of occupancy. For any Subsequent Approval proposed by Landowner, Landowner shall file an application with City for the Subsequent Approval at issue in accordance with the Existing Standards, and shall pay such Regulatory Processing Fees as are in effect at the time of the application except as expressly provided herein. Provided that such application(s) are in a proper form and include all required information and payment of any applicable Regulatory Processing Fees in the amount in effect at time of payment, City shall diligently and expeditiously process each such application in accordance with the Existing

Standards, the Project Approvals, and this Agreement, and shall exercise any discretion City has in relation thereto in accordance with the terms and conditions of this Agreement. In reviewing and approving such applications, the City reserves the right to exercise its discretion as set forth in the City's General Plan and Municipal Code in effect on the Effective Date.

**2.3. Subsequently Enacted Standards.**

**2.3.1. Application of Subsequently Enacted Standards.** City may apply to the Property and the Project such new or modified rules, regulations and policies adopted after the Effective Date (**"Subsequently Enacted Standards"**), only to the extent that such Subsequently Enacted Standards are generally applicable to other similar residential and non-residential (as applicable) developments in the City of Cloverdale and only to the extent that such Subsequently Enacted Standards:

**(a)** Are not in conflict with Existing Standards and would not prevent or delay development of the Project or increase the cost of development or building; or

**(b)** Are consistent with the most recent version of the California Building Standards Codes, Title 24, California Code of Regulations as adopted by the California Building Standards Commission and as adopted in an unmodified form by the City; or

**(c)** Are subsequent city-wide changes to construction or technical design standards or specifications for public improvements which are reasonably and directly related to durability or longevity of the public improvements; or

**(d)** Are changes in City laws, regulations, plans, or policies, the terms of which are specifically mandated and required by changes in state or federal law or regional application thereof;

**(e)** Are properly-adopted updates to city-wide utility infrastructure master plans, in which case each Precise Development Plan submitted to the City for development of the Project shall be consistent with the most recent version of the applicable city-wide utility infrastructure master plan, as reasonably determined by the City Engineer; or

**(f)** Are otherwise unambiguously and expressly authorized in this Agreement.

Upon discovery of a subsequently enacted federal or state law which may require changes pursuant to subsection (d), City shall provide Landowner with written notice of the state or federal law or regulation, provide a copy of the law or regulation, and a written statement of conflicts with the provisions of this Agreement. Promptly thereafter, City and Landowner shall meet and confer in good faith in a reasonable attempt to determine whether a modification or suspension of this Agreement, in whole or in part, is necessary to comply with such federal or state law or regulation. In such conferences, City and Landowner agree to preserve the terms of this Agreement and the rights of Landowner as

derived from this Agreement to the maximum feasible extent while resolving the conflict. City and Landowner agree to cooperate in resolving the conflict. Consistent with the provisions of section 2.8.1, the provisions of this Section 2.3.1 will not prevent, restrict or affect the City from applying the requirements of any properly-adopted City-wide Master Plan upon the Property or the Project.

**2.3.2. Future Growth Control Ordinances, Policies, Etc.** Except as otherwise expressly provided in Section 2.3.1 herein or other provision of this Agreement which unambiguously and expressly authorize the City to make such pertinent changes, no ordinance, policy, rule, regulation, decision, or any other City action, or any initiative or referendum voted on by the City's electorate, which would otherwise be applicable to the Project and would affect in any way the rate of development and construction of the Project, alter construction standards relating to the Project, limit the number of building permits issued by the City for the Project, including, but not limited to, development no-growth or slow-growth moratoria, and/or limit the Project's ability to connect to the City's sewer system, water system, storm drainage system or recycled water system, or to receive any other City service, shall be applicable to any portion of the Project during the term of this Agreement, whether such action is by ordinance, enactment, resolution, approval, policy, rule, regulation, decision or other action of City or by public initiative or referendum by the City's electorate. To the extent allowed by the laws pertaining to development agreements, however, Landowner will be subject to any growth limitation ordinance, resolution, rule, regulation, or policy which is adopted on a uniformly applied, city-wide basis, and directly concerns an imminent public health or safety issue, in which case City shall treat in a uniform, equitable and proportionate manner all properties, public and private, which are impacted by that public health or safety issue. If Landowner becomes subject to any such growth limitation, the Term of this Agreement shall be tolled for the duration of the effect of such growth limitation, such that the length of time such growth limitation remains in effect shall be added to and become part of the Term of this Agreement.

**2.3.3. Subsequent Zoning Ordinance Amendment.** If the City's zoning ordinance is amended after the Effective Date to authorize greater densities and intensity of use or greater maximum height and size of buildings, the amended provisions may be applied to the development of the Property at the option of the Landowner.

**2.4. Police Power and Taxing Power.** The City, through the exercise of either its police power or its taxing power, whether by direct City Council action or initiative or referendum by the City's electorate, shall not establish, enact or impose any additional conditions, dedications, fees, and other exactions, policies, standards, laws or regulations which relate or apply, directly or indirectly, to the Project except as provided in Section 2.3.1 herein or other provision of this Agreement which unambiguously and expressly allows the City to make such changes. Further, the City shall not approve a financing district designed to impose bonded indebtedness on any portion of the Project without Landowner's prior written approval, which approval may be given or withheld in Landowner's sole and absolute discretion. Nothing herein prohibits the Project from being subjected to a (i) city-wide bond issue, (ii) city-wide special or general tax, or (iii) special assessment for the construction or maintenance of a city-wide facility as may be voted on by the electorate or otherwise enacted, provided that such tax, assessment or measure is city-wide in

nature, does not discriminate against the Property, and does not distinguish between developed and undeveloped parcels.

**2.5. Phasing of Development.** The Parties hereby agree that the Landowner shall have the right to develop the Project at such times and at such rates as the Landowner deems appropriate in its sole and subjective business judgment, subject to the terms, conditions and provisions of the Project Approvals and this Agreement. The City acknowledges that such a right is consistent with the intent, purpose and understanding of the Parties, and that without such a right, the development of the Project would be subject to the very uncertainties sought to be avoided by the Development Agreement Statute, the City's Development Agreement Resolution, and this Agreement. Because the Project Approvals provide that no occupancy permits may be issued for the Project's residential units until the Resort is substantially complete, as further described herein and in the Specific Plan, the City agrees that the timing, sequencing and phasing of the Project's residential units is appropriately left to the discretion of, and shall be the sole responsibility of, the Landowner, and shall not be subject to the provisions of the City's Residential Growth Management Program - Cloverdale Municipal Code Section 18.02.100 (the "**GMP**"). The Landowner shall give the City at least sixty (60) days written notice prior to commencing the first phase of the development hereunder, with such notice being the "**Development Notice**."

**2.6. Growth Management Allocations.** As stated in Section 2.5 above, the City and the Landowner agree that the construction of the Single-Family Residential Units, the Estate Residential Units and the Resort Residential Units, including model units, will not be subject to the requirements of the City's GMP. Except as otherwise provided herein, each building permit for a Single-Family Residential Unit, an Estate Residential Unit and/or a Resort Residential Unit shall be issued pursuant to the City's policies and procedures governing building permits, as such policies and procedures may, from time-to-time, be amended by the City, provided that any such amendment shall not be applied to any developer of the Single-Family Residential Units, the Estate Residential Units or the Resort Residential Units in a manner that deprives such developer of any material right or other benefit under this Agreement.

**2.7. Affordable Housing Requirement.** In light of the unique nature of the Project as a destination resort and its potential to promote tourism in the City and the region, and its location outside of the City's downtown core and distant from the City's existing affordable housing projects and neighborhoods, and in consideration of the potential employment opportunities and other benefits provided by this Agreement, the City has determined that Landowner's compliance with the requirements of Chapter 18.13 of the Cloverdale Municipal Code may take any of the following forms, including but not limited to a combination thereof:

- Provision of on-site affordable units;
- Provision of off-site affordable units; and
- Payment of in-lieu fees.

Not later than the City's issuance of the fifth (5th) building permit for a residential unit in the Estate Residential Area and/or the Single-Family Residential Area, Landowner shall submit to the City's Planning Director, for the Planning Director's reasonable approval, an Inclusionary Housing

Compliance Plan setting forth Landowner's proposed compliance with Chapter 18.13, consistent with this Section 2.7. Landowner's compliance with an approved Inclusionary Housing Compliance Plan consistent with this Section 2.7 shall constitute Landowner's and the Project's full and complete satisfaction of all of the requirements of Chapter 18.13 as they relate to the provision of affordable housing. Accordingly, the City shall not condition any Subsequent Approval on further compliance with Chapter 18.13 of the Cloverdale Municipal Code or impose on the Project any other requirement for the provision of affordable housing.

**2.8. Provisions for Infrastructure Improvements.**

**2.8.1. Conformance with Applicable City-Wide Infrastructure Master Plans.** Subject to the credit and reimbursement provisions of Section 2.10 below, all development of the Project on the Property shall conform to the applicable city-wide utility infrastructure master plan(s) in effect at the time the Precise Development Plan describing such development is submitted to the City.

**2.8.2. Dedication of Public Infrastructure Improvements.** Title to, and ownership of, all public infrastructure improvements (and easements in favor of the City therefore) shall be offered for dedication to the City. Each final map shall delineate the areas for the related public infrastructure improvements and shall include an offer to dedicate such areas to the City for public use. The City agrees to accept any such offer of dedication that is made in compliance with applicable law and the provisions of this Agreement at such time as (i) the City approves such final map (if such public infrastructure improvements are then completed); or (ii) such public infrastructure improvements are completed in accordance with the subdivision improvement agreement for such final map, as reasonably determined by the City(if such public infrastructure improvements are not completed when such final map is approved).

From and after the Landowner's completion of each component of the public infrastructure improvements in accordance with the requirements of the related subdivision improvement agreement and this Agreement, and the City's acceptance thereof, such component of the public infrastructure improvements shall become public facilities and thereafter be operated, maintained and repaired by the City except during any warranty period during which the Landowner is required to undertake any required repairs or maintenance.

**2.8.3. Zone 1 Water Reservoir/Tank.** The Landowner shall, at Landowner's sole cost and expense, but subject to the credit and reimbursement provisions of Sections 2.10 below, design and construct on the Property a water reservoir/tank system ("**Water Tank System**") as described in the Specific Plan and as provided below.

After Landowner gives the Development Notice, Landowner shall promptly cause: (i) its architect and/or civil engineer to design the Water Tank System; and (ii) its engineers to complete the design of the related equipment and systems. The design of, and construction plans for, the Water Tank System shall be in accordance with the City's Water System Master Plan in effect at the time Developer gives the Development Notice, as reasonably determined by the City Engineer.

The Landowner shall, following the City's approval of the construction plans and design documents therefore, cause the Water Tank System to be constructed in connection with, and as part of, the construction of the Domestic Water System. The Parties hereto acknowledge and agree that the subdivision improvement agreement to be entered into with respect to the Landowner's construction of the Domestic Water System (including without limitation the warranty provisions thereof) shall apply to and include the Landowner's construction of the Water Tank System.

The Landowner shall, within 30 days after the first date on which the Landowner has completed, and the City has accepted, the Water Tank System, offer to the City dedication of an easement for the land on which the Water Tank System is located, including access thereto subject to the reasonable approval of the City Engineer. From and after the Landowner's completion, and the City's acceptance, of the Water Tank in accordance with the requirements of any subdivision improvement agreement and this Agreement, the Water Tank shall thereafter be operated, maintained and repaired by the City (subject to any warranty obligations of the Landowner and/or the constructor).

**2.8.4. Recycled Water System.** The Landowner may, at the Landowner's sole cost and expense, design and construct a recycled water system to serve the Project as described below.

**(a) Recycled Water System Required to Serve Golf Course.** If Landowner elects to construct a golf course as part of the Project, then Landowner shall construct and install, at Landowner's sole cost and expense, a force main, supply pipeline, and such other infrastructure as necessary to transfer sufficient treated effluent from the City's wastewater treatment plant to the Property to meet the demands of the golf course (the "**Recycled Water System**"). Design of the Recycled Water System, including the locations of connection points and delivery infrastructure, shall first be approved by the City, and permits and all costs related to the Recycled Water System shall be Landowner's sole responsibility (subject to the City's obligation to cooperate as set forth in Section 4.5). If Landowner constructs a golf course and Recycled Water System, the City shall provide, at no cost to Landowner, (a) sufficient treated effluent produced by the City's wastewater treatment plant in compliance with the City's waste discharge requirements, as needed from time-to-time by the Landowner to meet the demands of the golf course; or (b) if the City's wastewater treatment plant does not produce sufficient treated effluent to meet the demands of the golf course, all such effluent produced by the wastewater treatment plant.

**(b) Termination of City's Obligation to Provide Recycled Water.** If the City has not approved a Precise Development Plan ("PDP") within five (5) years of the Effective Date of this Agreement that provides for the construction of a golf course in the Recreation/Open Space Area (as defined in the Specific Plan) and the associated Recycled Water System on a schedule approved by the City, then the City's obligation to provide treated effluent to serve the Project on the Property, as set forth in Section 2.8.4(a) above, shall be terminated. At any time during the first 5-year period following the Effective Date, or at any time thereafter if the City's

obligation to provide treated effluent to serve the Project terminates according to this Section 2.8.4(b), City shall consider any proposal from Landowner to construct a recycled water system to meet the demands of any alternate proposed use in the Recreation/Open Space Area and, if such alternate use is approved by the City, in its sole and exclusive discretion, City shall provide the lesser of (a) sufficient, and (b) so much as is available, treated effluent to meet the demands of the approved alternate use at no cost to Landowner.

**2.8.5. (c) Secondary Project Access.** If Landowner constructs a Recycled Water System, the City shall grant Landowner an easement from Asti Road through and across a portion of the City-owned property surrounding the City's wastewater treatment plant (Assessor's Parcel Number 116-260-044) for the purpose of: (i) construction and maintenance of elements of the Recycled Water System; and (ii) access to the eastern portion of the Property by maintenance equipment too large to pass through the Project's below-grade crossing of the Northwestern Pacific rail line.

**2.8.6. Traffic Infrastructure.** Landowner shall, at Landowner's sole cost and expense, but subject to the credit and reimbursement provisions of Sections 2.10 and 2.11 below, design and construct traffic infrastructure to serve the Project as described below.

**(a) Private Roads.** Landowner shall design and construct the private roads ("**Private Roads**") shown on the Private and Public Trail/Road Map attached hereto as **Exhibit C**, which Private Roads may be subject to mutually agreeable modifications during the processing and approval of the final map(s). The exact locations of the Private Roads shall be: (i) generally consistent with the approximate locations shown on Exhibit C, subject to mutually agreeable modifications; (ii) determined based on consideration of topography, drainage, existing vegetation and other physical constraints; and (iii) shown on the final plans and specifications as approved by the City. Landowner shall cause the Private Road labeled as "Hotel Entry Road" on Exhibit C to be completed and open for use not later than the issuance of the first Certificate of Occupancy for the Resort.

Title to and ownership of the Private Roads shall remain with the owner(s) of the Resort and owner of the Recreation/Open Space Area and the City shall not have any easement, license or other interest therein (other than the right to enforce the requirement that there be public access to the Resort and the Recreation/Open Space Area during normal and customary business hours). If not one and the same, the owner of the Resort shall share responsibility for the maintenance, repair and replacement of the Private Road with the owner of the Recreation/Open Space Area, provided, however, that such owner shall have the right, to be exercised in such owner's sole discretion, to delegate such maintenance, repair and replacement to any owner or association that agrees in writing by recorded agreement or covenant (with a copy of such fully signed writing being provided by such owner to the City) to assume such maintenance, repair and replacement responsibility.

**(b) Public Roads.** Landowner shall design and construct the public roads (**"Public Roads"**) as shown on the Private and Public Trail/Road Map

attached hereto as Exhibit C, which Public Roads may be subject to mutually agreeable modifications during the processing and approval of the improvement plans prepared for the final map(s). The exact locations of the Public Roads shall be: (i) generally consistent with the approximate locations shown on Exhibit C, subject to mutually agreeable modifications; (ii) determined based on consideration of topography, drainage, existing vegetation and other physical constraints; and (iii) shown on the final plans and specifications as approved by the City. The Public Roads shall be designed and constructed in accordance with City Standards as provided in any City approved subdivision improvement agreements between Landowner and the City, and the then applicable City Public Works Department standards, including but not limited to applicable city-wide master plans as described in Section 2.8.1 above.

Title to the Public Roads shall be dedicated to the City by final subdivision map(s). Each such final map shall delineate the areas for the related Public Roads for such final map, and shall include an offer to dedicate such areas to the City for public use. The City agrees to accept any such offer of dedication that is made in compliance with applicable law and the provisions of this Agreement at such time as such roads are completed in accordance with the subdivision improvement agreement for each such final map and this Agreement.

The City and Landowner acknowledge that: (i) the Hotel Entry Road shall be subject to one or more easements for the benefit of the Project components; (ii) such easements will allow the use of such public roadway area for access to and from such lands; (iii) Landowner will be required, in order to dedicate title to such public roadway areas to the City as contemplated herein, to cause such easements to remain; and (iv) the owners of such lands may require that the owners and occupants of such land have the right to use such roadway areas (in common with the public) for access to and from such lands (including without limitation, by vehicles transporting supplies and products). Accordingly, Landowner shall cause the roadway to be constructed on such public roadway area to be designed and constructed in a manner that complies with all applicable City standards and is also sufficient to accommodate such use, and the final map by which such public roadway area is dedicated to the City shall include notations and provisions, reasonably acceptable to both the City and Landowner, acknowledging and providing for such use of such roadway.

**(c) Off-Site Circulation Improvements (South Cloverdale Boulevard/Highway 101).** A number of Mitigation Measures in the FEIR require certain circulation improvements at the South Cloverdale Boulevard/Highway 101 interchange including the installation of traffic signals and certain widening improvements, which shall be implemented as provided in the MMRP as reasonably determined by the City Engineer.

**2.8.7. Park and Recreation Facilities.** Landowner shall, at Landowner's sole cost and expense but subject to the credit provisions of Section 2.10.4 herein, design and construct the following recreational facilities on the Property:

**(a) Private Trail.** Landowner shall, as part of the construction of the Project, and at Landowner's sole cost and expense, design and construct a private pedestrian trail from the Resort to the Public Trail described in Section 2.8.7(b) below (the "**Private Trail**"). The exact location of the Private Trail shall be determined based on consideration of topography, drainage, existing vegetation and other physical constraints, and shown in the final plans and specifications therefor as approved by the City. Landowner shall cause the Private Trail to be completed and open for use not later than the opening of the Resort for business, but Landowner shall have the right to keep the Private Trail closed for purposes of public safety during construction activity on the Property and after sunset.

Title to, and ownership of, the Private Trail shall remain with the owner(s) of the underlying land, and the City shall not have any other easement, license or other interest therein (other than the right to enforce the requirement that there be public access to the Public Trail described in Section 2.8.7(b) below, during normal and customary business hours). The owner of the land underlying any portion of the Private Trail shall be responsible for the maintenance, repair and replacement of such portion of the Private Trail provided, however, that such owner shall have the right to delegate such maintenance, repair and replacement to any other owner of land underlying any portion of the Private Trail, or to any owner or similar association created for such purpose.

**(b) Public Trail.** Landowner shall, at Landowner's sole cost and expense, design, construct and dedicate to the City a public pedestrian/bicycle trail on its Property located along the levee adjacent to the Russian River (the "**Public Trail**"), in the approximate location shown on the Public Trail/Road Map attached hereto as Exhibit C, subject to mutually agreeable modifications. The exact location of the Public Trail shall be: (i) generally consistent with the approximate location shown on Exhibit C attached hereto, subject to mutually agreeable modifications; (ii) determined based on consideration of topography, drainage, existing vegetation and other physical constraints; and (iii) shown in the final plans and specifications as approved by the City.

Landowner shall cause the Public Trail to be directly connected to the Private Trail described above and shall have the right subject to prior City approval, which shall not be unreasonably withheld, to keep the Public Trail closed for purposes of public safety during construction activity on the Property, if and for so long as safety concerns warrant closure. Upon completion and dedication to the City of the Public Trail, the Public Trail shall be open to the public 24 hours per day, 7 days per week or in accordance with the City's policies, rules and regulations.

From and after the date on which the Public Trail is completed, dedicated to the City, and opened for public use, the City shall maintain and repair the Public Trail or cause the Public Trail to be maintained and repaired by a third party selected by the City. The City shall cause any such maintenance and repair to be performed in accordance with the City's normal maintenance and repair policies

and procedures and only during such hours and in such manner as complies with the City's then-applicable noise ordinances.

**2.8.8. Statewide Community Infrastructure Program.** The Parties acknowledge that portions of the infrastructure for the Project may qualify for the Statewide Community Infrastructure Program, and the City shall, at the Landowner's request and at no out-of-pocket cost to, and with no obligation being undertaken by, the City, cooperate with the Landowner in obtaining such financing.

**2.9 Dedications.** Landowner shall offer, and the City shall accept, such dedications for all required public lands upon completion of the improvements to be installed therein to the City's reasonable satisfaction, or when otherwise provided herein, as follows:

**2.9.1. Public Trail.** Subject to the provisions of Section 4.5 below, upon completion, Landowner shall dedicate to the City, at no cost to the City but subject to the credit and reimbursement provisions of Section 2.10 herein, the Public Trail described in Section 2.8.7(b) above.

**2.9.2. Recreation/Open Space Area Improvements.** Any dedications of land designated as "Recreation/Open Space" under the Specific Plan, and any dedication of improvements on such land, shall be credited by the City, to the maximum extent allowed under the applicable ordinance, against Landowner's obligations under Chapter 17A.16, 17A.20 and Chapter 17.20, and to the extent that such Landowner dedications exceed Landowner's minimum obligations under Chapter 17A.16, 17A.20 and 17.20, then Landowner shall be entitled to credits against any and all other applicable fees based on the value of the excess dedications as reasonably determined by the City and Landowner.

**2.9.3. Rights-of Way.** Landowner shall dedicate its interest in any and all public road rights-of-way, at no cost to the City or any other public agency, and the City shall accept such dedication upon the recordation of the final map for the corresponding subdivision but only after satisfaction of any subdivision improvement agreement or deferred improvement requirements.

**2.9.4. Public Utility Easements and Improvements.** Landowner shall dedicate to City (i) all improvements shown on plans approved by the City to be constructed by Landowner for public utility purposes, including, but not limited to, water lines, water tanks, sewer lines, public storm drains, , and other public utilities for public utility purposes, and (ii) sufficient easements for operation and maintenance of such public utility improvements, as such improvements and easements may be required by the City or the applicable public utility service provider. All such dedications shall be in a form approved by City's Engineer or the applicable public utility service provider, and shall be made at no cost to the City or any other public agency. All utility easements shall be effective upon recordation of said form.

**2.9.5. All Dedications.** All easements, rights-of-way, other property interests, and improvements and facilities to be dedicated to the City pursuant to the Project

Approvals and this Agreement shall be delivered by Landowner free of any liens, encumbrances, special taxes, or assessments, not approved by City, and shall be excluded from any covenants, conditions and restrictions on the Property. City shall accept each and all such dedications within ninety (90) days of Landowner's offer of dedication or completion by Landowner to the City's reasonable satisfaction, whichever occurs last.

**2.10 Fees, Credits and Reimbursements**

**2.10.1. Fees.** Except as otherwise expressly provided herein, Landowner shall pay the following fees:

- School district fees;
- Regulatory Processing Fees; and
- Development Impact Fees (as defined herein), subject to the limitations of this Section 2.10, and subject to such exemptions as are expressly set forth in this Agreement.

Where Landowner is required to pay Development Impact Fees under this Section 2.10, Landowner shall pay such fees in the following amounts:

- For the first five (5) years following the Effective Date of this Agreement, Landowner shall pay such fees in the amounts in effect on the Effective Date of this Agreement;
- For the second five (5) years following the Effective Date of this Agreement, Landowner shall pay such fees in the amounts in effect on the fifth ($5^{th}$) anniversary of the Effective Date of this Agreement;
- For the third five (5) years following the Effective Date of this Agreement, Landowner shall pay such fees in the amounts in effect on the tenth ($10^{th}$) anniversary of the Effective Date of this Agreement.

**2.10.2.** City and Landowner further acknowledge and agree that Landowner's payment of school fees, Regulatory Processing Fees, and Development Impact Fees, subject to and consistent with the provisions of this Section 2.10, shall constitute Landowner's full and complete compliance with the fee payment requirements of Title 17A of the Cloverdale Municipal Code, and no further fee obligations shall be imposed on Landowner's development of the Project on the Property during the Term of this Agreement.

**2.10.3. Limited Waiver of Storm Drain Fees.** Based on the preliminary storm drain infrastructure designs which were the basis of the City's 2009 Project approvals, Landowner has demonstrated that the Project may be developed and operated in a manner that would not generate any increase in pre-project storm

water runoff to neighboring properties and would not impact the City's existing and planned storm drain system. To the extent the Project may be developed in a manner that would not impact the City's existing and planned storm drain system, development of the Project on the Property should not be subject to payment of the City of Cloverdale Storm Drain Fee (Municipal Code Chapter 17A.28). Therefore, with each PDP submitted for development of the Property, City shall determine, in its reasonable discretion, whether operation of the development described in such PDP will result in the generation of storm water runoff that will flow to the City's storm water system, as it exists at the time of such PDP submittal. To the extent that the operation of such development will not result in storm water runoff flowing to the City's existing storm water system, such development will not be subject to payment of the City's Storm Drain Fee. The scope of any waiver of the Storm Drain Fee granted under this Section 2.10.3 shall be determined on "per acre" or "per unit" basis, as applicable, consistent with the categories of development described in the City's Development Impact Fees Fee Schedule in effect at the time and consistent with the limitations on fees described in this Section 2.10.

**2.10.4. Fee Credits for Park Fees.** In addition to Landowner's eligibility for fee credits and reimbursements under other provisions of this Agreement, Landowner shall be eligible for credit against the following City fees, as set forth below:

- Cloverdale Park Land Acquisition Fee (Non-Quimby Act) (Municipal Code Chapter 17A.16), except as provided in Section 2.9 above;

- Parks and Recreation Facilities Construction Fee (Municipal Code Chapter 17A.20), except as provided in Section 2.9 above;

- Quimby Act Parkland Acquisition Fee (Municipal Code Chapter 17.20), except as provide in Section 2.9 above; and

Landowner's credit(s) against the above-listed fees (collectively, the "Park Fees") shall be equal to the mutually-agreed upon value of the following dedications and improvements provided by Landowner:

- The value of the dedications and improvements provided by Landowner for the Private Trail, as provided in Section 2.8.7(a) above (the "**Private Trail Credits**");

- The value of the improvements provided by Landowner for the Public Trail, as provided in Section 2.8.7(b) above (the "**Public Trail Credits**"); and

- The value of any additional improvements provided by Landowner on lands designated as Recreation/Open Space in the Specific Plan (in addition to the Private Trail) plus the value of all dedications provided by Landowner of lands designated as Recreation/Open

Space in the Specific Plan, as provided in Section 2.9.2 above (together, the "**R/OS Area Credits**").

Landowner shall become eligible for the Private Trail Credits immediately upon Landowner's substantial completion, as reasonably determined by the City's Planning Director, of the Private Trail as provided in Section 2.8.7(a).

Landowner shall become eligible for the Public Trail Credits immediately upon Landowner's submittal to City of an offer to dedicate the Public Trail, as provided in Section 2.8.7(b).

Landowner shall become eligible for R/OS Area Credits immediately upon (a) the City's approval of a Precise Development Plan ("PDP") describing Landowner's use of the balance of the Recreation/Open Space Area (beyond the completion of the Private Trail), including the proposed improvements and land dedications thereon, if any, in sufficient detail to allow the Parties to calculate the value of Landowner's R/OS Area Credits, and (b) Landowner's provision to the City of security to ensure the completion of such improvements (such security may take the form of bonds as described in Government Code Sections 66499 through 66499.2, or any other form of security reasonably acceptable to the City). The City shall take action on Landowner's proposed PDP for the Recreation/Open Space Area not later than ninety (90) days following submittal by Landowner. Such City action shall either approve the PDP, or notify Landowner of modifications sought by the City that will result in City's approval of the PDP. If the City has not approved a PDP for the Recreation/Open Space Area at the time Landowner has applied to the City for the first building permit for a residential unit in the Estate Residential Area and/or the Single-Family Residential Area, then Landowner shall pay the Park Fees applicable for each such residential unit prior to the issuance of, and the City shall issue, building permits for such residential units, consistent with the terms of this Agreement.

Landowner's eligibility for fee credits for the Private Trail and for any additional improvements provided by Landowner on lands designated as Recreation/Open Space in the Specific Plan under this Section 2.10.4 shall be subject to the Private Trail and such additional improvements in the Recreation/Open Space lands being open and accessible to the public during normal and customary business hours in compliance with Objective R/OS1 and Policy R/OS1.1 of the Specific Plan.

**2.10.5. Credits and Reimbursements.** For each "public facility" (as that term is used in Title 17A of the Cloverdale Municipal Code) designed and/or constructed by Landowner pursuant to this Agreement, Landowner shall, pursuant to and so long as consistent with the provisions of Chapter 17.25 of the Cloverdale Municipal Code, be entitled to a credit against the applicable Development Impact Fee in an amount equal to the estimated cost of the public facility used by the City to adopt the applicable Development Impact Fee, less the Project's fair share of the costs of the public facility, as reasonably determined by the City based on the City-wide benefits provided by such public facility. If the total costs incurred by Landowner

to design and construct (as applicable) the public facility exceed the total amount of applicable Development Impact Fees due from Landowner for development of the Project on the Property, then Landowner shall be entitled to reimbursement of the difference (after application of all fee credits) as provided in Title 17A of the Cloverdale Municipal Code and Section 2.11 of this Agreement.

**2.10.6. Changes in Fees and Construction Costs.** If any subsequent change in local ordinance, state law or by court decision causes any city-wide fee (including, but not limited to school fees) applicable to the Project to be reduced or eliminated, or a subsequent change in local city-wide ordinance, state law or by court decision change building and/or construction requirements so that those requirements make building and/or construction less expensive to Landowner as determined by Landowner, then the subsequent change shall apply to this Agreement. Provided, however, that no such change shall apply to this Agreement with respect to facilities already financed, under construction, or constructed, unless such change contains a specific provision calling for the retroactive implementation of the change.

**2.11 TOT Revenue Sharing.** Landowner shall be entitled to share in transient occupancy tax ("**TOT**") revenues generated by the Project on the Property, at the Landowner's election, as follows. If Landowner elects to share in TOT revenues as provided herein, Landowner and the City shall enter into a separate TOT sharing agreement consistent with this Section 2.11.

During the first calendar quarter during which TOT revenues are payable to the City, Landowner (or the Resort operator acting on behalf of Landowner under the TOT Agreement) shall collect and remit to the City or retain for itself TOT revenues generated from the Project as follows:

- Fifty percent (50%) of such TOT revenues shall be paid to the City; and
- Fifty percent (50%) of such TOT revenues shall be retained by the Landowner.

During the second, third, fourth and fifth calendar quarters during which TOT revenues are payable to the City, Landowner or the Resort operator shall collect and remit to the City or retain for itself TOT revenues generated from the Project as follows and in the following order of priorities:

- The first thirty-one thousand two hundred fifty dollars ($31,250.00) of such quarterly TOT revenues shall be paid to the City;
- To the extent that Landowner is entitled to reimbursement of expenditures made to fund the design and construction of public facilities under Section 2.10.5 above, Landowner shall retain all additional TOT revenues generated from the Project necessary to fully reimburse Landowner for such expenditures; and
- To the extent that such quarterly TOT revenues exceed the amounts necessary to meet the above two priorities, then Landowner shall remit fifty percent (50%) of such excess quarterly TOT revenues to the City, and shall retain the balance of such excess quarterly TOT revenues.

During the sixth, seventh, eighth and ninth calendar quarters during which TOT revenues are payable to the City, Landowner or the Resort operator shall collect and remit to the City or retain for itself TOT revenues generated from the Project as follows:

- The first sixty-two thousand five hundred dollars ($62,500.00) of such quarterly TOT revenues shall be paid to the City;

- To the extent that Landowner is entitled to reimbursement of expenditures made to fund the design and construction of public facilities under Section 2.10.5 above, Landowner shall retain all additional TOT revenues generated from the Project necessary to fully reimburse Landowner for such expenditures; and

- To the extent that such quarterly TOT revenues exceed the amounts necessary to meet the above two priorities, then Landowner shall remit fifty percent (50%) of such excess quarterly TOT revenues to the City, and shall retain the balance of such excess quarterly TOT revenues.

During the tenth, eleventh, twelfth, and thirteenth calendar quarters during which TOT revenues are payable to the City, Landowner or the Resort operator shall collect and remit to the City or retain for itself TOT revenues generated from the Project as follows:

- The first ninety-three thousand seven hundred fifty dollars ($93,750.00) of such quarterly TOT revenues shall be paid to the City;

- To the extent that Landowner is entitled to reimbursement of expenditures made to fund the design and construction of public facilities under Section 2.10.5 above, Landowner shall retain all additional TOT revenues generated from the Project necessary to fully reimburse Landowner for such expenditures; and

- To the extent that such quarterly TOT revenues exceed the amounts necessary to meet the above two priorities, then Landowner shall remit fifty percent (50%) of such excess quarterly TOT revenues to the City, and shall retain the balance of such excess quarterly TOT revenues.

During the fourteenth, fifteenth, sixteenth and seventeenth calendar quarters during which TOT revenues are payable to the City, Landowner or the Resort operator shall collect and remit to the City or retain for itself TOT revenues generated from the Project as follows:

- The first one hundred twenty-five thousand dollars ($125,000.00) of such quarterly TOT revenues shall be paid to the City;

- To the extent that Landowner is entitled to reimbursement of expenditures made to fund the design and construction of public facilities under Section 2.10.5 above, Landowner shall retain all additional TOT revenues generated from the Project necessary to fully reimburse Landowner for such expenditures; and

- To the extent that such quarterly TOT revenues exceed the amounts necessary to meet the above two priorities, then Landowner shall remit fifty percent (50%) of such excess quarterly TOT revenues to the City, and shall retain the balance of such excess quarterly TOT revenues.

During the eighteenth, nineteenth, twentieth and twenty-first calendar quarters during which TOT revenues are payable to the City, Landowner or the Resort operator shall collect and remit to the City or retain for itself TOT revenues generated from the Project as follows:

- The first one hundred fifty-six thousand two hundred fifty dollars ($156,250.00) of such quarterly TOT revenues shall be paid to the City;

- To the extent that Landowner is entitled to reimbursement of expenditures made to fund the design and construction of public facilities under Section 2.10.5 above, Landowner shall retain all additional TOT revenues generated from the Project necessary to fully reimburse Landowner for such expenditures; and

- To the extent that such quarterly TOT revenues exceed the amounts necessary to meet the above two priorities, then Landowner shall remit fifty percent (50%) of such excess quarterly TOT revenues to the City, and shall retain the balance of such excess quarterly TOT revenues.

During each subsequent calendar quarter during which TOT revenues are payable to the City and Landowner is entitled to reimbursement of expenditures made to fund the design and construction of public facilities under Section 2.10.5 above, Landowner or the Resort operator shall collect and remit to the City or retain for itself TOT revenues generated from the Project as follows:

- The first one hundred fifty-six thousand two hundred fifty dollars ($156,250.00) of such quarterly TOT revenues shall be paid to the City; and

- The remaining TOT revenues shall be retained by Landowner to the extent necessary to fully reimburse Landowner for such expenditures.

Landowner's right to reimbursement of oversizing costs from TOT revenues under this Section 2.11 shall survive the expiration of the DA, to the extent that Landowner remains entitled to reimbursements under Section 2.10.5 above. City and Landowner shall cooperate to determine Landowner's eligibility for reimbursements under Section 2.10.5 above on a sufficiently timely basis to enable Landowner to realize its share of TOT revenues on a quarterly basis as provided in this Section 2.11, and Landowner shall provide City with documentation sufficient, to the reasonable satisfaction of City, to support Landowner's retention of excess quarterly TOT revenues as described above. Any report to the City required to be made by the Landowner or the Resort operator pursuant to Chapter 3.44 of the Cloverdale Municipal Code or the TOT agreement provided for herein shall include detailed information to support the amount of TOT so retained during that reporting period.

**2.12 Public Services Requirements.**

**2.12.1. Fire Protection Requirements.** Landowner shall contribute its fair share to a dedicated fund to purchase fire-fighting apparatus necessary to protect buildings more than 27 feet in height, if and when, such a fund is created by the City or the Cloverdale Fire Protection District.

**2.12.2. Police Protection Requirements.** Landowner shall pay its fair share of the capital costs of adding two sworn officers and one half-time community service officer to the Cloverdale Police Department prior to the recordation of the first final subdivision map. To facilitate Landowner's payment under this Section 2.12.2, the City shall determine, based on a reasonably detailed analysis supported by substantial evidence, (i) the capital costs of adding two sworn officers and one half-time community service officer to the Cloverdale Police Department, and (ii) Landowner's fair share of such capital costs. The City shall complete such study not later than one (1) year from the date the Development Notice is given. Upon completion of such study, the City shall notify Landowner of Landowner's payment obligation under this Section 2.12.2, and Landowner shall have ninety (90) days to pay its fair share of the above-described capital costs, based on the City's analysis; provided, however, that during such 90-day period, Landowner may request that City reduce Landowner's payment obligation under this Section 2.12.2 if Landowner reasonably determines, based on substantial evidence, that Landowner's fair share of such capital costs is less than the amount of the payment obligation set forth in the City's notice to Landowner. If, at the end of such 90-day period, the Parties are unable to agree on the amount of Landowner's payment obligation under this Section 2.12.2, then the Parties shall submit their disagreement to a mutually-agreeable third-party arbitrator for a binding determination of Landowner's payment obligation.

**2.13 Notice of Completion.** Landowner shall execute, acknowledge and record in the manner provided by law, a notice of completion of the Infrastructure Improvements and/or other public improvements required as a condition to this Agreement and/or the Project Approvals within ten (10) days after the Department of Public Works for the City provides written notice to the Landowner that the Infrastructure Improvements and/or other public improvements required as a condition to this Agreement and/or the Project Approvals have passed the final inspection. Upon completion of the Infrastructure Improvements or other public improvements, the Landowner's engineer shall supply the City with one set of "as built" drawings. These drawings shall be certified on each page by a Registered Civil Engineer as being "as built" drawings, pursuant to Business and Professions Code Section 6735.6 as may be amended from time-to- time.

**2.14 Certificate of Occupancy.** After satisfactory completion of each Single-Family Residential Unit, Estate Residential Unit and Resort Residential Unit in the Project, as reasonably determined by the City's Building Official, the City shall provide Landowner with a Certificate of Occupancy for that Unit. The Certificate of Occupancy is conclusive determination that the obligations of the Landowner under this Agreement have been met as to that Unit. The certification

shall be in such form as will enable it to be recorded in the official records of the Sonoma County Recorder by the Landowner.

## ARTICLE 3
## GENERAL OBLIGATIONS OF LANDOWNER

In consideration of the City entering into this Agreement, Landowner agrees and acknowledges as follows:

**3.1 Compliance with Agreement and Project Approvals.** Landowner agrees that it will comply with this Agreement and all of the Project Approvals.

**3.2 Infrastructure Improvements.** Landowner acknowledges and agrees that an express condition to the City's issuance of any permits to or for the benefit of the Project shall be the financing and construction by Landowner of the Infrastructure Improvements set forth in the Specific Plan and Section 2.8 of this Agreement.

**3.3 Public Services and Facilities Contributions.** Landowner agrees that it will contribute to the costs of certain public services and facilities in the manner described and as required herein to mitigate impacts on the community of the development of the Project, and to provide additional benefits to the City. The City agrees to provide such public services and facilities in the manner described and as required herein to assure that the Landowner may proceed with and complete the development of the Project as contemplated by, and in accordance with, the terms of this Agreement, except as may otherwise be precluded by operation of law or applicable regulations.

## ARTICLE 4
## GENERAL OBLIGATIONS OF CITY

**4.1. City Processing and Review.** The City is bound to permit the uses on the Property that are permitted by this Agreement and the Vested Components. Subject to the applicable regulations and the Project Approvals, City agrees it will accept for processing and expeditious review and action, applications for the Subsequent Approvals or other entitlements necessary to accomplish the goals and purposes set forth in the Project Approvals, without restriction as to number as set forth in this Article. City agrees that, at Landowner's request and at Landowner's sole cost and expense, City shall hire a dedicated planner or administrator for the sole purpose of reviewing and processing applications for Subsequent Approvals and otherwise facilitate the expeditious planning and permitting of the Project. City and Landowner shall work together in good faith to mutually agree upon said planner or administrator, and neither Party shall unreasonably delay or withhold its consent to the planner's or administrator's hiring. With respect to such Subsequent Approvals, City shall not seek to impose or require any conditions or exactions that are not expressly set forth in the Project Approvals, the Existing Standards, and this Agreement (or otherwise provided for herein), except to the extent necessary to mitigate environmental impacts that have not been identified and addressed in the FEIR and 2015 Addendum or as may be required to comply with State or Federal laws or as otherwise allowed pursuant to Section 2.3. Notwithstanding any other provisions contained herein to the contrary, failure to meet any of the time lines set forth in this Article shall not be deemed to be a breach of this Agreement by City

and shall not relieve Landowner of any obligations under this Agreement, provided that City is operating in good faith hereunder.

**4.2. Tentative Subdivision Maps.** City shall process in a timely fashion and schedule for approval by the City, all tentative map applications filed by Landowner relating to the Property.

**4.3. Final Maps/Improvement Plans.** City shall process in a timely fashion and approve any and all improvement plans for any portion of the Property. City shall schedule final maps for City Council approval after satisfactory submission of all materials necessary to City processing as reasonably determined by the City Engineer.

**4.4. Building Permits/Other Entitlements.** City shall process in a timely fashion and approve all building permit applications in compliance with applicable laws and this Agreement. City shall inform Landowner, upon request of Landowner, of the necessary submission requirements for each application for a building permit or other entitlement for use, in advance and review said application and schedule the application for review by the appropriate authority not later than 30 days following submission of all materials necessary to issuance of the requested building permit or other entitlement.

**4.5. Cooperation Between City and Landowner.** The City agrees to cooperate with Landowner in securing all approvals, authorizations, permits, and/or agency action which may be required by the City and/or any other impacted agencies, including but not limited to Sonoma County, the State Water Resources Control Board and its related agencies, the U.S. Environmental Protection Agency, the U.S. Army Corps of Engineers, the U.S. Fish & Wildlife Service, the California Department of Fish & Wildlife, the North Coast Railroad Authority, and the Sonoma-Marin Area Rail Transit agency for development of the Project consistent with this Agreement and the Specific Plan. The City further agrees that it shall, in cooperation with the Landowner, and at Landowner's sole expense, complete all necessary studies and reports, make all necessary determinations, and establish all necessary mechanisms to implement the credit and reimbursement provisions of Section 2.10, above consistent with the requirements of Chapter 17A of the Cloverdale Municipal Code and subject to Landowner's compliance with the terms and conditions of this Agreement. Consistent with the foregoing, the Parties hereby agree that, to the extent that any of Landowner's obligations under this Agreement require any approvals, authorizations, permits and/or other action by any public agency other than the City (collectively, "**Other Agency Approvals**"), including but not limited to Landowner's obligations under Section 2.8.7(b) and Landowner's obligations relating to development of the Recreation/Open Space Area, such Landowner obligations shall be subject to Landowner's obtaining the necessary Other Agency Approvals. In all such cases, Landowner shall make diligent and good faith efforts to obtain all such Other Agency Approvals in a timely manner, and City shall cooperate with Landowner in securing all such Other Agency Approvals. If Landowner is unable to obtain the necessary Other Agency Approvals in a timely manner, despite having made a diligent and good faith effort, then City shall not withhold any approvals or permits (including but not limited to Certificates of Occupancy for residential units) required for construction and completion of the Project based on Landowner's inability to satisfy such Landowner obligations in accordance with this Agreement and the Specific Plan.

**4.6. Annual Review.** The City shall review the extent of good faith compliance by Landowner, or its successor(s)-in-interest, with the terms of this Agreement at least every twelve (12) months from and after the Effective Date, at which time the Landowner, or successor(s)-in-interest thereto, shall be required to demonstrate good faith compliance with the terms of this Agreement. The City Council, after a public hearing, shall determine on the basis of substantial evidence whether or not the Landowner has, for the period under review, complied in good faith with the terms and conditions of this Agreement. The failure of any review or annual review of the Agreement to occur shall not terminate, void, make voidable, or otherwise adversely affect this Agreement.

The City shall provide, via electronic mail, to the Landowner a copy of all staff reports and related exhibits concerning Landowner's compliance with this Agreement at least ten (10) days prior to such periodic review. Landowner shall be permitted an opportunity to be heard orally and in writing regarding its performance under this Agreement before the City Council and, if the matter is referred to the Planning Commission, before said Planning Commission.

If the City determines after the hearing that Landowner has not complied in good faith with the terms and conditions of this Agreement, the City shall provide written notice thereof to Landowner. Said notice shall specify the nature of the alleged failure and, where appropriate, the manner and period of time in which the failure might be satisfactorily cured. If the nature of the alleged failure is such that it cannot reasonably be cured within three (3) months, the commencement of the cure within such time period and diligent prosecution to completion of the cure shall be deemed a cure.

During any period of curing, the Landowner shall not be considered in default for the purposes of termination or institution of legal proceedings.

## ARTICLE 5
## MORTGAGE PROTECTION

**5.1. Encumbrances on the Property.** The Parties hereto agree that this Agreement shall not prevent or limit the Landowner, in any manner, at the Landowner's sole and absolute discretion, from encumbering the Property or any portion thereof or any improvements thereon with any mortgage or deed of trust securing financing with respect to the construction, development, use or operation of the Project. The City acknowledges that Mortgagee may request certain modifications to this Agreement, and the City agrees, upon request, from time to time, to meet with Landowner and/or any representatives of such Mortgagee to negotiate in good faith any such request for modification. The City further agrees that it will not unreasonably withhold its consent to any such requested modification to this Agreement provided the proposed modification is consistent with the overall intent of the Specific Plan and the Project Approvals and with any agreements between the City and the Landowner. Any Mortgagee and its successor and assigns shall be entitled to the rights and privileges set forth in this section.

**5.2. Mortgage Protection.** This Agreement shall be superior and senior to the lien of any mortgage or deed of trust. Notwithstanding the foregoing, no breach of this Agreement shall defeat, render invalid, diminish or impair the lien of any mortgage or deed of trust made in good

faith and for value, and any acquisition or acceptance of title or any right or interest in or with respect to the Property or any portion thereof by a Mortgagee (whether pursuant to foreclosure, trustee's sale, deed in lieu of foreclosure, lease termination or otherwise) shall be subject to all of the terms and conditions of this Agreement. However, notwithstanding these provisions, no Mortgagee shall have any obligation or duty under this Agreement to perform the obligations of the Landowner or other affirmative covenants of Landowner hereunder, or to guarantee such performance, except that, to the extent that any covenant to be performed by the Landowner is a condition to the performance of a covenant by the City, the performance thereof shall continue to be a condition precedent to the City's performance hereunder.

**5.3. Mortgagee Not Obligated.** Notwithstanding Section 5.2 above, no Mortgagee shall have any obligation or duty under this Agreement, before obtaining title to the Property by foreclosure or deed in lieu of foreclosure, to construct or complete the construction of any improvements, public or private, described or required herein, or to guarantee such construction or completion, or to pay, perform or provide any fee, cost, charge, dedication, or other exaction or imposition with respect to the Project; provided, however, that a Mortgagee shall not be entitled to devote the Property to any uses or to construct any improvements thereon other than those uses or improvements provided for or authorized by the Project Approvals or by this Agreement.

**5.4. Mortgagee Notice and Right to Cure Default.** If the City receives written notice from a Mortgagee requesting a copy of any notice of any claimed event of default, or any suspension, cancellation or termination of this Agreement, given to the Landowner hereunder and specifying the Mortgagee's address, then City shall deliver to such Mortgagee, concurrently with service of any such notice to the Landowner, a copy of such notice. Each Mortgagee shall have the right, during the same period available to Landowner, to cure, correct or remedy, or to commence to cure, correct or remedy, the claimed event of default set forth in the City's notice. Upon the request of the Landowner or a Mortgagee, the City, through its City Manager, may extend the cure period for a given claimed event of default for not more than an additional 60 days.

## ARTICLE 6
## ESTOPPEL CERTIFICATE

Either Party may, at any time, and from time to time, deliver written notice to the other Party requesting such Party to certify in writing that, to the knowledge of the certifying Party: (i) this Agreement is in full force and effect and a binding obligation of the Parties, (ii) this Agreement has not been amended or modified either orally or in writing, or if so amended, identifying the amendments, and (iii) the requesting Party is not known to be in default of the performance of its obligations under this Agreement, or if in default, to describe therein the nature and amount of any such defaults. A Party receiving a request hereunder shall execute and return such certificate within thirty (30) days following the receipt thereof. If either Party fails to execute and deliver such statement to the requesting Party within such time, the requesting Party shall submit a second request in which the other Party to this Agreement shall have ten (10) days to execute and deliver to the requesting Party a statement certifying the above listed information.

The City acknowledges that a certificate hereunder may be relied upon by assignees and other persons having an interest in the Property, including Mortgagees. The failure to deliver such

a certificate within the time limits set forth in this Article shall constitute a conclusive presumption against the Party which fails to deliver such certificate that this Agreement is in full force and effect without modifications and a binding obligation of the Parties and that there are no uncured defaults in the performance of the requesting Party, except as may have been represented by the requesting Party in this written request for the certificate.

Landowner shall be entitled to one estoppel certificate per year without any fee being assessed by the City. For any additional estoppel certificates requested in a single year the City may charge Landowner a reasonable fee directly related to the actual cost to prepare the certificate.

## ARTICLE 7
## INSURANCE

At all times that Landowner is constructing any improvements that will become public improvements, Landowner shall take out and maintain, or shall have maintained, insurance policies with coverage at least as broad as follows:

a) **General Liability.** Comprehensive general liability insurance covering bodily injury, personal injury, property damage, products and completed operations with limits of no less than Two Million Dollars ($2,000,000) per incident or occurrence and a deductible of not more than Twenty Thousand Dollars ($20,000.00) per claim. If Commercial General Liability Insurance or other form with a general aggregate limit is used, either the general aggregate limit shall apply separately to any act or omission by Landowner under this Agreement or the general aggregate limit shall be twice the required occurrence limit. Such policy shall name the City as an additional insured and shall include either a severability of interest clause or cross-liability endorsement.

b) **Workers' Compensation Insurance.** Workers' Compensation insurance as required by the California Labor Code. In signing this Agreement, Landowner certifies under section 1861 of the Labor Code that the Landowner is aware of the provisions of section 3700 of the Labor Code which requires every employer to be insured against liability for workers' compensation or to undertake self- insurance in accordance with the provisions of that code, and that the Landowner will comply with such provisions before commencing the performance of the work of this Agreement.

c) **Evidence of Insurance.** Prior to commencement of construction of any improvements which will become public improvements, the Landowner shall furnish the City satisfactory evidence of the insurance coverage (including for additional insured's required hereunder) and evidence that the insurer is required to give the City at least fifteen (15) days prior written notice of the cancellation or reduction in coverage of a policy [ten (10) days in the event of nonpayment of any premium].

## ARTICLE 8
## EXTENSIONS, CANCELLATION, TERMINATION, DEFAULT, ENFORCEMENT AND REMEDIES

### 8.1. Automatic Extensions

**8.1.1. Automatic Extension of Term Upon Legal Challenge.** If any litigation affecting the Property or Project is filed challenging this Agreement, any Project Approval, or any Subsequent Approval granted pursuant to this Agreement (including but not limited to any environmental determinations relating to any of the foregoing), or otherwise raising issues of the validity and binding nature of this Agreement, the Term of this Agreement, or any extension of the Term then in effect, shall be extended for the period of time from the date of the filing of such litigation until the conclusion of such litigation by dismissal or final entry of judgment, and the Landowner and City shall execute an amendment to this Agreement setting forth the period of any such extension and may record a notice to such effect.

Additionally, the Term, as may be modified or extended, shall be extended by the amount of time development of the Project is delayed by the required compliance with federal or state laws or regulations in accordance with Government Code Section 65869.5.

The filing of any third party lawsuit(s) against City or Landowner relating to this Agreement, the Project Approvals, or any Subsequent Approvals shall not delay or stop the development, processing or construction of the Project or approval of any Subsequent Approvals, unless enjoined by a court of competent jurisdiction. City shall not stipulate to the issuance of any such order.

**8.1.2. Automatic Extension-Force Majeure.** Neither Party shall be deemed to be in default where delays or defaults are due to war, insurrection, strikes, walkouts, riots, floods, drought, earthquakes, fires, casualties, acts of God, governmental restrictions imposed or mandated by governmental entities other than the City, enactment of conflicting state or federal laws or regulations, or new or supplementary environmental regulation enacted by the state or federal government or litigation. An extension of time for such cause shall be granted in writing by City for the period of the enforced delay or longer, as may be mutually agreed upon.

**8.1.3. Term of Subdivision Maps, Vested Components and Permits.**

**(a)** The term of any parcel map, tentative subdivision map, vesting parcel map or vesting tentative subdivision map, any subdivision improvement agreement related to the development of the Property or any portion thereof, and all Vested Components shall automatically be extended, consistent with Government Code Section 66452.6(a)(1), for the longer of:

**(i)** The Term and any extension of the Term established under Section 8.1.1; or

**(ii)** The term of the particular map otherwise allowed under the Subdivision Map Act (Government Code Section 66410 et seq.) and the City's subdivision ordinance.

**(b)** The term of any use permits or other entitlements for development for all or any part of the Property shall be extended, consistent with Government Code Section 65863.9, for the longer of:

**(i)** The Term and any extension of the Term established under Section 8.1.1;

**(ii)** The term of that permit or entitlement; or

**(iii)** The term of a subdivision map or parcel map relating to that portion of the Property that is the subject of the permit or other entitlement.

**8.2. Cancellation.** This Agreement may be canceled in whole or in part, by mutual consent of the Parties to the Agreement or their successors in interest in conformance with Government Code section 65868.

**8.3. Termination**

**8.3.1. Termination Date.** This Agreement shall be deemed terminated ("**Termination Date**") and of no further effect upon the occurrence of any of the following events:

**(a)** Expiration of the Term or any extended Term; or

**(b)** Entry, after all appeals have been exhausted, of a final court judgment or issuance of a final court order directed to the City to set aside, withdraw, or abrogate the City's approval of this Agreement or any material part thereof; or

**(c)** The effective date of a Party's election to terminate the Agreement as provided in this Agreement; or

**(d)** When the Property has been fully developed and all of the Landowner's obligations in connection therewith are satisfied as determined by the City.

**8.3.2. Recordation Upon Termination.** Upon termination of this Agreement pursuant to Section 8.3.1, the City shall record a notice of such termination in a form satisfactory to the City Attorney. This Agreement shall automatically terminate and be of no further force or effect as to any lot or parcel containing a structure for which the City has issued a Certificate of Occupancy, provided that all public infrastructure and facilities necessary to serve such structure have been completed and offered for dedication to the City, as reasonably determined by the City.

**8.3.3. Effect Upon Termination on Landowner Obligations.** Termination of this Agreement as to the Landowner of the Property or any portion thereof shall not affect any of the Landowner's obligations to comply with the General Plan and the terms and conditions of any applicable zoning, or subdivision map or other land use entitlements approved with respect to the Property, nor shall it affect any other covenants or any other development requirements specified in this Agreement to continue after the termination of this Agreement, or obligations to pay assessments, liens, fees or taxes.

**8.3.4. Effect of Termination on Vested Rights.** Upon any termination of this Agreement as to any portion of the Property, the entitlements, conditions of development, limitations on fees and all other terms and conditions of this Agreement shall no longer be vested hereby with respect to the portion of the Property affected by such termination. However, the entitlements, conditions of development, limitations on fees and all other terms and conditions of this Agreement shall remain vested and in effect for those portions of the Property not affected by such termination. Notwithstanding the foregoing, vesting of such entitlements, conditions or fee limitations may nonetheless be established for such portion of the Property affected by the termination pursuant to then-existing planning and zoning law and common law, as applicable.

**8.4. Default**

**8.4.1. Default by Landowner.** Failure or unreasonable delay by Landowner to perform any term, provision, or condition of this Agreement, or creation by Landowner of a condition or circumstance which will render such performance impossible, for a period of three (3) months after written notice thereof from the City shall constitute a default under this Agreement, subject to extensions of time by mutual consent in writing. Said notice shall specify the nature of the alleged default and, where appropriate, the manner and period of time in which said default might be satisfactorily cured. If the nature of the alleged default is such that it cannot reasonably be cured within such three (3) month period, the commencement of the cure within such time period and the good faith diligent pursuit to completion of the cure shall be deemed a cure within such period. During any cure period, the Landowner shall not be considered in default for the purposes of termination or institution of legal proceedings, and City shall continue to process in good faith development applications relating to the Property during any cure period, but need not approve any such application if it relates to a proposal on the Property with respect to which there is an alleged default hereunder. If the default is cured, then no default shall exist and the noticing Party shall take no further action.

Subject to the foregoing, after notice and expiration of the three (3) month period without cure or commencing to cure, the City, at its option, may institute legal proceedings pursuant to this Agreement and/or give notice of intent to terminate the Agreement pursuant to Government Code Section 65868. Following such notice of intent to terminate, the matter shall be scheduled for consideration and review by the City Council in the manner set forth in Government Code Sections 65865, 65867, and 65868.

Following consideration of the evidence presented in said review before the City Council, and a determination by the City Council based thereon, the City, at its option, may

give written notice of termination of this Agreement to the Landowner by personal delivery, or overnight mail, mailing costs prepaid.

**8.4.2. Default by City.** In the event City does not accept, review, approve, or issue development permits, entitlements, or other land use or building approvals for use in a timely fashion as provided in this Agreement or as otherwise agreed to by the Parties, or the City otherwise defaults under the terms of this Agreement, Landowner shall have all rights and remedies provided herein or under applicable law or equity (except as limited herein). Landowner shall provide City with written notice of the default and the City shall have ten (10) days to notify Landowner of City's initial action to cure the default and thirty (30) days from receipt of the Landowner's notice to cure the default.

**8.4.3. Waiver of Default.** Waiver of any default or breach of any provision of this Agreement by a Party shall not be deemed to be waiver of any subsequent default or breach, and shall not be construed to be a modification of the terms of this Agreement unless this Agreement is modified as provided herein. Either Party's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of that Party's consent to, or approval of, any subsequent act by either Party.

**8.4.4. Remedies; No Money Damages.** In the event either Party is in default under the terms of this Agreement, the non-defaulting Party may elect, in its sole and absolute discretion, to pursue any of the following courses of action: (i) waive such default; (ii) pursue administrative remedies, and/or (iii) pursue judicial remedies consistent with this Agreement.

**(a)** Except as otherwise specifically stated in this Agreement, either Party may institute legal action to cure, correct, or remedy a default by the other Party to this Agreement, to enforce any covenant or agreement herein, or to enjoin any threatened or attempted violation hereunder or to seek specific performance. For purposes of instituting a legal action under this Agreement, any City Council determination under this Agreement as it relates to an alleged default hereunder shall be deemed a final agency action.

**(b)** The Parties hereby acknowledge and agree that they would not have entered into this Agreement if doing so would subject either Party to the risk of incurring liability in money damages, either for breach of this Agreement, anticipatory breach, repudiation of the Agreement, or for any actions with respect to its negotiation, preparation, implementation or application. The Parties further acknowledge that money damages and remedies at law generally are inadequate, and specific performance is the most appropriate remedy for the enforcement of this Agreement and should be available to all Parties for the following reasons:

(1) Money damages are excluded;

(2) Due to the size, nature, and scope of the Project, it may not be practical or possible to restore the Property to its original condition once implementation of this Agreement has begun, and after such

implementation, Landowner may be foreclosed from other choices it may have had to utilize the Property or portions thereof. Landowner has invested significant time and resources and performed extensive planning and processing of the Project in agreeing to the terms of this Agreement and will be investing even more significant time and resources in implementing the Project in reliance upon the terms of this Agreement, and it is not possible to determine the sum of money which would adequately compensate Landowner for such efforts.

**(c)** Therefore, the Parties hereby acknowledge and agree that it is a material part of each Party's consideration to the other Party that neither Party shall be at any risk whatsoever to liability for money damages relating to or arising from this Agreement, and except for non-damages remedies, including the remedy of specific performance, City, on the one hand, and Landowner, on the other hand, for themselves, their successors and assignees, hereby release one another's officers, trustees, directors, agents and employees from any and all claims, demands, actions, or suits of any kind or nature arising out of any liability, known or unknown, present or future, including, but not limited to, any claim or liability, based or asserted, pursuant to Article I, Section 19 of the California Constitution, the Fifth and Fourteenth Amendments of the United States Constitution, or any other law or ordinance which seeks to impose any money damages, whatsoever, upon the Parties because the Parties entered into this Agreement, because of the terms of this Agreement, or because of the manner of implementation or performance of this Agreement.

**8.5. Transfers and Assignments.**

**8.5.1. Transfers Generally.** No sale, transfer or assignment of this Agreement, or of any right or interest under this Agreement ("**Transfer**"), shall release Landowner from its obligations under this Agreement without the prior written consent of the City Manager, which consent may not be unreasonably withheld, conditioned or delayed. Within ten (10) days prior to any such sale, transfer or assignment of this Agreement, Landowner shall notify City of such pending sale, transfer or assignment and the name of the purchaser, transferee or assignee ("**Transferee**"), and shall provide to City an executed Assignment and Assumption Agreement in substantially the form of **Exhibit D** to this Agreement, specifying the obligations and requirements to be assumed by Transferee and the effective date of the proposed Transfer. City may request Landowner provide additional information relating to the Transfer or to the proposed Transferee. The City Manager shall review and approve or disapprove, in writing, Landowner's request for City's consent to release Landowner from its obligations under this Agreement within thirty (30) days following Landowner's satisfactory provision of any such additional information requested by City. Factors that the City Manager may consider with respect to any proposed Transfer may include, without limitation, the financial ability of the proposed Transferee to satisfy the Landowner's obligations under this Agreement, and the experience of the proposed Transferee in developing, constructing, operating and maintaining development projects similar to the Project. If the City Manager does not approve Landowner's request and refuses to grant the consent to the proposed Transfer, the

written refusal shall state the reasons therefor and the corrections to be made to obtain such consent.

**8.5.2. Effect of Transfer.** If Landowner has provided City with the executed Assignment and Assumption Agreement described in Section 8.5.1 above, then immediately upon the City Manager's issuance of the written approval and consent to the proposed Transfer, Landowner shall be released from any further liability or obligation under this Agreement related to any transferred Property as specified in the Assignment and Assumption Agreement, and the Transferee shall be deemed to be the Landowner under this Agreement with all rights and obligations related thereto, with respect to such Transferred Property.

**8.5.3. Rights of Landowner.** The provisions in this Section 8.5 shall not be deemed to prohibit or otherwise restrict Landowner from (i) granting easements or licenses to facilitate development of the Property, (ii) encumbering the Property or any portion thereof or of the improvements thereon by any mortgage, deed of trust, or other devise securing financing with respect to the Property or Project, (iii) granting a leasehold interest in portions of the Property, (iv) entering into a joint venture agreement or similar partnership agreement to fulfill its obligations under this Agreement, or (v) transferring all or a portion of the Property pursuant to a foreclosure, conveyance in lieu of foreclosure, or other remedial action in connection with a mortgage.

**8.5.4. Binding on Successors.** Subject to the limitations on sales, transfers and assignments set forth in Section 8.5.1 above, the burdens of this Agreement shall be binding on, and the benefits of this Agreement shall inure to, all successors-in-interest to the City and Landowner pursuant to Government Code section 65868.5.

**8.6. No Agency, Joint Venture or Partnership**

**8.6.1. No Relationship Created.** It is specifically understood and agreed to by and between the Parties hereto that:

**(a)** the subject development is a private development;

**(b)** except for City projects, the City has no interest or responsibilities for, or duty to, third parties concerning any improvements until such time, and only until such time, that the City formally accepts the dedication of such improvements;

**(c)** the Landowner shall have full power over, and exclusive control of, the Project and the Project site, subject only to the limitations and obligations of Landowner under Project Approvals and this Agreement; and

**(d)** the City and Landowner hereby renounce the existence of any form of agency relationship, partnership, joint venture, or a joint powers agreement under Government Code Section 6000 et seq., or otherwise, between the City and Landowner and agree that nothing contained herein or in any document executed in connection herewith shall be construed as creating any such relationship between the City and Landowner.

**8.6.2. Representations by Landowner.** Landowner shall not represent and conduct itself as an employee, agent, representative, or independent contractor of the City at any time during the term of this Agreement.

**8.6.3. Authority of Parties.** Landowner shall not have the authority, express or implied, to act on behalf of, bind or obligate the City or any City department, City agent or City employee in any way without the written consent of the City. City shall not have the authority, express or implied, to act on behalf of, bind or obligate Landowner, or any Landowner agent or Landowner employee in any way without the written consent of Landowner.

**8.7. Indemnification**

**8.7.1. Indemnity.** To the fullest extent permitted by law, including the provisions of Government Code section 66474.9(a), Landowner shall indemnify, hold harmless and defend the City and its agents, officers and employees from and against all claims, damages, losses, judgments, liabilities, expenses and other costs, including litigation costs and attorneys' fees, arising out of, resulting from, or in connection with, the performance of this Agreement by the Landowner or Landowner's officers, employees, agents, representatives or subcontractors and resulting in or attributable to personal injury, death, or damage or destruction to tangible or intangible property, including the loss of use. Notwithstanding the foregoing, Landowner's obligation to indemnify the City and its agents, officers and employees for any judgment, decree or arbitration award shall extend only to the percentage of negligence or responsibility of the Landowner in contributing to such claim, damage, loss and expense, and shall not extend to claims, damages, losses, judgments, liabilities, expenses and other costs, including litigation costs and attorneys' fees (i) arising out of or resulting from the sole negligence or willful misconduct of the City or its officers, employees, agents, or (ii) relating to the maintenance, repair or condition of any improvement after dedication and acceptance of such improvement by the City or any other public agency (except as provided in an improvement agreement or warranty bond).

**8.7.2. Attack of Proceedings.** To the fullest extent permitted by law, Landowner shall defend, indemnify, and hold harmless the City and its agents, officers, and employees from any claim, action, or proceeding against the local agency or its agents, officers, or employees to attack, set aside, void, or annul, an approval of the local agency, advisory agency, appeal board, or legislative body concerning a subdivision, which action is brought within the time period provided for in Section 65009.

**8.7.3. Effect of Insurance.** Landowner's obligation to defend, indemnify and hold the City and its agents, officers and employees harmless under the provisions of this paragraph is not limited to or restricted by any requirement in this Agreement for Landowner to procure and maintain a policy of insurance.

**8.7.4. Defense of Claim.** If any such claim, action, or proceeding is brought against City or City's officers, officials, employees, independent contractors, or agents,

Landowner, upon notice from City, shall defend the City at Landowner's expense by counsel satisfactory to City.

**8.7.5. Notice of Claim.** City shall promptly notify Landowner of any claim, action, or proceeding against City or City's officers, officials, employees, independent contractors, volunteers, or agents relating to the performance, or failure to perform, any term or condition of this Agreement. City shall cooperate fully in the defense of such claim, action, or proceeding.

**8.8. Governing Law and Venue.** This Agreement shall be deemed to be made under, and shall be governed by and construed in accordance with, the laws of the State of California. Any action brought to enforce the terms or provisions of this Agreement shall have venue in the County of Sonoma, State of California.

**8.9. Cumulative Remedies.** In addition to any other rights or remedies, City and Landowner may institute legal or equitable proceedings to cure, correct or remedy any default, to specifically enforce any covenant or agreement herein (including, without limitation, the timely processing and approval of any Subsequent Approval), to enjoin any threatened or attempted violation of the provisions of this Agreement.

**8.10. California Tort Claims Act.** Notwithstanding any term or condition of this Agreement, the provisions of the California Tort Claims Act [Division 3.6 (commencing at Section 810) of Title 1 of the Government Code] are not waived by the City and shall apply to any claim against City arising out of any acts or conduct by any Party under the terms and conditions of this Agreement

**8.11. Third Party Legal Actions.** If there are any third party administrative, legal or equitable actions challenging any of the Project Approvals, including, without limitation, this Agreement and all CEQA processes and actions by City relating to the Project, Landowner shall defend and indemnify City against any and all fees and costs arising out of the defense of such actions, including the reasonable fees and costs of City's own in-house or special counsel retained to protect City's interests. Each Party is entitled to legal counsel of its choice, at Landowner's expense. The Parties and their respective counsel shall cooperate with each other in the defense of any such actions, including in any settlement negotiations. If a court in any such action awards any form of money damages to such third party, or any attorneys' fees and costs to such third party, Landowner shall bear full and complete responsibility to comply with the requirements of such award, and hereby agrees to timely pay all fees and costs on behalf of City.

**8.12. Cooperation in the Event of Legal Challenge.** If any part of this Agreement, any Project Approval, or any Subsequent Approval is held by a court of competent jurisdiction to be invalid, the Parties shall cooperate and use their best efforts, to the extent permitted by law, to cure any inadequacies or deficiencies identified by the court in a manner consistent with the purposes of this Agreement.

## ARTICLE 9
## MISCELLANEOUS PROVISIONS

**9.1. Authority.** All Parties to this Agreement warrant and represent that they have the power and authority to enter into this Agreement in the names, titles and capacities herein stated and on behalf of any entities, persons, estates or firms represented or purported to be represented by such entity(ies), person(s), estate(s) or firm(s) and that all formal requirements necessary or required by any state and/or federal law in order to enter into this Agreement have been fully complied with. Further, by entering into this Agreement, neither Party hereto shall have breached the terms or conditions of any other contract or agreement to which such Party is obligated, which such breach would have a material effect hereon.

**9.2. Advice of Attorney.** Each Party warrants and represents that in executing this Agreement, it has received independent legal advice from its attorneys or the opportunity to seek such advice.

**9.3. Construction**

**9.3.1. Captions.** Headings or captions to the provisions of this Agreement are solely for the convenience of the Parties, are not part of this Agreement, and shall not be used to interpret or determine the validity of this Agreement. Any ambiguity in this Agreement shall not be construed against the drafter, but rather the terms and provisions hereof shall be given a reasonable interpretation as if both Parties had in fact drafted this Agreement.

**9.3.2. Numbers and Gender.** In this Agreement, the neuter gender includes the feminine and masculine, and the singular includes the plural, the word "person" includes corporations, partnerships, firms or associations, wherever the context so requires.

**9.3.3. Mandatory and Permissive.** "Shall" and "will" and "agrees" are mandatory. "May" is permissive.

**9.4. Time Is Of the Essence.** Time is of the essence regarding each provision of this Agreement as to which time is an element.

**9.5. Conflict of Interest.** Neither a City employee whose position in the City enables such employee to influence the award or administration of this Agreement or any competing Agreement, nor a spouse or economic dependent of such an employee, shall be employed, hired or retained in any capacity, either directly or indirectly, by the Landowner, or have any other direct or indirect financial interest in this Agreement, during the term of this Agreement and for a period of two (2) years after the termination of this Agreement.

**9.6. No Third Party Beneficiary.** Nothing herein shall be construed to create any right of a third party to enforce this Agreement or to seek any benefit therefrom.

**9.7. Notice.** Any notice, demand, correspondence, communication, amendment, addition or deletion to this Agreement, including change of address of either Party during the term of this Agreement, which Landowner or City shall be required or may desire to make shall be in

writing and may be personally served or, alternatively, sent via overnight mail, mailing costs prepaid, to the respective Parties as follows:

| | |
|---|---|
| To City: | CITY OF CLOVERDALE<br>124 N. Cloverdale Blvd.<br>Cloverdale, CA 95425<br>Attn: City Manager |
| With a copy to: | Cloverdale City Attorney<br>c/o Meyers Nave<br>401 Mendocino Avenue, Suite 100<br>Santa Rosa, CA 95401 |
| To Landowner: | SPIGHT PROPERTIES II LLC<br>c/o Tyris Corporation<br>1220 Diamond Way, Suite 100<br>Concord, CA 94520<br>Attn: Andrew Zamberlin |
| With a copy to: | Jarvis, Fay, Doporto & Gibson, LLP<br>492 Ninth Street, Suite 310<br>Oakland, CA 94607<br>Attn: Daniel P. Doporto |

Each such notice, demand, approval, consent, or other communication shall be deemed given and received upon delivery. A Party may change or supplement the addresses given above, or designate additional addressees, for purposes of this Agreement by giving the other Party written notice of the new address in the manner set forth above.

**9.8. Severability.** Except as otherwise provided herein, if any provision of this Agreement is subsequently held or determined to be invalid, the remainder of this Agreement shall not be affected, except as necessarily required by the invalid provision, and such remainder of this Agreement shall remain in full force and effect, unless amended or modified in writing by the mutual consent of the Parties. However, if any provision of this Agreement is determined to be invalid or unenforceable and the effect thereof is to deprive either Party of an essential benefit of its bargain hereunder, then either Party shall have the option to terminate this entire Agreement, effective from and after such determination, by written notice of termination given by the terminating Party to the other Party.

**9.9. Entire Agreement.** This Agreement supersedes any and all other agreements, either oral or in writing, between any of the Parties herein with respect to the subject matter hereof and contains all the agreements between the Parties with respect to such matter. Each Party acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any Party, or anyone acting on behalf of any Party, which is not embodied herein, and that no other agreement, statement or promise not contained in this Agreement shall be valid or binding.

**9.10. Form of Agreement; Exhibits.** This Agreement shall be executed in two (2) duplicate originals, each of which is deemed to be an original. The following documents are referred to in this Agreement and are attached hereto and incorporated herein as though set forth in full:

| | |
|---|---|
| **Exhibit A** | **Property Legal Description** |
| **Exhibit B** | **Development Impact Fee Schedule - Effective July 1, 2015** |
| **Exhibit C** | **Private and Public Trail/Road Map** |
| **Exhibit D** | **Assignment and Assumption Agreement** |

In Witness Whereof, the Parties have executed this Agreement on the day and year first hereinabove written.

**CITY OF CLOVERDALE**

By: _____

Its: City Manager

Attest:
CLOVERDALE CITY CLERK

By: _____

Its: City Clerk

Approved as to Form:
CITY ATTORNEY

By: _____

Its: City Attorney

**SPIGHT PROPERTIES II LLC**

By: _____
Elena R. Spight
Its: Manager

**NOTARY ACKNOWLEDGEMENTS TO DEVELOPMENT AGREEMENT**
**ALEXANDER VALLEY RESORT**

| |
|---|
| A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document. |

State of _____

County of _____

On _____ before me, _____
personally appeared _____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacities, and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

_____
Signature of Notary Public

2513301.1

CITY OF CLOVERDALE

# *City Council/Successor Agency Agenda Item Summary*

Agenda Item: 7
Meeting Date: February 23, 2016

| **Agenda Section** | **Staff Contact** |
|---|---|
| Consent | Vanessa Apodaca, Interim City Engineer |

**Agenda Item Title**

Water Production Update

**Summary**

Attached is a chart showing monthly and annual water production for calendar years 2010 through 2015. The annual production for 2015 is 344.3 Million Gallons (MG). This value is approximately 60% of the annual water production in 2015.

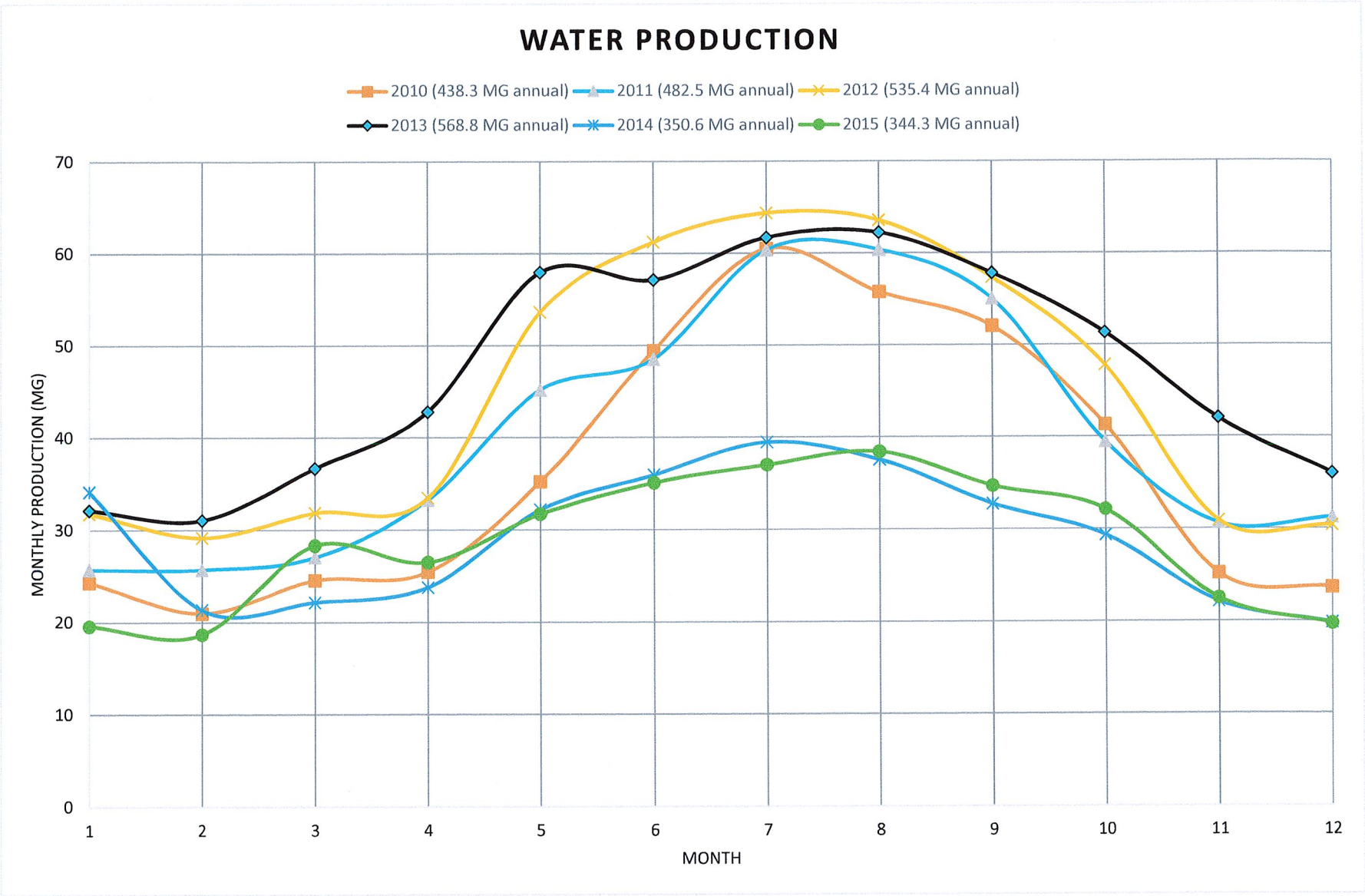
**Recommended Council Actions**

None. This is an informational item.

**Attachment:**

Water Production chart for calendar years 2010 through 2015.

**cc:**


WATER PRODUCTION
2010 (438.3 MG annual)
2011 (482.5 MG annual)
2012 (535.4 MG annual)
2013 (568.8 MG annual)
2014 (350.6 MG annual)
2015 (344.3 MG annual)
MONTHLY PRODUCTION (MG)
0
10
20
30
40
50
60
70
1
2
3
4
5
6
7
8
9
10
11
12
MONTH

CITY OF
CLOVERDALE

MID-YEAR FINANCIAL REPORT
December 31, 2015

## THE GENERAL FUND

The General Fund revenue sources are outlined below. Revenues are about 45% of budget at mid-year, which is typical due to the timing of payments for franchise fees and transient occupancy tax. Property tax is about 8% above FY 2014/15, and about 9% higher than budget, based on the first installment received in December. Sales Tax projections have been decreased based on estimates from our consultant, MuniServices. The decline in Sales Tax revenue is primarily due to lower gasoline prices. Utility Users Tax revenues are slightly above budget. Business License fees are projected to be slightly higher than budget, based on the end-of-year annual billing. Operating Transfers do not include the annual overhead allocation, which is calculated and recorded at fiscal year-end. Overall, General Fund revenues are projected to be above budget for the fiscal year, due to the increase in property values, increased collections of Transient Occupancy Tax and a significant increase in Building Permit revenue (offset by higher contract engineering fees). Intergovernmental Revenue is below budget at mid-year due to a delay in receiving the COPs grant money from the County. However, the first installment was received in January which exceeds 50% of the expected $100,000. Miscellaneous Revenues are above budget because of cost reimbursements received from developers.

| General Fund Revenues | Budget | YTD | % of Total |
|---|---|---|---|
| General Taxes | 3,774,047 | 1,693,315 | 45% |
| Licenses & Permits | 98,000 | 104,675 | 107% |
| Intergovernmental Revenue | 149,600 | 11,589 | 8% |
| Charges for Services | 81,120 | 163,632 | 202% |
| Fines & Special Assessments | 36,000 | 16,220 | 45% |
| Miscellaneous Revenues | 269,500 | 213,339 | 79% |
| Operating Transfers In | 1,398,536 | 417,564 | 30% |
| **Total General Fund Revenues** | **$5,806,803** | **2,620,334** | **45%** |

As a whole, the General Fund expenditures are slightly over budget at December 31st, with Public Works, Parks, and City Administration above budget, and Police expenditures slightly under budget. Planning, Building, & Engineering expenses are at 72% of budget. This variance is due to increased Development and Building Permit activity, and higher costs for contract engineering services.

| GF Expenditures by Departments | Budget | YTD | % of Total |
|---|---|---|---|
| City Administration | 1,489,425 | 820,962 | 55% |
| Police Protection & Public Safety | 3,133,754 | 1,509,849 | 48% |
| Public Works | 357,495 | 210,277 | 59% |
| Parks & Recreation | 273,972 | 153,581 | 56% |
| Planning, Building & Engineering | 327,888 | 237,146 | 72% |
| **Total General Fund Expenditures** | **$5,582,534** | **$2,931,815** | **53%** |

In the General Fund, Salaries & Benefits are at 46% of budget, with Services & Supplies at 66% of budget. This is due to the shift in expenditures from payroll and payroll-related costs to temporary contactors filling the positions of Assistant City Manager/Community Development Director and City Engineer/ Public Works Director.

| GF Expenditures by Type | Budget | YTD | % |
|---|---|---|---|
| Salaries & Benefits | 3,716,529 | 1,697,911 | 46% |
| Services and Supplies | 1,866,004 | 1,233,903 | 66% |
| **Total General Fund Expenditures** | **$5,582,533** | **$2,931,814** | **53%** |

In the Police Departments, Salaries and Benefits are at 47% of budget, with Services and Supplies at 66% of budget. Total Police and Public Safety expenses are at 48% of budget.

| Police Dept. Expenditures by Type | Budget | YTD | % |
|---|---|---|---|
| Salaries & Benefits | 2,952,227 | 1,390,197 | 47% |
| Services and Supplies | 181,527 | 119,652 | 66% |
| **Total Police Dept. Expenditures** | **$3,133,754** | **$1,509,849** | **48%** |

## PUBLIC WORKS

Year to date public works expenses are over budget at mid-year. Facilities Maintenance expenses are about 37% of budget. The Street Maintenance Department is about 57% of budget and Storm Drain Maintenance is over budget at 133%. The large variance in Storm Drain costs is due to the clearing of storm drains and creeks in anticipation of El Nino related storm events. Street and storm drain maintenance costs are carried in the General Fund and a transfer is made at year-end from the Gas Tax fund to cover the expenditures. Available Gas Tax revenues in 15/16 will be about $73,000 short of projected transportation expenses. This shortfall will be covered by the General Fund.

| Public Works Expenditures by Department | Budget | YTD | % |
|---|---|---|---|
| Facilities Maintenance | $75,958 | $28,263 | 37% |
| Street Maintenance | 252,640 | 143,602 | 57% |
| Storm Drain Maintenance | 28,897 | 38,412 | 133% |
| **Total Expenditures** | **$357,495** | **$210,277** | **59%** |

| Public Works Expenditures by Type | Budget | YTD | % |
|---|---|---|---|
| Salaries & Benefits | $113,855 | $51,391 | 45% |
| Services & Supplies | 243,640 | 158,886 | 65% |
| **Total Expenditures** | **$357,495** | **$210,277** | **59%** |

The city also receives an allocation of Measure M sales tax collected by the County of Sonoma to fund transportation projects. A portion of the Safe Routes to School project was funded by Measure M in FY 14/15. Planning for phase 2 of the project has started, with construction expected to begin next fiscal year.

The General Fund ended the 14/15 Fiscal Year with available Fund Balance of $893,284, an increase of $95,301 over 13/14. If expenditures continue at the same level as they have during the first six months of the year, and revenue projections hold true, we should see an increase in fund balance at year-end.

## RETIREMENT FUND

The City of Cloverdale funds a portion of its employee retirement costs through an Ad Valorem tax approved by the voters in 1974. Each year a calculation is made to estimate the annual cost of retirement benefits, plus reserves. In Fiscal Year 14/15 the tax rate was reduced to spend down the reserve account to a level of about $500,000. The ending Fund Balance at June 30, 2015 was $506,185. Based on the first installment of property taxes received in December, and the estimated cost of retirement expenses at June 30, 2016, we expect the reserve account to end the fiscal year with a balance of about $465,000.

## INCLUSIONARY HOUSING FUND

The Inclusionary Housing Fund was established to reserve a certain percentage of housing units in the community for lower-income households in new residential developments. The program is funded by fees charged to developers; a limited source of revenue. At the beginning of FY 15/16 there was $713,086 in available fund balance. The Housing Element Update was completed in FY 14/15 with the help of our consultants, PMC. Staff will continue working on the tasks identified in the Housing Element Update and continue their work on affordable housing goals. Expenditures are projected to be about $106,000 in FY 15/16, resulting in an ending fund balance of $607,000.

## LIGHTING AND LANDSCAPE DISTRICTS

The Cloverdale Landscape & Lighting Assessment District was formed in 1997 beginning with the Jefferson Springs Subdivision. Since that time six other areas have been annexed into the District including The Cottages, Vintage Meadows, loli Ranch, Vineyards at Cloverdale, Brookside Terrace and Sunrise Hills.

Each year an annual Engineer's Report is prepared to determine the appropriate annual assessment for each zone within the district. Revenues in each zone are expected to be very close to the projections in the report.

| Landscape & Lighting Districts Revenues | Budget | YTD | % |
|---|---|---|---|
| Jefferson Springs | $10,988 | $5,754 | 52% |
| Vintage Meadows | 60,736 | 31,723 | 52% |
| The Cottages | 75,104 | 39,963 | 53% |
| Vineyards @ Cloverdale | 8,957 | 4,679 | 52% |
| Ioli Ranch | 5,232 | 2,640 | 50% |
| Brookside Terrace | 8,628 | 4,234 | 49% |
| Sunrise Hills | 22,756 | 12,271 | 49% |
| **Total** | **$192,401** | **$101,264** | **53%** |

Expenditures in each zone are shown below:

| Landscape & Lighting Districts Expenses | Budget | YTD | % |
|---|---|---|---|
| Jefferson Springs | $14,630 | $5,384 | 37% |
| Vintage Meadows | 59,821 | 26,779 | 45% |
| The Cottages | 82,637 | 37,863 | 46% |
| Vineyards @ Cloverdale | 11,311 | 4,414 | 39% |
| Ioli Ranch | 5,236 | 4,052 | 77% |
| Brookside Terrace | 7,950 | 3,659 | 46% |
| Sunrise Hills | 21,329 | 8,595 | 40% |
| **Total** | **$202,914** | **$90,746** | **45%** |

Expenses in most of the districts are close to budget at mid-year, with the exception of Ioli Ranch where there was unusually high water usage and an unplanned replacement of an irrigation controller. These two events combined may cause a fund balance deficit at year end. We expect that the other districts will see an increase in reserves (or decrease in deficit) by the end of the fiscal year.

| Landscape & Lighting Districts Balances | Reserves 07/01/15 | Projected Revenues | Projected Expenses | Reserves 06/30/16 |
|---|---|---|---|---|
| Jefferson Springs | $28,145 | $11,116 | $12,601 | $26,660 |
| Vintage Meadows | 17,255 | 61,164 | 56,567 | 21,852 |
| The Cottages | 17,724 | 77,105 | 78,424 | 16,405 |
| Vineyards @ Cloverdale | 14,954 | 9,041 | 9,891 | 14,104 |
| Ioli Ranch | 538 | 5,100 | 7,468 | (1,830) |
| Brookside Terrace | 333 | 8,170 | 7,960 | 543 |
| Sunrise Hills | 2,419 | 23,690 | 18,766 | 7,343 |
| **Total** | **$81,368** | **$195,386** | **$191,677** | **$85,077** |

## WATER ENTERPRISE FUND

Water Charges are slightly below budget at December 31st. We normally receive about 58% of our water service charge revenues between July 1 and December 31 each year. This year we have received 56% of budget. Water rates increased by 5% in July, but due to the continuing drought and conservation efforts of Cloverdale residents, revenues are estimated to be about $117,000 below budget at fiscal year-end. In response to declining revenues and a recent court case challenging tiered water usage rates, we engaged the services of Reed & Company to update our water rate study. After a public hearing in April we hope to increase water rates by 7% in June, with 3% annual increases in 2017, 2018 and 2019. Under the new billing structure, tiered water usage rates will be eliminated in favor of a uniform water usage rate applicable to all residential customers. The proposed rates also include a temporary water shortage surcharge to prevent drought-related fluctuations in water revenues in the future.

| Water Enterprise Revenues | Budget | YTD | % |
|---|---|---|---|
| Water Charges | $2,405,816 | $1,346,266 | 56% |
| Penalties | 17,775 | 9,094 | 41% |
| Other Revenues | 54,890 | 26,000 | 47% |
| Operating Transfers In | 142,813 | 63,258 | 44% |
| **Total Revenues** | **$2,621,294** | **$1,444,424** | **55%** |

Expenditures in the Water Fund (excluding transfers) are slightly above budget at December 31st.

| Water Fund Expenses by Department | Budget | YTD | % |
|---|---|---|---|
| Debt Service | $483,525 | $272,444 | 56% |
| Metering & Revenue | 318,392 | 137,856 | 43% |
| Operations | 1,511,155 | 786,029 | 52% |
| **Total Expenses** | **$2,313,072** | **$1,196,329** | **52%** |

Work has begun on the Urban Water Management Plan which is shown under "Planning" in the chart below.

| Water Enterprise Expenditures by Type | Budget | YTD | % |
|---|---|---|---|
| Debt Service | $483,525 | $272,444 | 56% |
| Salaries and Benefits | 1,082,713 | 552,264 | 51% |
| Services and Supplies | 546,834 | 322,094 | 59% |
| Planning | 80,000 | 16,099 | 20% |
| Capital Improvements | 120,000 | 33,428 | 28% |
| Transfers | 701,917 | 0 | 0% |
| **Total** | **$3,014,989** | **$1,196,329** | **40%** |

The Water System Improvement Project is nearly complete. The USDA has contributed the full $4,000,000 in loan funds that were committed to the project. The City's contribution includes $420,000 plus an additional $233,000 for the SCADA upgrades and filter rehab project. These improvements are critical to meeting our goal of supplying the community with a safe and reliable source of drinking water. These costs and the additional debt service to USDA are considered in our updated rate study. The Water Fund borrowed its share of the USDA project, $420,000, from the Sewer Fund in 2014. Although it is not included in the YTD amounts at 12/31/15, the inter-fund loan was repaid in full in January of 2016.

## SEWER ENTERPRISE FUND

Sewer Revenues, including Industrial Waste Water Permits, are 51% of budget at mid-year. According to the updated rate study, there are no Sewer rate increases planned for FY 2016/17 and 3% annual increases for the following three fiscal years. The January repayment of the loan from the Water Fund is not included in the "Transfers In" amount shown below.

| Sewer Enterprise Revenues | Budget | YTD | % |
|---|---|---|---|
| Sewer Charges | $1,856,018 | $920,073 | 50% |
| Penalties | 14,966 | 7,038 | 47% |
| Sewer Permits | 0 | 25,547 | - |
| Interest Income | 1,500 | 900 | 60% |
| Transfers In | 512,140 | 46,270 | 9% |
| **Total Sewer Enterprise Revenues** | **$2,384,624** | **$1,001,456** | **42%** |

Salaries and benefits in the Sewer Fund are slightly below budget, at 49%. Services and Supplies are also below budget at 32%. Debt service payments are due in the second half of the year, so they are 0% of budget at this point. Overall the Sewer Fund is on target and continues to be in good fiscal shape.

| Sewer Enterprise Expenditures by Type | Budget | YTD | % |
|---|---|---|---|
| Debt Service | $84,340 | $0 | 0% |
| Salaries and Benefits | 766,472 | 374,836 | 49% |
| Services and Supplies | 783,408 | 250,514 | 32% |
| Transfers Out | 212,275 | 0 | 0% |
| **Total** | **$1,846,495** | **$625,350** | **34%** |

## TRANSIT FUND

The City's long-time bus driver retired on 12/31/15, and the local Cloverdale bus service was taken over by the County of Sonoma. Some expenses related to transit operations are still trickling in, but we expect to be fully reimbursed by the County by the end of the fiscal year. The transit fund will be closed as part of the FY 15/16 year end process.

## AIRPORT ENTERPRISE FUND

Airport Rents are higher than projected, due to the additional revenue from the Red Bull event. The adopted budget included a proposed rate increase for hanger rental, which was deferred. The estimated rental income should be about $83,000 at year end, above the $71,000 shown in the budget. Income from the sale of fuel is below budget. Refunds and reimbursements are above budget due to the reimbursement of legal expenses related to the Red Bull event.

Grant revenue is based on reimbursement of expenses incurred for the Airport Layout Plan and the Obstruction Survey projects. Planning for those projects has started, and the City has received about $95,000 in grant reimbursements this fiscal year to date. 'Transfers In' are from the Retirement Fund to cover payroll retirement expenses, and are below budget because of the change in Airport Management from City Staff to a contract Airport Manager.

| Airport Revenues | Budget | YTD | % |
|---|---|---|---|
| State Grants – Operations | $10,000 | $0 | - |
| State Grants – Capital | 416,489 | 82,866 | 19% |
| Fuel Sales | 105,000 | 36,965 | 35% |
| Rents & Royalties | 71,146 | 51,654 | 73% |
| Refunds & Reimbursements | 125 | 8,211 | 6,569% |
| Transfers In | 6,218 | 621 | 10% |
| **Total Revenues** | **$608,978** | **$180,317** | **30%** |

Salaries and benefits are below budget due to the change in management, although a small amount of staff time is charged to the Airport to cover maintenance and hanger billing. Services and supplies are over budget due to an increase in legal fees. There is only one debt service payment in the Airport fund, for the fuel tank loan, payable annually in July. The payment is split between fiscal years, so a portion of the next debt service payment will be prorated to FY 15-16.

| Airport Expenditures | Budget | YTD | % |
|---|---|---|---|
| Debt Service | $7,572 | $67 | 1% |
| Salaries and Benefits | 31,979 | 6,712 | 21% |
| Services and Supplies | 112,316 | 63,469 | 56% |
| Grant-Funded Capital Improvements | 486,355 | 71,720 | 15% |
| Transfers Out | 20,647 | 0 | - |
| **Total Expenses** | **$658,869** | **$141,968** | **22%** |

## REDEVELOPMENT AGENCY

The City of Cloverdale elected to serve as the Successor Agency to the Community Development Agency of the City of Cloverdale when Redevelopment Agencies were dissolved in 2012. The Successor Agency is required to identify its obligations in a Recognized Obligations Payment Schedule (ROPS) annually. The City receives only the amount of tax increment necessary to pay enforceable obligations approved by the Department of Finance.

The Successor Agency recently refunded all of its loans payable; the California Infrastructure and Economic Development Bank (CIEDB), and the 2006 and 2007 Tax Allocation Bonds. We expect that tax increment payments will be sufficient in the future to cover all enforceable obligations and the administration allowance.

CITY OF CLOVERDALE

# City Council/Redev. Agency Agenda Item Summary

Agenda Item: 9
Meeting Date: February 23, 2016

| Agenda Section | Staff Contact |
|---|---|
| New Business | Vanessa Apodaca, Interim City Engineer |

**Agenda Item Title**

Discussion and Possible Action on Potential Parks Capital Projects

**Summary**

Previously staff recommended that a $60,000 study of Parks assets be undertaken, to determine existing deferred costs and the expected annual cost to maintain Parks assets. Council expressed a preference to earmark the proposed $60,000 to an actual capital improvement project, rather than a study.

Staff recognizes Council's direction to not spend $60,000 studying deferred maintenance to Parks assets. Staff will work to estimate Parks deferred maintenance in a cost effective manner consistent with Council direction.

Parks staff was asked for three candidate capital improvement projects that would enhance an existing facility, with an expected cost that might be within the $60,000 budget. The three potential projects identified by Parks staff are: Deferred Maintenance to City Park Clubhouse, Deferred Maintenance to City Park Restroom, and Deferred Maintenance to City Park Parking Lot.

Those three projects were then estimated by Engineering staff. The scope and estimates for the potential projects are as follows:

Clubhouse-
- Install new siding and trim
- Paint exterior
- Install new ADA ramp
- Replace HVAC ($10,000)
- Remodel existing bathroom per ADA
- Plans, specifications, permits, and inspection

Project estimate $107,000

Public Restrooms-
- Remodel per ADA
- Replace fixtures and lighting
- Install tile floor and wainscot
- Relocate and repair plumbing
- Paint interior
- Update lighting and electrical
- Install partitions
- Install plumbing fixtures and grab bars

Plans, specifications, permits and inspection

Project estimate $84,000

Resurface Parking Lot- Dig out and repave major potholes
Provide ADA ramp from street to lot
Improve drainage at southeast corner of lot
Slurry seal lot and asphalt concrete path through park
Restripe lot and adjacent on-street parking
Plans, specifications, permits and inspection

Project estimate $40,000

Only one of these projects meets Council's previous intent to fund a project of $60,000 or less. In part, this is a reflection of the costs of ADA improvements and the length of time that significant maintenance to these facilities has been deferred.

Given existing funding constraints, staff recommends funding of City Park Parking Lot Improvements.

**Options**

1. Direct staff to proceed with a Capital Project to improve the parking lot at City Park.
2. Direct staff to pursue alternative deferred Parks Capital projects.
3. Direct staff to not pursue a deferred Parks Capital Project at this time.

**Budget/Financial Impact**

$60,000 had been previously identified for this project, and the recommended project is within that budget.

**Subcommittee Recommendation**

N/A

**Recommended Council Action**

Direct staff to proceed with design and bidding of Improvements to City Park Parking Lot.

**Attachments:**

None

**cc:**

CITY OF CLOVERDALE

# City Council/Successor Agency Agenda Item Summary

Agenda Item: 10
Meeting Date: February 23, 2016

| Agenda Section | Staff Contact |
|---|---|
| New Business | Paul Cayler, City Manager |

**Agenda Item Title**

Discussion and Possible Action on the Future of the Sonoma County Waste Management Agency, including Possible One Year Extension of Joint Powers Authority Agreement

**Summary**

Cloverdale is one of ten members of the Sonoma County Waste Management Agency (SCWMA), which is a Joint Powers Authority (JPA) tasked primarily with directing waste diversion efforts county-wide. The members are the 9 incorporated municipalities and the County of Sonoma. The SCWMA was established in 1992, and the original JPA Agreement set a term limit of 25 years. The Agreement will expire in February 2017. The SCWMA Board of Directors and its member jurisdictions has engaged in a series of discussions regarding the future of the agency. The Cloverdale City Council last discussed this matter on May 27, 2015, wherein recommendations on a detailed Matrix of Issues and Questions were reviewed and adopted by the Council. Please find attached the appropriate page of Council minutes from the May 27, 2015.

When SCWMA members discussed issues regarding the future of SCWMA programs in 2015, there appeared to be consensus on the benefits of having regional household hazardous waste, solid waste education, and sold waste planning and reporting programs. There was NOT consensus on whether the County of Sonoma or the SCWMA should perform those regional programs.

The County of Sonoma proposed forming a new JPA affiliated with the Regional Climate Protection Agency (RCPA) for planning, education and reporting functions. If a RCPA type JPA were to be selected, it is envisioned that the planning, education and reporting functions would be the responsibility of the RCPA, and the composting and household hazardous waste programs would be run by the County of Sonoma and/or Republic Services.

Another option is to retain the existing SCWMA model and either renew or develop a new JPA agreement. Consensus among SCWMA members regarding a new SCWMA JPA was not achieved during 2015 feedback.

The SCWMA Board of Directors is seeking feedback from all its members on their preferences for the future of the SCWMA. The key questions before all member jurisdictions are whether the existing JPA should be extended for a one-year and whether the introduction of a potential JPA formed under the RCPA changes the preferences of the Council regarding the authority of the SCWMA's current programs.

**Options**

1) Delay action and allow other SCWMA members give feedback; 2) Reject one year extension; and 3) Approve one year extension.

**Budget/Financial Impact**

None.

**Subcommittee Recommendation**

None.

**Recommended Council Action**

The City Manager recommends that the City Council direct the City's SCWMA Board representative to vote in favor of a one-year extension for the operating term of the SCWMA JPA.

**Attachments:**

1) Page 3 of the May 27, 2015, Cloverdale City Council minutes

Maddy Hirschfeld, Campaign Manager for Measure A, thanked the City Council for their support.

Mayor Cox closed public comment.

**Action:** Motion was made by Councilmember Palla, and seconded by Councilmember Wolter, to approve Resolution 023-2015, a Resolution of the City Council of the City of Cloverdale supporting Countywide Ballot Measure A. The motion passed unanimously by roll call vote (5-ayes – Councilmember Palla, Vice Mayor Brigham, Councilmember Russell, Councilmember Wolter, Mayor Cox; 0-noes; 0-absent).

4. **Action on Recommendations from the Ad Hoc Committee Regarding Sonoma County Waste Management Authority's Matrix of Issues Related to Potential Joint Powers Authority Agreement Changes**

City Manager Cayler presented this item and stated as part of the presentation the Council received, on April 22, 2015, from Sonoma County Waste Management ("the Agency"), a matrix of issues related to numerous challenges facing the Agency in terms of reforming their Joint Powers Authority authorization. City Manager Cayler stated the Council referred the matter to an ad hoc committee, consisting of Mayor Cox and Councilmember Russell, which met May 19, 2015, and made recommendations, based on Cloverdale's interests, as to what Council should support. City Manager Cayler pointed out that two questions (Questions 10 and 11) were legal issues directed toward the City Attorney and it was determined it would be premature for us to answer those questions; the rest were policy decisions.

Councilmember Russell stated she was not thrilled with the language used and felt that options, such as "a slight preference" or "showstopper" were subjective and slovenly, but they did their best to answer as honestly and directly as they could.

City Manager Cayler stated he was asking the City Council approve the ad hoc committee recommended answers to the matrix and that he be directed to communicate those to the General Manager of the Agency.

Mayor Cox noted that all of the cities received the same matrix, so everyone had to select from the same choices.

Mayor Cox opened public comment.

Mayor Cox closed public comment.

**Action:** Motion was made by Councilmember Palla to approve the ad hoc committee's recommended answers to the Matrix of Issues and Questions as set forth in the Summary that is in the Staff Report and direct the City Manager to communicate said answers to the General Manager of the Sonoma County Waste Management Agency; motion was seconded by Vice Mayor Brigham. The motion passed unanimously by voice vote (5-ayes – Councilmember Palla, Vice Mayor Brigham, Councilmember Russell, Councilmember Wolter, Mayor Cox; 0-noes; 0-absent).

**SUBCOMMITTEE ACTION ITEMS:**

Finance, Administration & Police

5. **Consideration of a Resolution Approving a Reimbursement Agreement between the City of Cloverdale and the Cloverdale Community Development Successor Agency.**

Finance Manager Cavallari presented this item and stated the State Controller's Office has ruled that the City must return the 2000 loan payment back to the Successor Agency in the amount of over $925,000.

CITY OF CLOVERDALE

# City Council/Successor Agency Agenda Item Summary

Agenda Item: 11
Meeting Date: February 23, 2016

| Agenda Section | Staff Contact |
|---|---|
| Subcommittees – Finance & Administration | Vanessa Apodaca, Interim City Engineer |

**Agenda Item Title**

Consideration of Draft Resolution No. 018-2016 Accepting Draft Water and Sewer Rate Study and directing staff to proceed with the Proposition 218 Public Noticing Process for Proposed Water and Sewer Rate Increases and to Return April 26, 2016 for a Public Hearing and the Adoption of Rates

**Summary**

The City operates a utility for Water supply, treatment, distribution and system maintenance; and a utility for Wastewater (sewer) collection, treatment and system maintenance. The utilities are each housed in an enterprise fund. Expenses for the utilities are made up of both operations and capital projects to either enhance or maintain the system. Revenues for operations and capital projects to maintain the system for existing customers are generated via utility rates, which are based on cost recovery. Revenues for capital projects associated with growth/new development are generated via impact fees, which are based on pre-identification of those capital projects and their cost estimates.

The City has been working to maintain the financial stability of the two utilities. This has been a multi-step process.

The first step was to create updated Master Plans for each utility that identified current and future projects for maintenance and/or growth purposes. This step was completed in September 2009 (Sewer System Master Plan adoption) and August 2010 (Water System Master Plan adoption).

The second step was to revamp the City's development impact fee ordinance and associated resolutions to recover the cost of the impact that new development has on the two utility systems. This step was completed in June 2011 (effective August 2011).

The next step in the process was to update the City's water and sewer multi-year rate models to recover the costs of operations and existing users' share of maintenance and enhancement capital projects. The City has been managing the process of updating its utility rate models among its other Public Works-related projects and activities.

The City Council authorized the City Manager to execute an agreement with The Reed Group to update the City's rate models with master planned capital projects, operating and regulatory compliance costs, equipment renewal and replacement, and United States Department of Agriculture (USDA) and other loan payments applicable to each utility. The rate models were then used to design water and sewer rates and to prepare rate schedules to generate required revenue. The rate analysis and proposed rates and rate structures are described in a Water and Sewer Rate Study (Study) as the basis of setting appropriate rates.

The study is complete and concludes that there is a need for water and sewer rate increases. The study recommends the City increase overall water rates as follows:

| | |
|---|---|
| June 2016 | 7% |
| July 2017 | 3% |
| July 2018 | 3% |
| July 2019 | 3% |

The proposed overall sewer rate increase are:

| | |
|---|---|
| June 2016 | 0% |
| July 2017 | 3% |
| July 2018 | 3% |
| July 2019 | 3% |

Due to a significant ruling by the San Juan Capistrano Appellate Court staff and the City's consultant are recommending elimination of tiered water usage rates. In addition, the proposed water and sewer rates for June 2016 incorporate minor changes to the water rate structure consistent with the cost of service analysis that proportionately allocates costs to each component of the water and sewer rates, as required by the California Constitution.

**Utility Rate Revision Process**

Once the Study has been finalized and accepted by the City Council, staff will begin the required Proposition 218 public notice and process. The notice will establish the ***maximum allowed*** rate increase to be considered by the City Council for formal adoption. California voter-approved Proposition 218 requires a public hearing, to be noticed at least 45 days in advance, to allow for public comment on the proposed rate increases.

Once the public input forums have been completed, the City Council considers a Rate Resolution to revise the current rates. It may adopt rate increases that are equal to or less than, but not more than, the rates laid out in the accepted Rate Study.

**Options**

Accept the Study as proposed or as it may be amended, establish a public hearing date and proceed with the Proposition 218 noticing requirements; or provide additional feedback and direction to staff.

**Budget/Financial Impact**

There is insufficient cash in the water operating fund to maintain a contingency reserve required by City policy and, without a water rate increase, the Water Operating Fund may not be able to meet service and financial requirements. In addition, a water rate increase is needed in order to meet existing debt service coverage requirements. Failure to meet these requirements could have an adverse impact on the utility's credit rating.

There is insufficient cash in the sewer operating fund to maintain a contingency reserve required by City policy. Without a sewer rate increase, the Sewer Operating Fund may not be able to meet service and financial requirements. The City's ability to fund needed sewer system rehabilitation projects would also be impaired.

**Subcommittee Recommendation**

The Finance and Administration Subcommittee discussed the preliminary findings of the Water and Sewer Rate Study. The Subcommittee concurred with staff's assessment that rate increases are needed and recommended scheduling a full Council meeting item to accept the report and proceed with the proposition 218 public noticing process for proposed water and sewer rate increases.

**Recommended Council Actions**

1. Move to approve by title only Resolution No. 018-2016 accepting the Water and Sewer Rate Study – Final Draft Report dated February 9, 2016, and provide direction for proposing:
    a. Overall water rate increases of 7 percent on June 1, 2016, and rate increases of 3 percent on July 1, 2017, July 1, 2018, and July 1, 2019 in accordance with proposed rate schedules; and
    b. Overall sewer rate increases of 0 percent on June 1, 2016, and rate increases of 3 percent on July 1, 2017, July 1, 2018, and July 1, 2019 in accordance with proposed rate schedules; and

c. Changes to both water and sewer rate structures effective June 1, 2016.

2. Direct staff to begin the Proposition 218 public noticing process for proposed water and sewer rate increases and to return on April 26, 2016 for a public hearing and the adoption of rates.

**Attachment:**

Draft Resolution No. 018-2016 Accepting Draft Water and Sewer Rate Study and directing staff to proceed with the Proposition 218 Public Noticing Process for Proposed Water and Sewer Rate Increases and to Return April 26, 2016 for a Public Hearing and the Adoption of Rates.

**cc:**

**City Of Cloverdale**
**City Council**
**Resolution No. 018-2016**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CLOVERDALE ACCEPTING THE WATER AND SEWER RATE STUDY DATED FEBRUARY 9, 2016, ATTACHED HERETO**

**WHEREAS**, the City has not conducted a water and sewer rate study to adjust rates since April 2013. At that time, the City established a series of rate increases to cover the cost of providing water and sewer service in Cloverdale; and

**WHEREAS**, since 2013 the City has updated its Sewer and Water Master Plans which have identified capital improvements not incorporated into the current sewer and water rates; and

**WHEREAS**, operations and maintenance, infrastructure renewal, and regulatory compliance costs have increased and need to be incorporated into the water and sewer rates, and

**WHEREAS**, City Council authorized the City Manager to execute an agreement with The Reed Group to revise the City's rate models to incorporate costs from master planned capital projects and other costs including increased operating and regulatory compliance costs, equipment renewal and replacement; and

**WHEREAS**, The Reed Group has revised the rate models and has completed a Water and Sewer Rate Study Final Draft Report, dated February 9, 2016, ("Study") based on the revised models. The Study concludes that there is a need for water and sewer rate increases to meet service and financial requirements; and

**WHEREAS,** the Study recommends overall water rate increases of 7 percent (7%) in June 2016, and 3 percent (3%) increases in July 2017, July 2018, and July 2019; and

**WHEREAS,** the Study recommends no overall increases in sewer rates in June 2016, however does recommend adjustments in the rate structure to meet cost of service requirements. The Study does recommend 3 percent (3%) Increases in July 2017, July 2018, and July 2019; and

**WHEREAS,** the Study recommends changes to both the water and sewer rate structures, to be effective June 1, 2016, consistent with cost of service requirements.

**NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CLOVERDALE AS FOLLOWS**:

1. The above recitals are true and correct and are hereby incorporated into this Resolution as findings of the City Council of the City of Cloverdale.

4. The City Council accepts the attached Water and Sewer Rate Study – Final Draft Report dated February 9, 2016.

5. This Resolution shall become effective immediately.

It is hereby certified that the foregoing Resolution No. 018-2016 was duly introduced and duly adopted by the City Council of the City of Cloverdale at its regular meeting held on the 23rd day of February, 2016 by the following roll call vote: -ayes, -noes

AYES in favor of:
NOES:
ABSENT:
ABSTAIN:
APPROVED:

ATTESTED:

Mary Ann Brigham, Mayor

Linda Moore, Deputy City Clerk

# CITY OF CLOVERDALE

## Water and Sewer Rate Study

*Final Draft Report*

February 9, 2016

THE REED GROUP, INC.

# Table of Contents

**SECTION I. EXECUTIVE SUMMARY ..... 1**

*Introduction and Background ..... 1*
*Financial Plans and Revenue Needs ..... 1*
*Proposed Water and Sewer Rate Schedules ..... 3*
*Impact of Proposed Water and Sewer Rates ..... 4*
*Water Shortage Financial Analysis and Water Shortage Surcharges ..... 7*
*Adopting Proposed Water and Sewer Rates ..... 8*

**SECTION II. WATER RATES ..... 9**

*Fund Structure and Cash Flows ..... 9*
*Financial Plan Assumptions ..... 11*
*Financial Plan Findings and Conclusions ..... 15*
*Current Water Rates ..... 16*
*Customer Account Data and Water Use Estimates ..... 17*
*Water Rate Calculations ..... 18*
*Proposed Water Rate Schedules ..... 22*
*Water Shortage Financial Analysis ..... 23*
*Water Shortage Rate Surcharges ..... 27*

**SECTION III. SEWER RATES ..... 31**

*Fund Structure and Cash Flows ..... 31*
*Financial Plan Assumptions ..... 33*
*Financial Plan Findings and Conclusions ..... 36*
*Current Sewer Rates ..... 37*
*Customer Account Data and Sewer Flow and Loading Estimates ..... 37*
*Sewer Rate Calculations ..... 40*
*Proposed Sewer Rate Schedules ..... 43*

# SECTION I. EXECUTIVE SUMMARY

## INTRODUCTION AND BACKGROUND

The City of Cloverdale retained The Reed Group, Inc. to develop five-year financial plans and to update user rates for the City's water and sewer utilities. The purpose of the study was to ensure that each utility is meeting financial obligations for ongoing operation and maintenance, debt service, and capital improvements while maintaining prudent financial reserves. The last comprehensive rate study was completed in FY 12-13, and the most recent adjustments to the level of water and sewer rates occurred in July 2015.

The scope of services for the water and sewer rate study included the following:

- Review financial goals and policy objectives
- Review current budgets, existing debt obligations, and capital improvement plans
- Prepare a five-year financial plans and determine annual revenue requirements for each utility
- Review current water and sewer rate structures and recommend changes consistent with legal requirements and rate setting objectives
- Evaluate the financial implications of water shortage and develop recommendations addressing the financial deficit created by shortage conditions
- Present draft recommendations to the City's Finance and Administration Committee to review the assumptions and conclusions from the financial plan and rate analyses
- Prepare a water and sewer rate study report (this report) to document the analyses performed during the study
- Present study recommendations to the City Council during a regular meeting, and assist the City in preparing a notice of public hearing regarding the proposed water and sewer rates
- Present final water and sewer rate recommendations during a public hearing to adopt new rates.

The purpose of this report is to describe the analyses performed, present a financial plan for each utility, and summarize findings and recommendations regarding the water and sewer rates, including water shortage rate surcharges.

## FINANCIAL PLANS AND REVENUE NEEDS

Financial plan findings and recommendations are summarized below for both the water and sewer utilities.

*Water Utility*

The water utility's financial situation has been affected by recent drought conditions and the resulting reduced water sales. While utility revenues are sufficient to cover current operating and maintenance costs and existing debt service payments, revenues are not sufficient to meet the utility's capital program needs for rehabilitating the water system, and it may not meet debt service coverage requirements in the current fiscal year. While the water utility's financial condition should improve as hydrologic conditions improve and water sales rebound, the current situation is not sustainable. An adjustment to the level of water rates is needed immediately to ensure the water utility can continue ongoing operations, meet all debt service obligations, fund needed capital improvements, and maintain prudent financial reserves.

In 2014 the City secured at $4 million low interest loan from the US Department of Agriculture (USDA) for water system improvements. Those improvements are currently under construction and approaching completion. Within the five-year planning period of this study the City has identified an additional $3.6 million in improvements (in current dollars). Current water rate and other revenues are insufficient to support this level of capital improvement program activity.

It is recommended that the City take immediate steps to increase water rates, as well as to approve future annual water rate increases in order to establish and maintain financial stability. The recommended overall water rate increases are:

| | |
|---|---|
| June 2016 | 7% |
| July 2017 | 3% |
| July 2018 | 3% |
| July 2019 | 3% |

The City previously approved a water rate increase of 5 percent for July 2016. The 7 percent water rate adjustment listed above for June 2016 would replace the previously approved rate increase of 5 percent. Proposed water rate schedules (presented later in this Executive Summary) also reflect an updated cost of service analysis and rate restructuring.

*Sewer Utility*

The sewer utility is in a more stable financial state. Current sewer rates and other operating revenues are sufficient to cover operating and maintenance costs and current debt obligations, and provide limited funding for needed capital improvements. While the sewer utility currently has a healthy fund balance, its financial reserves are being depleted in support of capital improvement program needs. While an overall sewer rate increase is not immediately necessary, in order to better stabilize the financial condition of the sewer utility, modest increases will be needed in future years. Without the modest adjustments the sewer utility will be unable to adequately fund needed sewer system improvements.

The capital improvement plan for the sewer utility includes about $3.6 million in new projects over the next five years (in current dollars). While available financial reserves will pay for a portion of the capital improvement program, a majority of sewer improvements

will need to be funded through sewer rates. The sewer utility is fortunate to have a limited amount of long-term debt, and all existing debt obligations will be satisfied within the five-year planning period. This limited debt exposure helps the City to maintain lower sewer rates for the benefit of all customers.

While an immediate rate increase is not needed, it is recommended that the City take steps to gradually increase sewer rates in order to establish and maintain sufficient funding for capital improvement needs. The recommended overall sewer rate increases are:

| | |
|---|---|
| June 2016 | 0% |
| July 2017 | 3% |
| July 2018 | 3% |
| July 2019 | 3% |

The City previously approved a sewer rate increase of 5 percent for July 2016 can be rescinded. The sewer rate changes for June 2016 are not intended to increase revenues and would replace the previously approved rate increase of 5 percent, effectively reducing the level of the sewer rates. Proposed sewer rate schedule for June 2016 (presented later in this Executive Summary) reflects an updated cost of service analysis.

The financial plan models reflect assumptions and estimates that are believed reasonable at the present time. However, conditions change. It is recommended that the City review the financial condition of the water and sewer utilities annually as part of the budget process, and perform a more comprehensive financial plan and rate update study every 3 to 5 years, unless otherwise needed sooner.

**PROPOSED WATER AND SEWER RATE SCHEDULES**

**Exhibits I-1 and I-2** present proposed water and sewer rate schedules, respectively, to be implemented beginning in June 2016. The water and sewer rates presented in this report reflect updated cost of service analyses as well as the elimination of tiered water usage rates for single family customers. The elimination of the tiered water rate structure is recommended due to a recent court decision involving Proposition 218. Further explanation of this change is provided in Section II of this report.

Sewer rates for multi-family accounts are proposed to decrease due to the updated cost of service analysis. Residential sewer rate analysis is based on an examination of winter water usage of single family and multi-family dwellings (separately analyzed). Multi-family dwellings contribute less wastewater to the sewer system than single family homes. The sewer rate for schools (based on average daily attendance) is proposed to increase due to changes in water usage characteristics since the previous rate study.

The proposed water rate schedules reflect the policy objectives of the City, but more importantly they reflect an allocation of water system costs to users based on an equitable proportioning of the costs of service. The proposed sewer rates reflect an updated allocation of sewer system costs to users based on an equitable proportioning of the costs of service. Details of water rate analyses and rate recommendations are presented in Section II of this report. Details of sewer rate analyses and rate recommendations are presented in Section III of this report.

**Exhibit I-1**
**City of Cloverdale**
**Proposed Monthly Water Rate Schedules (1)**

| | June 2016 | July 2017 | July 2018 | July 2019 |
|---|---|---|---|---|
| ***Monthly Base Charges*** | | | | |
| Up to 1" Meter | $ 22.25 | $ 22.92 | $ 23.61 | $ 24.32 |
| 1 1/2" Meter | $ 42.07 | $ 43.33 | $ 44.63 | $ 45.97 |
| 2" Meter | $ 65.85 | $ 67.83 | $ 69.86 | $ 71.96 |
| 3" Meter | $ 121.35 | $ 124.99 | $ 128.74 | $ 132.60 |
| 4" Meter | $ 200.63 | $ 206.65 | $ 212.85 | $ 219.24 |
| ***Water Usage Rates ($/CCF)*** | | | | |
| All Water Usage | $ 4.35 | $ 4.48 | $ 4.61 | $ 4.75 |

**Notes:**
(1) Water rates outside the City should continue to be 5 percent higher than inside the City.

**Exhibit I-2**
**City of Cloverdale**
**Proposed Monthly Sewer Rate Schedules**

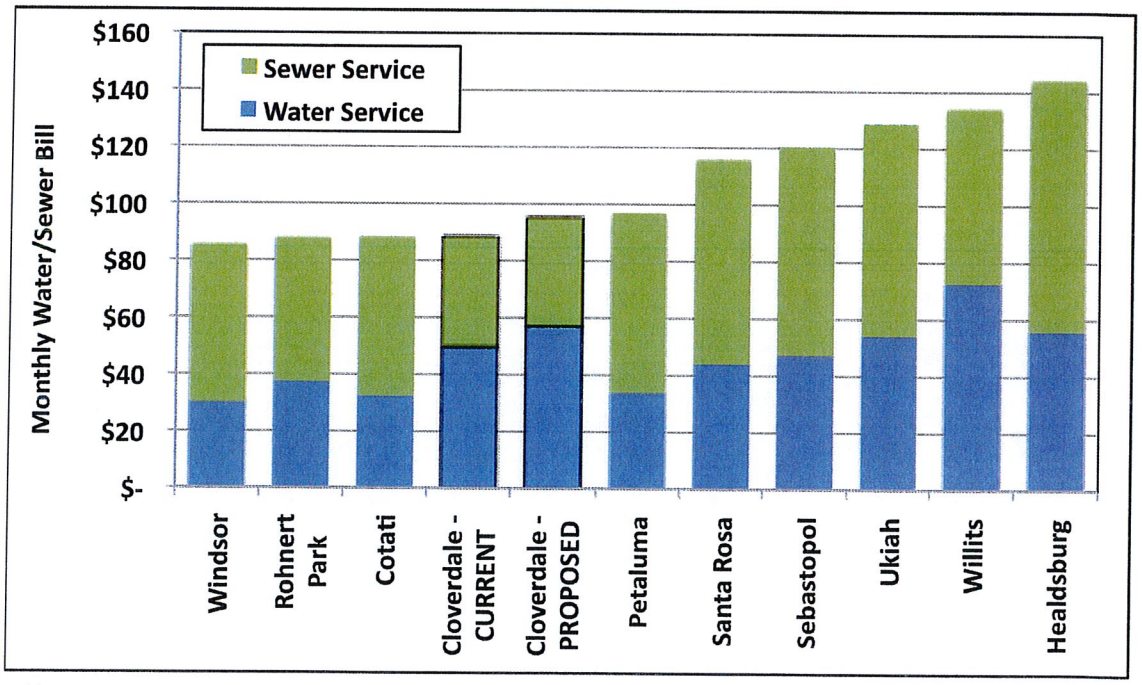
| | June 2016 | July 2017 | July 2018 | July 2019 |
|---|---|---|---|---|
| ***Residential Flat Rates*** | | | | |
| Single Family Residential (per DU) | $ 38.20 | $ 39.35 | $ 40.53 | $ 41.75 |
| Multi-Family Residential (per DU) | $ 24.72 | $ 25.46 | $ 26.22 | $ 27.01 |
| ***Non-Residential Base Charges*** | | | | |
| Up to 1" Meter | $ 10.92 | $ 11.25 | $ 11.59 | $ 11.94 |
| 1 1/2" Meter | $ 19.73 | $ 20.32 | $ 20.93 | $ 21.56 |
| 2" Meter | $ 30.30 | $ 31.21 | $ 32.15 | $ 33.11 |
| 3" Meter | $ 54.97 | $ 56.62 | $ 58.32 | $ 60.07 |
| 4" Meter | $ 90.22 | $ 92.93 | $ 95.72 | $ 98.59 |
| ***Non-Residential Usage Charges ($/CCF)*** | | | | |
| Low Strength | $ 4.49 | $ 4.62 | $ 4.76 | $ 4.90 |
| Medium Strength | $ 5.59 | $ 5.76 | $ 5.93 | $ 6.11 |
| High Strength | $ 8.09 | $ 8.33 | $ 8.58 | $ 8.84 |
| ***Public Schools*** | | | | |
| Per 100 ADA | $ 148.15 | $ 152.59 | $ 157.17 | $ 161.89 |

## IMPACT OF PROPOSED WATER AND SEWER RATES

The City of Cloverdale's water and sewer rates are currently in the middle range relative to neighboring communities. Even with the proposed rate adjustments for both water and sewer rates, the combined water and sewer bills for a typical single family residential customer will remain in the mid-range relative to neighboring communities. The typical combined water and sewer bills for a single family customer in Cloverdale is compared with neighboring communities in **Exhibit I-3**. A typical combined water and sewer bill for a single family customer in Cloverdale will increase from $95.74 per month to $103.95 per month. Under current rates in neighboring communities, the same typical customer would have a combined water and sewer bill ranging from $85.61 per month to $144.40 per month.

**Exhibit I-3**
**City of Cloverdale**
**Comparison of Typical Monthly Single Family Water and Sewer Bill with Neighboring Communities (1)**

| | Water Service | Sewer Service | Total Bill |
|---|---|---|---|
| Windsor | $ 30.32 | $ 55.29 | $ 85.61 |
| Rohnert Park | $ 37.59 | $ 50.43 | $ 88.02 |
| Cotati | $ 32.61 | $ 55.66 | $ 88.27 |
| **Cloverdale - CURRENT** | $ 49.78 | $ 38.64 | **$ 88.42** |
| **Cloverdale - PROPOSED** | $ 57.05 | $ 38.20 | **$ 95.25** |
| Petaluma | $ 33.84 | $ 63.24 | $ 97.08 |
| Santa Rosa | $ 44.06 | $ 71.79 | $ 115.85 |
| Sebastopol | $ 47.28 | $ 73.30 | $ 120.58 |
| Ukiah | $ 54.09 | $ 74.69 | $ 128.78 |
| Willits | $ 72.60 | $ 61.58 | $ 134.18 |
| Healdsburg | $ 55.88 | $ 88.52 | $ 144.40 |




**Notes:**

(1) Based on current rates in neighboring communities with the base meter size and 8 CCF of water usage and 5 CCF of winter water use (for sewer billing).

**Exhibit I-4** shows how water and sewer bills may be affected by the proposed rates for June 2016 for a variety of customers within the City of Cloverdale. For single family customers, the low use example might be considered a winter bill amount, and the high use example a peak summer bill amount. All customers have different water usage characteristics, and the change to any individual customer's water and sewer bill will be a function of customer class, meter size, and water usage. In all cases, the proposed rates and bill amounts reflect a proportionate allocation of the costs of service to each customer.

**Exhibit I-4**
**City of Cloverdale**
**Sample Water and Sewer Bills for Typical Customers**

| | Current Rates | | | Proposed Rates | | | Change | |
|---|---|---|---|---|---|---|---|---|
| | Water | Sewer | Total | Water | Sewer | Total | $s | % |
| ***Single Family Residential*** | | | | | | | | |
| Low Use (5 CCF) | $ 38.80 | $ 38.64 | $ 77.44 | $ 44.00 | $ 38.20 | $ 82.20 | $ 4.76 | 6% |
| Average Use (10 CCF) | $ 57.10 | $ 38.64 | $ 95.74 | $ 65.75 | $ 38.20 | $ 103.95 | $ 8.21 | 9% |
| High Use (16 CCF) | $ 84.58 | $ 38.64 | $ 123.22 | $ 91.85 | $ 38.20 | $ 130.05 | $ 6.83 | 6% |
| ***Multi-Family Residential*** | | | | | | | | |
| Duplex (5/8" mtr., 15 CCF) | $ 80.80 | $ 58.10 | $ 138.90 | $ 87.50 | $ 49.44 | $ 136.94 | $ (1.96) | -1% |
| Apartment w/ 6 DUs (1" mtr, 30 CCF) | $ 141.10 | $ 174.30 | $ 315.40 | $ 152.75 | $ 148.33 | $ 301.08 | $ (14.32) | -5% |
| Apartment w/ 28 DUs (2" mtr., 140 CCF) | $ 621.11 | $ 813.40 | $ 1,434.51 | $ 674.85 | $ 692.23 | $ 1,367.08 | $ (67.43) | -5% |
| ***Non-Residential*** | | | | | | | | |
| Medical Office (1" mtr., 28 CCF) | $ 133.06 | $ 130.15 | $ 263.21 | $ 144.05 | $ 136.64 | $ 280.69 | $ 17.48 | 7% |
| Retail (1" mtr. 12 CCF) | $ 68.74 | $ 60.71 | $ 129.45 | $ 74.45 | $ 64.80 | $ 139.25 | $ 9.80 | 8% |
| Laundromat (2" mtr., 180 CCF) | $ 781.91 | $ 805.04 | $ 1,586.95 | $ 848.85 | $ 838.50 | $ 1,687.35 | $ 100.40 | 6% |
| Hotel (2" mtr, 60 CCF) | $ 299.51 | $ 347.24 | $ 646.75 | $ 326.85 | $ 365.70 | $ 692.55 | $ 45.80 | 7% |
| Restaurant (2" mtr., 90 CCF) | $ 420.11 | $ 724.94 | $ 1,145.05 | $ 457.35 | $ 758.40 | $ 1,215.75 | $ 70.70 | 6% |
| City Park (3" mtr., 500 CCF) | $ 2,116.44 | n/a | $ 2,116.44 | $ 2,296.35 | n/a | $ 2,296.35 | $ 179.91 | 9% |

**WATER SHORTAGE FINANCIAL ANALYSIS AND WATER SHORTAGE SURCHARGES**

Because of the current and continuing drought conditions, this water rate update includes a separate analysis of the financial implications of the sustained reduced water sales that coincides with water shortage conditions. The financial analysis includes the development of water shortage rates surcharges that could be implemented during periods of mandatory water use reductions and prohibitions as declared by the City.

Water shortage conditions result in (1) reduced water sales, (2) reduced water production costs, and (3) increased water conservation education and assistance costs. The net effect of these impacts is to create a financial deficit during periods of water shortage (i.e., revenue will decline more than the decline in expenses).

To counter the financial impact of water shortage, a three-prong strategy is proposed that includes (1) utilizing a portion of available Contingency Reserves to offset a portion of the financial deficit created by reduced water sales, (2) adopting and implementing water shortage rate surcharges to generate additional revenue, and (3) in the most severe shortages reducing the annual contribution to the capital project fund for capital projects. This strategy, including the water shortage rate surcharges, should be incorporated into the City's water shortage contingency plan and *2015 Urban Water Management Plan.*

Several stages of water shortage beyond normal water supply conditions have been defined for water shortage contingency planning purposes. These include:

- Normal Condition - No water use reduction required
- Stage 1 - Minor Shortage - 10 to 20 percent water use reduction goal
- Stage 2 - Moderate Shortage - 20 to 30 percent water use reduction goal
- Stage 3 - Urgent Shortage - 30 to 40 percent water use reduction goal
- Stage 4 - Critical Shortage - Over 40 percent water use reduction goal

Proposed water shortage rate surcharges would be implemented whenever the City Council declares a water shortage. Water shortage rate surcharges would be applied to the uniform water rates (but not to monthly base charges). The water shortage rate surcharge would mean that all customers would bear a proportionate share of the financial burden created by water shortage. The water shortage rate surcharges have been designed such that customers meeting water use reduction goals will have lower water bills than their normal water bills. Customers that do not meet water use reduction goals may have higher water bills.

**Exhibit I-5** presents the proposed water shortage rate surcharges, which are expressed as a percentage increase to the normal water usage rate. The amount of increase depends on the stage of shortage. It is expressed as a percentage so that it can be applied to any future rate schedule. The specific rates shown in Exhibit I-5 are an application of the water shortage surcharges to the proposed water rates for June 2016. As an example, in Stage 1 - Minor Shortage a 6 percent water shortage rate surcharge would effectively temporarily increase the water usage rate from $4.35 per CCF to $4.61 per CCF. Monthly base charges would be unaffected.

**Exhibit I-5**
**City of Cloverdale**
**Proposed Temporary Water Shortage Rate Surcharges Applied to Water Rates for June 2016 (1)**

| | Normal Supply Conditions (1) | Stage 1 Minor Shortage (Voluntary) | Stage 2 Moderate Shortage (Mandatory) | Stage 3 Urgent Shortage (Mandatory) | Stage 4 Critical Shortage (Mandatory) |
|---|---|---|---|---|---|
| Use Reduction Goal --> | None | 10% to 20% | 20% to 30% | 30% to 40% | > 40% |
| **Wtr. Short. Surch. (2) -->** | **None** | **6%** | **15%** | **24%** | **32%** |
| ***Monthly Base Charges*** | | | | | |
| Up to 1" Meter | $ 22.25 | | | | |
| 1 1/2" Meter | $ 42.07 | | | | |
| 2" Meter | $ 65.85 | | No Changes to Base Charges | | |
| 3" Meter | $ 121.35 | | | | |
| 4" Meter | $ 200.63 | | | | |
| ***Water Usage Rates ($/CCF)*** | | | | | |
| All Water Usage (3) | $ 4.35 | $ 4.61 | $ 5.00 | $ 5.39 | $ 5.74 |

**Notes:**
(1) The water shortage rate surcharge percentages are shown applied to the proposed water usage rate for June 2016 for illustrative purposes. The percentages would be applied to any then-current water usage rates when implemented by declaration of a water shortage by the City Council.
(2) The water shortage rate surcharge would be an incremental (percentage) increase in the water usage rate, but would not be applied to monthly base charges.
(3) The water usage rates shown for Stages 1 through 4 incorporate the water shortage rate surcharge.

Water shortage rate surcharges will need to be adopted through a Proposition 218 notice and public hearing process. It is recommended that the water shortage rate surcharges be adopted with the other water and sewer rates proposed by the study. The water shortage rate surcharges could then be implemented during the current or any future declared water shortage. Details of the water shortage financial analysis and proposed water shortage surcharges are presented in Section II of this report.

## ADOPTING PROPOSED WATER AND SEWER RATES

In order to adopt the proposed water and sewer rates for the next four years and the proposed water shortage rate surcharges the City will need to follow the requirements contained in Article XIII D of the California Constitution (Proposition 218). This includes a Notice of Public Hearing to be mailed to all affected property owners and customers at least 45 days prior to a public hearing.

It is recommended that the City combine the adoption of the proposed four-year water and sewer rate schedules, as well as the adoption of water shortage rate surcharges, into a single public notice and rate hearing. This will save the City both time and expenses.

## SECTION II. WATER RATES

This section of the report describes the financial plan and water rate recommendations for the City's water utility. The five-year financial plan is used to determine annual water rate revenue requirements. The annual rate revenue requirement is the amount of revenue needed from water rates to cover planned operating, maintenance, debt service, and capital program costs with consideration of other revenues and financial reserves.

### FUND STRUCTURE AND CASH FLOWS

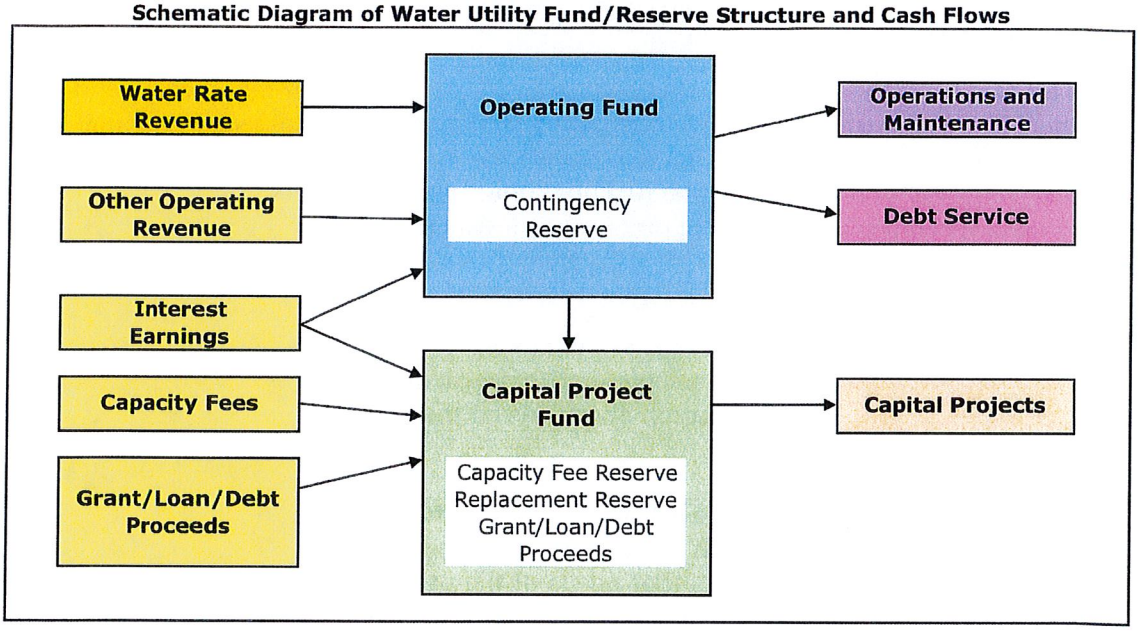
The financial plan is an annual cash flow model. As a cash flow model, it differs from standard accounting income statements, and balance sheets. The financial plan models sources and uses of funds into, out of, and between the various funds and reserves of the water utility.

The financial plan model is based on a fund structure not currently used by the City. This structure was discussed with staff, with concurrence that it would provide a helpful framework for evaluating the financial needs of the utility and for clearly demonstrating how operating and maintenance costs, debt service obligations, and capital program needs are being addressed. The proposed structure includes a Capital Project Fund, separate from the Operating Fund, for the purpose of meeting capital program needs. In other respects, such as reserve and account structures, the financial plan model is consistent with current practices of the City. **Exhibit II-1** is a schematic diagram of the funds/reserves and major cash flows associated with the financial plan model.

An understanding of the fund/reserve structure is helpful in understanding the financial plan worksheets that model annual cash flows through the water utility from one year to the next. The fund/reserve structure is comprised of:

- ***Operating Fund*** – The Operating Fund is the primary fund within the water utility. Most of the water system's revenues, including water rate revenues, flow into the Operating Fund and all operating and maintenance costs, including debt service payments, are paid out of this fund. Funds are also transferred from the Operating Fund to the Capital Projects Fund to help pay for capital projects intended to rehabilitate and upgrade facilities.
    - *Contingency Reserve* – The City currently has a policy goal to maintain Contingency Reserves within the Operating Fund equal to 25 percent of annual operating and maintenance costs for the water system. The purpose of the Contingency Reserve is to provide working capital and funds for unplanned operating and maintenance expenditures. The balance in the Water Operating Fund at the beginning of FY 15-16 was above the target Contingency Reserve, however, by the end of the current fiscal year it may be near this target minimum. This is one indicator of the need to increase water rates, as revenues are not keeping pace with costs.

**Exhibit II-1**
**City of Cloverdale**
**Schematic Diagram of Water Utility Fund/Reserve Structure and Cash Flows**




- *Available Fund Balance* – The balance in the Operating Fund in excess of the target amount for the Contingency Reserves is shown in the financial plan as Available Balance. After all other obligations are met the Available Balance is available to offset rate increases, and the financial plan model generally seeks to reduce any Available Balance over time. A negative value for the Available Balance indicates the shortfall in maintaining the minimum Contingency Reserve.

- ***Capital Projects Fund*** – The Capital Projects Fund is used to account for revenues and debt proceeds available for capital project expenditures. Capital projects funded from this fund are intended to rehabilitate, upgrade, and expand the water system to meet current and future needs of the water utility. The financial plan model generally seeks to maintain a positive balance in the Capital Projects Fund while also covering the costs of planned capital improvement projects. The Capital Projects Fund is comprised of three separate reserves.
  - *Capacity Fee Reserve* – The reserve is used to account for capacity fee revenues and expenditures, in compliance with the Government Code.
  - *Replacement Reserves* – Replacement reserves are those monies transferred from the Operating Fund to the Capital Projects Fund, but not yet expended on capital projects.
  - *Grant/Loan/Debt Proceeds* – Proceeds from grants and loans, and the issuance of long-term debt, are reflected in the Capital Projects Fund as remaining unexpended proceeds. Debt proceeds are to be expended within a timely manner following debt issuance.

**FINANCIAL PLAN ASSUMPTIONS**

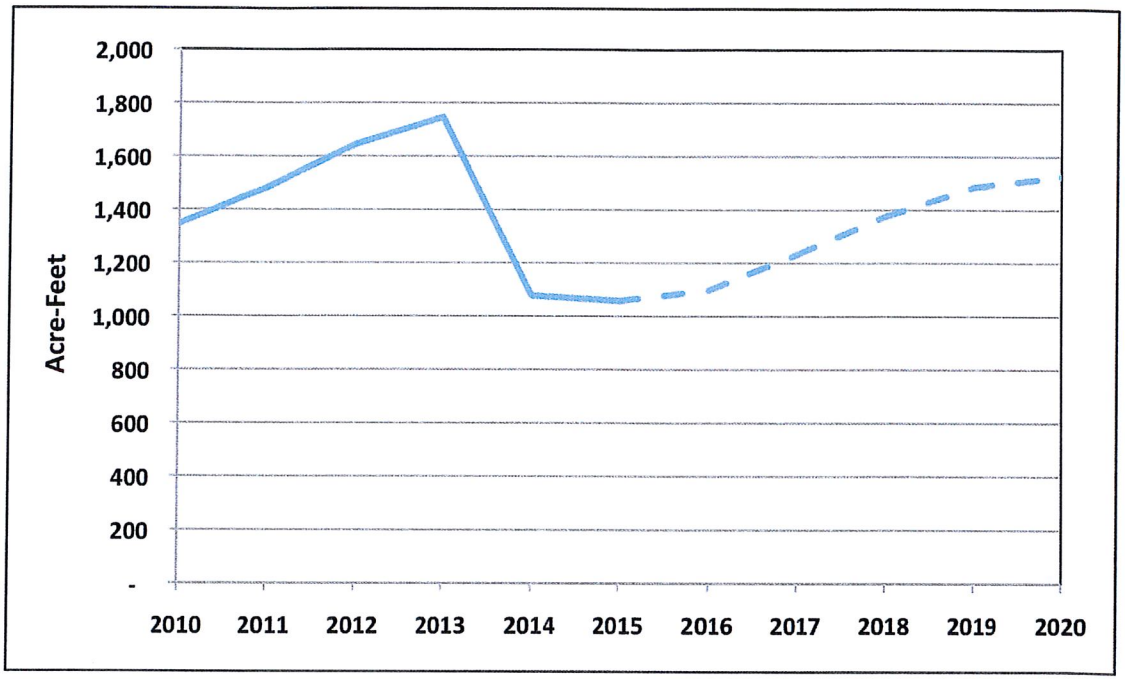
The financial plan was created to reflect the FY 15-16 budget and financial conditions as of the beginning of the fiscal year. The financial plan also reflects the City's debt service obligations and capital improvement program, as identified by City staff, during the five-year planning period.

The process used to develop the financial plan involved estimating future revenues and expenditures based on information provided by the City. Future operating and maintenance costs were developed for the planning period through FY 19-20. City staff also identified capital improvement needs at a planning level through this planning period. The financial plan is based on the best available information and assumptions are believed to be reasonable; however, no assurance can be provided as to the accuracy and completeness of the estimates.

Primary assumptions reflected in financial plan analyses include:

- *Interest Rates* - Interest earned on fund/reserve balances is estimated to be 0.25 percent per year through FY 17-18, and then 0.5 percent per year for the remainder of the planning period. Interest calculations are based on beginning-of-year balances. Interest accrues to each of the funds. The City also pays interest on outstanding long-term debt obligations. The interest payments on outstanding debt are those contained in existing contracts and repayment schedules.
- *Inflation Rates* - For financial planning purposes annual inflation for operating and maintenance costs, as well as capital improvement project costs, is assumed to be 3.0 percent annually.
- *Growth Projections* - The financial plan incorporates customer data as of June 2015. The plan assumes that the customer base be stable through FY 16-17 and will grow by 0.5 percent per year from FY 17-18 through FY 19-20.
- *Customer Demand* - Water demands have been reduced in recent years due to drought conditions and state-mandated water use reduction goals. The financial plan assumes that water supply conditions will improve slightly in 2016 (it is anticipated that the State will continue mandatory use reductions through 2016), and that customer water demands will then gradually rebound over the planning period. While this assumption is reasonable, it is not possible to forecast future water demands with precision. Rate recommendations in this report were developed after considering the sensitivity of the financial model to the water demand assumptions. **Exhibit II-2** graphically illustrates historical water production and the estimated future rebound.
- *Operation and Maintenance Costs* - The financial plan model is based on current operating and maintenance costs as reflected in the FY 15-16 operating budget, with future estimates developed based on the assumed rate of inflation.

**Exhibit II-2**
**City of Cloverdale**
**Historical and Estimated Future Water Production**




- *Capital Improvement Program* – The water utility's capital improvement plan includes multiple projects totaling about $5.9 million over a five-year period, as summarized in **Exhibit II-3**. A significant portion of the water system CIP will be funded from the USDA grant and low-interest loan obtained in 2014. However, about $3.1 million in capital improvements will need to be funded from annual water rate revenue transferred to the Water Capital Project Fund. Providing adequate funding for the water utility's capital improvement program is one of the factors driving the need to increase water rates.

**Exhibit II-3**
**City of Cloverdale**
**Water Sytstem Capital Improvement Program**

| Project Name | FY 15-16 | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 |
|---|---|---|---|---|---|
| Filter Units | $ 120,000 | $ 120,000 | $ 120,000 | $ 120,000 | $ 120,000 |
| Northwest Distrib. Sys. Upsizing Proj. | | | | $ 80,000 | $ 720,000 |
| USDA Water System Improv. | $ 2,339,543 | | | | |
| Annual WTP Renewal and Replac. | $ 120,000 | $ 160,000 | $ 160,000 | $ 160,000 | $ 160,000 |
| Tank Recoating | | | $ 250,000 | | $ 250,000 |
| Backwash Recycling Pipeline Proj. | $ 220,000 | | | | |
| AMI Conversion | | $ 150,000 | $ 150,000 | $ 150,000 | $ 150,000 |
| Corp. Yard Materials Storage | | $ 100,000 | | | |
| **Total** | **$2,799,543** | **$ 530,000** | **$ 680,000** | **$ 510,000** | **$1,400,000** |
| Inflation Adjusted Total (1) | $ 2,800,000 | $ 546,000 | $ 721,000 | $ 557,000 | $ 1,576,000 |

**Notes:**
(1) Inflated at 3.0 percent per year. Inflated values carried to financial plan exhibits.

The water system financial plan includes annual transfers from the Operating Fund to the Capital Projects Fund to pay for planned capital improvement projects. Annual transfers begin with $500,000 in FY 16-17 and increase to $1,000,000 by FY 19-20.

- *Debt Obligations* - Existing water system long-term debt obligations are summarized in **Exhibit II-4**. The water utility currently pays about $500,000 annually on debt service related to a 1993 Safe Drinking Water loan, a 2014 City National Bank loan, and the 2014 USDA water system improvement loan. The loan from City National Bank was used to refund a 2000 CSCDA water bond. The water system financial plan does not include any new debt issues during the five-year planning period.
- *Debt Service Coverage Requirements* - One of the requirements associated with bond financing is to maintain rates and other water system revenues at levels sufficient to meet debt service coverage requirements. At present, the City is required to maintain water system revenues at a level that covers all ongoing operating and maintenance costs, as well as 1.10 times annual debt service. With reduced water demands resulting from drought conditions, current water rates and revenue appear limit the margin for meeting this requirement with existing debt. Ensuring the City can continue to meet this important debt covenant is one of the factors dictating the need to increase water rates.

**Exhibit II-5** (displayed on 2 pages) provides the details of the financial plan model of the water utility. **Exhibit II-6** graphically summarizes the revenues, expenses, year-end balance, and estimated annual rate increases for the water system Operating Fund.

**Exhibit II-4**
**City of Cloverdale**
**Summary of Water System Debt Service Obligations**

| | FY 14-15 | FY 15-16 | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 |
|---|---|---|---|---|---|---|
| **WATER SYSTEM** | | | | | | |
| ***1993 DWR CSDW Loan*** | | | | | | |
| Principal Payment | 89,329 | 91,919 | 94,790 | 97,546 | 100,450 | 103,395 |
| Interest Payment | 45,477 | 34,169 | 31,299 | 28,543 | 25,589 | 22,694 |
| Total Payment | 134,805 | 126,088 | 126,088 | 126,088 | 126,039 | 126,088 |
| Remaining Balance | 1,176,740 | 1,084,821 | 990,032 | 892,486 | 792,036 | 688,642 |
| ***2000C CSCDA Pooled Financing - Refinanced to City National Bank*** | | | | | | |
| Principal Payment | 140,000 | | | | | |
| Interest Payment | 49,995 | | | | | |
| Total Payment | 189,995 | | | | | |
| Remaining Balance | 1,010,000 | | | | | |
| ***2014 City National Bank Loan*** | | | | | | |
| Principal Payment | | 167,000 | 170,000 | 174,000 | 178,000 | 183,000 |
| Interest Payment | 16,373 | 22,436 | 18,561 | 14,605 | 10,557 | 6,406 |
| Total Payment | 16,373 | 189,436 | 188,561 | 188,605 | 188,557 | 189,406 |
| Remaining Balance | 1,059,000 | 892,000 | 722,000 | 548,000 | 370,000 | 187,000 |
| ***2014 USDA Wtr. Sys. Improv. Loan*** | | | | | | |
| Principal Payment | - | 58,000 | 60,000 | 62,000 | 64,000 | 65,000 |
| Interest Payment | 27,354 | 100,028 | 108,406 | 106,756 | 105,050 | 103,290 |
| DS Reserve Contrib. | | 15,900 | 16,900 | 16,900 | 17,000 | 16,900 |
| Total Payment | 27,354 | 173,928 | 185,306 | 185,656 | 186,050 | 185,190 |
| Remaining Balance | 4,000,000 | 3,942,000 | 3,882,000 | 3,820,000 | 3,756,000 | 3,691,000 |

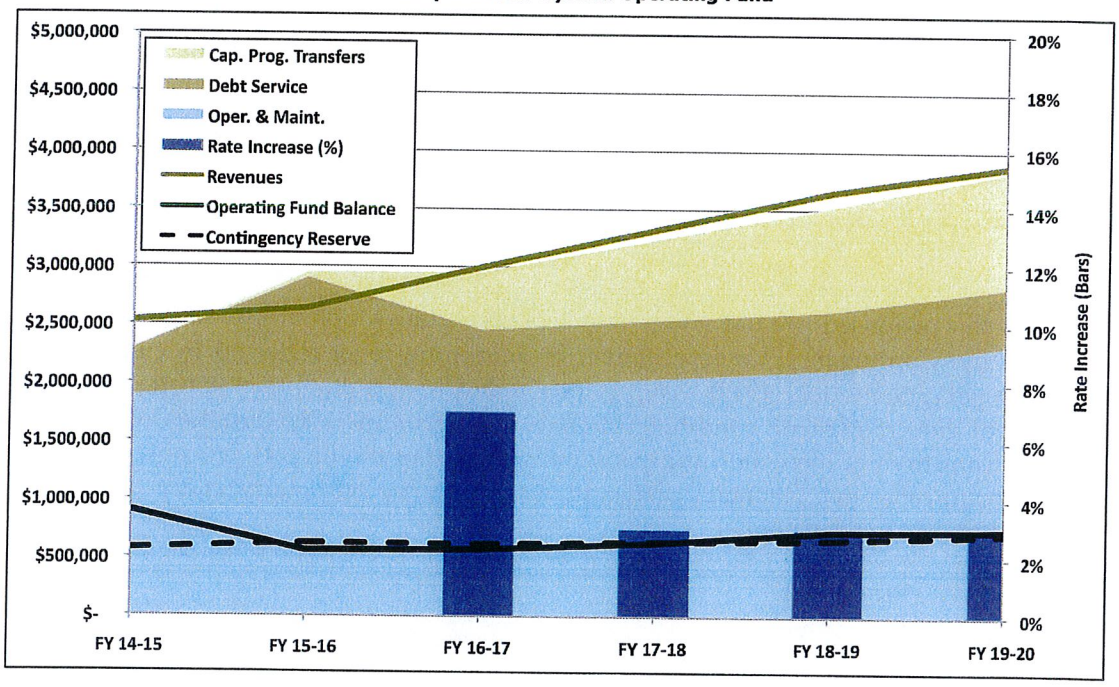
**Exhibit II-5**
**City of Cloverdale**
**Water System Financial Plan**

| | Estimated FY 14-15 | Budgeted FY 15-16 | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 |
|---|---|---|---|---|---|---|
| | Overall Rate Increase --> | | 7% | 3% | 3% | 3% |
| **WATER OPERATING FUND (600)** | | | | | | |
| ***Beginning Balance*** | 668,337 | 899,705 | 560,616 | 573,811 | 632,412 | 731,716 |
| ***Revenues and Transfers In*** | | | | | | |
| Water Rates and Charges | 2,316,533 | 2,420,000 | 2,775,000 | 3,097,000 | 3,414,000 | 3,626,000 |
| Penalties | 39,250 | 17,775 | 18,300 | 18,800 | 19,400 | 20,000 |
| Meter Installation | 194 | 200 | 200 | 200 | 200 | 200 |
| Water Turn On/Off | 43,992 | 47,250 | 48,700 | 50,200 | 51,700 | 53,300 |
| Interest | 2,572 | 1,200 | 1,400 | 1,400 | 3,200 | 3,700 |
| Water Meter Sales | - | 1,240 | 1,300 | 1,300 | 1,300 | 1,300 |
| Refunds & Reimbursements | 5,632 | 5,000 | 5,200 | 5,400 | 5,600 | 5,800 |
| Interfund Transfers In-PERS | 119,055 | 142,813 | 147,100 | 151,500 | 156,000 | 160,700 |
| **Total Revenues & Transfers In** | **2,527,228** | **2,635,478** | **2,997,200** | **3,325,800** | **3,651,400** | **3,871,000** |
| ***Expenditures and Transfers Out*** | | | | | | |
| *Treatment, Maint., & Operations* | | | | | | |
| Salaries and Benefits | 782,032 | 823,315 | 848,000 | 873,400 | 899,600 | 926,600 |
| Legal Services | 115 | - | - | - | - | - |
| Other Professional Services | 7,151 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Misc. Contractual Services | 74,081 | 114,920 | 68,400 | 70,500 | 72,600 | 124,800 |
| Retiree/COBRA Insurance | - | 8,500 | 8,800 | 9,100 | 9,400 | 9,700 |
| Other Gov't Services | 27,661 | 18,200 | 18,700 | 19,300 | 19,900 | 20,500 |
| Computer Maintenance | 4,893 | - | - | - | - | - |
| Vehicle Maintenance | 10,842 | 5,000 | 5,200 | 5,400 | 5,600 | 5,800 |
| General Repair/Maintenance | 57,959 | 46,100 | 47,500 | 48,900 | 50,400 | 51,900 |
| Advertising | 258 | - | - | - | - | - |
| Printing & Binding | 3,697 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Membership Dues | 413 | 425 | 400 | 400 | 400 | 400 |
| Training, Conference, Tuition | 334 | 500 | 500 | 500 | 500 | 500 |
| Travel Expenses, Meals | 900 | 525 | 500 | 500 | 500 | 500 |
| Promotions | 5,601 | 20,500 | 21,100 | 21,700 | 22,400 | 23,100 |
| Rentals | 1,362 | 1,500 | 1,500 | 1,500 | 1,500 | 1,500 |
| Operating Supplies | 76,946 | 73,000 | 75,200 | 77,500 | 79,800 | 82,200 |
| Small Tools & Equipment | 11,031 | 17,470 | 18,000 | 18,500 | 19,100 | 19,700 |
| Utilities - Gas & Electric | 167,643 | 170,000 | 196,100 | 226,200 | 256,300 | 274,500 |
| Utilities - Telephone, pagers, cell | 175 | 200 | 200 | 200 | 200 | 200 |
| Utilities - Water | 8,843 | 8,000 | 8,200 | 8,400 | 8,700 | 9,000 |
| Planning | 8,210 | 80,000 | 20,600 | 21,200 | 21,800 | 102,500 |
| Construction (Filter Units) | 30,661 | - | - | - | - | - |
| Sub-Total TMO | 1,280,808 | 1,391,155 | 1,341,900 | 1,406,200 | 1,471,700 | 1,656,400 |
| *Metering & Revenue* | | | | | | |
| Salaries and Benefits | 210,903 | 259,398 | 267,200 | 275,200 | 283,500 | 292,000 |
| Banking Fees | | 7,000 | 7,200 | 7,400 | 7,600 | 7,800 |
| Other Professional Services | 45,518 | 2,000 | 2,100 | 2,200 | 2,300 | 2,400 |
| Misc. Contractual Services | 700 | 1,300 | 1,300 | 1,300 | 1,300 | 1,300 |
| Computer Maintenance | | 21,419 | 22,100 | 22,800 | 23,500 | 24,200 |
| Vehicle Repairs | 945 | 700 | 700 | 700 | 700 | 700 |
| Postage & Shipping | 11,569 | 10,000 | 10,300 | 10,600 | 10,900 | 11,200 |
| Membership Dues | 75 | 75 | 100 | 100 | 100 | 100 |
| Training, Conference, Tuition | 145 | 150 | 200 | 200 | 200 | 200 |
| Travel Expenses, Meals | 353 | 350 | 400 | 400 | 400 | 400 |
| Operating Supplies | 4,842 | 15,000 | 15,500 | 16,000 | 16,500 | 17,000 |
| Small Tools & Equipment | - | 1,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| Sub-Total Metering & Rev. | 275,050 | 318,392 | 328,100 | 337,900 | 348,000 | 358,300 |
| *Debt Service* | | | | | | |
| 1993 DWR CSDW Loan | 134,805 | 126,088 | 126,088 | 126,088 | 126,039 | 126,088 |
| 2000C CSCDA Rev. Bond | 189,995 | - | - | - | - | - |
| 2014 National City Bank Loan | 16,373 | 189,436 | 188,561 | 188,605 | 188,557 | 189,406 |
| Bond Issuance Costs | 40,524 | | | | | |
| 2014 USDA Wtr. Sys. Improv. Loan | 27,354 | 173,928 | 185,306 | 185,656 | 186,050 | 185,190 |
| Sub-Total Debt Service | 409,052 | 489,452 | 499,955 | 500,349 | 500,646 | 500,684 |
| *Transfers Out* | | | | | | |
| General Fund (Admin. Overhead) | 330,950 | 281,917 | 290,400 | 299,100 | 308,100 | 317,300 |
| Interfund Loan Repayment | | 420,000 | | | | |
| Depreciation Reserve | | 23,650 | 23,650 | 23,650 | 23,650 | 23,650 |
| Water Capital Project Fund | - | 50,000 | 500,000 | 700,000 | 900,000 | 1,000,000 |
| Sub-Total Transfers Out | 330,950 | 775,567 | 814,050 | 1,022,750 | 1,231,750 | 1,340,950 |
| **Total Expend. & Transfers Out** | **2,295,860** | **2,974,566** | **2,984,005** | **3,267,199** | **3,552,096** | **3,856,334** |
| ***Ending Balance*** | **899,705** | **560,616** | **573,811** | **632,412** | **731,716** | **746,382** |
| Conting. Reserve (25% of expend.) | 574,000 | 626,000 | 621,000 | 642,000 | 663,000 | 714,000 |
| Available Balance | 325,705 | (65,384) | (47,189) | (9,588) | 68,716 | 32,382 |
| Debt Serv. Coverage (1.10 min.) | 1.57 | 1.32 | 2.07 | 2.56 | 3.04 | 3.08 |

**Exhibit II-5 -- Continued**
**City of Cloverdale**
**Water System Financial Plan -- Continued**

| | Estimated FY 14-15 | Budgeted FY 15-16 | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 |
|---|---|---|---|---|---|---|
| **WATER CAPITAL PROJECT FUND** | | | | | | |
| ***Beginning Balance*** | 291,169 | 1,227,677 | 74,158 | 28,358 | 124,858 | 589,358 |
| ***Revenue and Transfers In*** | | | | | | |
| Transfer from Operations | - | 50,000 | 500,000 | 700,000 | 900,000 | 1,000,000 |
| Water Capacity Fees | | | - | 117,400 | 120,900 | 124,500 |
| USDA Grant/Loan Proceeds | 2,406,619 | 1,593,381 | | | | |
| Interest Earnings | | 3,100 | 200 | 100 | 600 | 2,900 |
| **Total Revenues & Transfers In** | 2,406,619 | 1,646,481 | 500,200 | 817,500 | 1,021,500 | 1,127,400 |
| ***Expenditures*** | | | | | | |
| USDA Wtr. Sys. Improv. Project | 1,470,111 | 2,339,543 | - | - | - | - |
| Other Capital Projects | | 460,457 | 546,000 | 721,000 | 557,000 | 1,576,000 |
| **Total Capital Expenditures** | 1,470,111 | 2,800,000 | 546,000 | 721,000 | 557,000 | 1,576,000 |
| ***Ending Balance*** | **1,227,677** | **74,158** | **28,358** | **124,858** | **589,358** | **140,758** |
| Capacity Fee Reserve | 481,515 | 361,515 | 241,515 | 238,915 | 239,815 | 244,315 |
| Replacement Reserve | - | (287,357) | (213,157) | (114,057) | 349,543 | (103,557) |
| Unexpended Loan/Debt Proceeds | 746,162 | - | - | - | - | - |

**Exhibit II-6**
**City of Cloverdale**
**Summary of Water System Operating Fund**




## FINANCIAL PLAN FINDINGS AND CONCLUSIONS

The preceding portion of this section described the basic framework and assumptions underlying the financial analyses. Specific findings and conclusions pertaining to the water utility are presented below, beginning with a description of the current situation.

At present, the City's water utility has:

- Insufficient cash in the operating fund to maintain a contingency reserve required by City policy
- Current annual operating and maintenance costs, including debt service obligations, totaling about $2.5 million
- Current annual water utility revenues of about $2.4 million (without any rate adjustment)
- Sufficient cash in the water capital project fund, including USDA loan proceeds, to pay for planned water system capital improvements in FY 15-16 totaling about $2.8 million, but insufficient funds for future planned capital projects
- Estimated debt service coverage in FY 15-16 of 1.29 (without any rate adjustment); the required minimum debt service coverage is 1.10[1]
- Without a water rate adjustments, the water utility will be unable to meet its service and financial obligations, including operating and maintenance of the water system, debt service obligations, capital program funding, and maintenance of prudent financial reserves.

An increase in water rates is needed in order to meet service requirements, continue to meet debt service obligations (particularly debt service coverage), provide for the funding of planned water system improvements, and maintain prudent financial reserves. It is recommended that the City increase water rates as indicated below:

| | |
|---|---|
| June 2016 | 7% |
| July 2017 | 3% |
| July 2018 | 3% |
| July 2019 | 3% |

With the proposed annual water rate increases, the water utility will be able to re-establish the Contingency Reserve above the minimum level reflected in current policy. The financial plan model reflects assumptions and estimates that are believed reasonable at the present time. However, conditions change. It is recommended that the City review the financial condition of the water utility annually as part of the budget process, and perform a more comprehensive financial plan and water rate update study every 3 to 5 years, unless otherwise needed sooner.

**CURRENT WATER RATES**

The City's current water rates were last adjusted in July 2015 and are summarized in **Exhibit II-7**. Current water rates include a monthly base charge for all service connections, a 3-tier water usage rate structure for single family customers, and a uniform water usage rate for multi-family, non-residential, and irrigation service connections. Water rates for customers outside the City's limits are 5 percent higher than those inside the City.

[1] Debt service coverage is calculated as net revenues (defined as gross revenues minus annual operating and maintenance expenses) divided by annual debt service. Existing debt covenants require that debt service coverage exceed 1.10.

**Exhibit II-7**
**City of Cloverdale**
**Current Monthly Water Rates (1)**

| | Current Water Rates | |
|---|---|---|
| ***Monthly Base Charges*** | | |
| Up to 1" Meter | $ | 20.50 |
| 1 1/2" Meter | $ | 37.68 |
| 2" Meter | $ | 58.31 |
| 3" Meter | $ | 106.44 |
| 4" Meter | $ | 175.18 |
| 6" Meter | $ | 347.08 |
| ***Water Usage Rates ($/CCF)*** | | |
| Single Family Residential | | |
| Tier 1 (0-10 CCF) | $ | 3.66 |
| Tier 2 (11-30 CCF) | $ | 4.58 |
| Tier 3 (>30 CCF) | $ | 5.49 |
| Multi-Family | $ | 4.02 |
| Non-Residential | $ | 4.02 |
| Irrigation | $ | 4.02 |

**Notes:**
(1) Effective in July 2015. Water rates for customers outside the City limits pay water rate that are 5 percent higher than those shown.

The City of Cloverdale provides water service to about 3,600 customer connections, including nearly 3,200 single family residences. The current 3-tier water usage rate structure for single family homes is intended to discourage excessive water use and encourage customers to conserve water. About 61 percent of the City's current water rate revenues are derived from water usage charges. This amount of revenue from water usage charges is somewhat below the standard for water conservation rates established by the California Water Conservation Council (CUWCC). In June 2006, the CUWCC revised the water conservation best management practice for water conservation regarding water rates (now known as BMP 1.4) to a minimum of 70 percent of water rate revenue from water usage charges[2].

## CUSTOMER ACCOUNT DATA AND WATER USE ESTIMATES

Water rate calculations are based on a number of factors related to the City's customer base. Factors include the number of customers, customer classes, meter size, and monthly water usage. The City provides water service through more that 3,600 customer accounts. Single family customers comprise about 88 percent of the customers and about 62 percent of the water usage. Multi-family customers make up 3 percent of the customers and 9

[2] The CUWCC provides an alternative means for complying with BMP 1.4, and it is recommended that the City utilize this alternative method. The Reed Group, Inc. is available to assist with the required analysis to use this alternative method of compliance.

percent of the water usage. Non-residential accounts, including dedicated irrigation meters, comprise 9 percent of the accounts and about 29 percent of the water usage.

While there are extremes on both the low and high ends, average single family water usage is currently influenced by drought conditions at about 7 CCF per month. Single family customers also exhibit a wide variation in demand throughout the year. Winter water usage for single family homes averages about 5.5 CCF per month, while summer usage varies dramatically depending on landscape irrigation and other factors. Water usage for multi-family dwellings is lower than for single family residences for a variety of reasons including fewer people per household and limited landscape irrigation (or irrigation that is separately metered). Non-residential water usage can vary dramatically, and non-residential customers are served by meters of varying sizes to accommodate the differences in water demands.

Customers of different meter sizes can place different demands on the water system. Much more water can be delivered through a 4" water meter than through a 1" meter. To relate the potential demands on the water system from customers with different sized water meters, hydraulic capacity factors are used to determine the number of equivalent meters represented by the total customer base with variable meter sizes. For purposes of rate analysis, meters up to 1" are assigned a meter equivalency factor of 1.0. The ratios of instantaneous flow capacities of the various meter sizes to the capacity of a 1" meter are used to determine the meter equivalencies for larger meter sizes. This capacity relationship across meter sizes is generally used to allocate capacity-related costs to various customers.

The foregoing customer account and water use data have been used in water rate analysis that is presented in the remainder of this section.

## WATER RATE CALCULATIONS

There are three steps to determining water rates. These are:

- Determine annual water rate revenue requirements
- Analyze the cost of providing service to each customer class
- Design water rates to recover costs from each customer class.

### *Water Rate Revenue Requirements*

The 5-year financial plan was used to identify the water rate revenue required to meet financial obligations for each fiscal year of the five-year planning period. Water rate calculation presented herein is based on the revenue to be generated by the water rates recommended for June 2016, and reflects the proposed 7 percent overall rate increase that is needed. The revenue requirement for water rate calculation is $2,775,000. This amount differs from the water rate revenue shown in Exhibit II-5, because that financial plan exhibit reflects the rate revenue in FY 15-16, which would be from a combination of the current water rates and the proposed water rates.

*Cost of Service Analysis*

Once the annual water rate revenue requirement was determined using the financial plan model, the next step in the rate setting process was to evaluate the cost of providing service. Water rate calculations contained herein are intended to generate the level of revenue commensurate with the revenue requirement from the City's water service customers. The manner in which each customer is responsible for the water utility's costs is the determining factor in the cost of service analysis.

The water utility incurs certain types of costs associated with making water service available to customers. Other costs are incurred as a direct result of customer water usage. A cost of service analysis is intended to allocate the costs of providing water service to customers in proportion to the extent to which each customer causes the costs to be incurred. There are many approaches to cost of service analysis; some are more complex than others. The approach used herein is commensurate with the available data, the distinctions currently made between various types of customers, and the requirement to fairly and reasonably reflect differences in service provisions to differently situated customers.

The cost allocation methodology used herein begins by assigning all costs to one of three categories. The cost allocation process is performed with data available in the City's budget and accounting documents. The three categories include:

- Customer costs, such as meter reading and billing, are fixed costs that tend to vary as a function of the number of customers being served. Customer costs are allocated to customers based on the number of accounts. That is, every customer will pay an equal share of customer-related costs.
- Capacity costs are also fixed costs; however, these tend to vary in relation to the capacity of the water system. Customers that place greater or lesser burdens on the capacity of the water system should bear greater or lesser shares of these costs. The sizing of the water system is based on the potential demand that each customer could place on the water system. Capacity costs are allocated to customers based on the hydraulic capacity of the water meter. The hydraulic capacity reflects the potential demand that a customer could place on the water system at any given time. A customer with a large meter size will be assigned a large share of fixed capacity-related costs than one with a smaller meter. Capacity costs include costs associated with the water system's capacity including contributions to the capital program, debt service, maintenance costs, and certain fixed operating costs.
- Commodity costs are variable costs that vary with the amount of actual water use. Water treatment costs and energy costs are two typical examples. However, in an effort to encourage water conservation, fixed costs are frequently included in commodity components such that a majority of costs are recovered on the basis of usage. Even though some commodity costs are fixed, rather than variable, it is reasonable to allocate these costs to customers on the basis of usage, rather than the capacity relationship expressed by meter size. A significant portion of the water utility's fixed costs is recovered through water usage charges.

The water conservation best management practice for retail water rates (BMP 1.4), as promulgated by the CUWCC, specifies that at least 70 percent of water rate revenue be generated through usage charges. The City's current water rates generate about 63 percent of revenue from usage (commodity) charges, and therefore does not meet this guideline, with current water demand. Proposed water rates provide a revenue mix. As water demands rebound with the end of drought conditions the portion of water rate revenue from water usage charges will increase.

Based on a review of estimated costs for FY 15-16 for the water utility, customer service costs are estimated to be about 4 percent of the annual water rate revenue requirement. This leaves 33 percent of the revenue requirement allocated to capacity costs. In summary, the cost allocation resulted in a distribution of costs to customer, capacity, and commodity categories at about 4 percent, 33 percent, and 62 percent, respectively.

### *Water Rate Design*

The third step in the rate setting process is the design of water rates to recover costs from each customer class and generate the revenue needed for the utility. The City's water rates include both fixed monthly base charges and water usage rates. **Exhibit II-8** presents the calculation of base charges and water usage rates for the water rates proposed for June 2016. The calculation of each of these is described below.

#### *Base Charges*

Base charges are intended to recover the customer and capacity costs identified through the cost of service analysis. Base charges apply to all customer water bills, regardless of the amount of water actually used. Customers that use no water during a month should still be required to pay the monthly base charge, as service is immediately available to them. In calculating base charges customer costs are allocated equally to all customers and capacity costs are allocated based on meter size in relation to the hydraulic capacity associated with the various meter sizes.

The proposed monthly base charge for a 1" meter (typical for a single family home) is $22.25. Base charges for larger meter sizes vary from $42.07 to $200.63, depending on meter sizes ranging from 1 ½" to 4". These are all higher than current base charges, but properly reflect the capacity relationship across meter sizes, as well as the revenue needs of the utility. The variation of base charges through meter sizes reflects the fact that a small portion of water system costs are directly related to the number of customers served. A majority of fixed costs are allocated on a capacity basis as reflected by the meter size. The changes to the base charges across the range of meter sizes reflect the cost of providing service to customers of varying meter sizes.

**Exhibit II-8**
**City of Cloverdale**
**Summary of Customer Account and Water Usage Data and Calculation of Water Rates for June 2016**

| | Meter Size | | | | | Total | Ann. Water |
|---|---|---|---|---|---|---|---|
| | Up to 1" | 1 1/2" | 2" | 3" | 4" | Accounts | Use (CCF) |
| ***No. of Accounts*** | | | | | | | |
| Single Family Residential | 3,159 | 7 | 16 | | | 3,182 | 250,000 |
| Multi-Family Residential | 94 | 6 | 10 | 1 | 1 | 112 | 35,500 |
| Non-Residential | 167 | 25 | 43 | 2 | 1 | 238 | 83,400 |
| Irrigation | 41 | 18 | 16 | 1 | | 76 | 32,400 |
| Total Accounts | 3,461 | 56 | 85 | 4 | 2 | 3,608 | 401,300 |
| No. of 1" Equiv. Meters | 3,461 | 112 | 272 | 24 | 20 | 3,889 | |
| Hydraulic Capacity Factor | 1.00 | 2.00 | 3.20 | 6.00 | 10.00 | | |
| ***Monthly Base Charges ($/month)*** | | | | | | | |
| Customer Cost | $ 2.43 | $ 2.43 | $ 2.43 | $ 2.43 | $ 2.43 | | |
| Capacity Cost | $ 19.82 | $ 39.64 | $ 63.43 | $ 118.93 | $ 198.21 | | |
| Total Service Charge | **$ 22.25** | **$ 42.07** | **$ 65.85** | **$ 121.35** | **$ 200.63** | | |
| Annual Service Charge Rev. | $ 923,922 | $ 28,269 | $ 67,169 | $ 5,825 | $ 4,815 | $1,030,000 | |

| ***FY 16-17 Water Rate Revenue Requirement*** | | |
|---|---|---|
| Customer Costs | $ 105,000 | 4% |
| Capacity Costs | $ 925,000 | 33% |
| Commodity Costs | $ 1,745,000 | 63% |
| **Total Revenue Rqmt.** | **$2,775,000** | |

| ***Water Usage Rates*** | Water Use (CCF) | Rates ($/CCF) | Ann. Usage Charge Rev. |
|---|---|---|---|
| Single Family Resid. | 250,000 | **$ 4.35** | $ 1,087,092 |
| Multi-Family Resid. | 35,500 | **$ 4.35** | $ 154,367 |
| Non-Residential | 83,400 | **$ 4.35** | $ 362,654 |
| Irrigation | 32,400 | **$ 4.35** | $ 140,887 |
| **Totals** | 401,300 | | $ 1,745,000 |

*Water Usage Rates*

The current water rates include a 3-tier usage rate structure for single family customers. As a result of a recent court decision related to Proposition 218 and cost of service issues, it is recommended that the City eliminate the current tier structure and adopt a uniform water rate for all customers. The proposed uniform water usage rate for June 2016 is calculated simply by dividing the commodity costs by estimated annual water usage, resulting in a water usage rate of $4.35 per CCF, as shown in Exhibit II-8.

*Outside of City Water Rates*

It is recommended that the City continue to charge customers located outside the City limits an additional 5 percent relative to the proposed water rates. About 5 percent of the water utility's costs are covered by the City's General Fund. Customers outside the City do not contribute to the General Fund as residents and businesses within the City do, so slightly higher water rates are justified for this small group of customers. There do not appear to be any other material cost of service differences associated with serving customers located outside the City limits.

The proposed water rates reflect the cost of providing water service to customers and will provide additional revenue essential to continuing to provide water service.

**PROPOSED WATER RATE SCHEDULES**

**Exhibit II-9** summarizes proposed water rate schedules for rates to become effective beginning in June 2016. The proposed water rates for June 2016 reflect an overall 7 percent increase in revenue relative to the current water rates, as well as rate structure changes. Water rate schedules for July 2017, July 2018, and July 2019 represent annual rate increases of 5 percent each year, in accordance with revenue needs identified with the financial plan presented earlier. No rate structure changes are proposed in these later years, and all base charges and water usage rates are to change by the same percentage.

**Exhibit II-9**
**City of Cloverdale**
**Proposed Monthly Water Rate Schedules (1)**

| | June 2016 | July 2017 | July 2018 | July 2019 |
|---|---|---|---|---|
| ***Monthly Base Charges*** | | | | |
| Up to 1" Meter | $ 22.25 | $ 22.92 | $ 23.61 | $ 24.32 |
| 1 1/2" Meter | $ 42.07 | $ 43.33 | $ 44.63 | $ 45.97 |
| 2" Meter | $ 65.85 | $ 67.83 | $ 69.86 | $ 71.96 |
| 3" Meter | $ 121.35 | $ 124.99 | $ 128.74 | $ 132.60 |
| 4" Meter | $ 200.63 | $ 206.65 | $ 212.85 | $ 219.24 |
| ***Water Usage Rates ($/CCF)*** | | | | |
| All Water Usage | $ 4.35 | $ 4.48 | $ 4.61 | $ 4.75 |

**Notes:**
(1) Water rates outside the City should continue to be 5 percent higher than inside the City.

**WATER SHORTAGE FINANCIAL ANALYSIS**

This water rate study also included an analysis of the financial impacts associated with drought and reduced water sales. Coming on the heel of a very dry year in 2013, the continuation of dry conditions in 2014 resulted in the Governor requesting a 20 percent reduction in water use throughout California and the State Water Resources Control Board (SWRCB) adopting an emergency regulation requiring all urban water suppliers to enforce programs that reduce outdoor water usage. With more severe drought conditions in 2015, in April 2015 the Governor declared a statewide water emergency and ordered urban water agencies to reduce water use by 25 percent. In implementing the Governor's Executive Order, the SWRCB has required the City to reduce water use by 20 over 2013 levels. The City of Cloverdale, like other communities in the state, has responded by requiring customers to reduce water usage and implementing restrictions on water use.

The City's water utility can be affected in several ways by drought conditions. Changes in operating and maintenance costs and revenues can include:

- Reduced water sales and water sales revenue
- Reduced groundwater production and production costs
- Increased water conservation program costs.

While the reduction in water sales revenue will be partially offset by the reduction in water production costs, revenue will decline more than costs creating a financial deficit. Increased water conservation program costs, including education and assistance programs, add to the financial deficit created by water shortage.

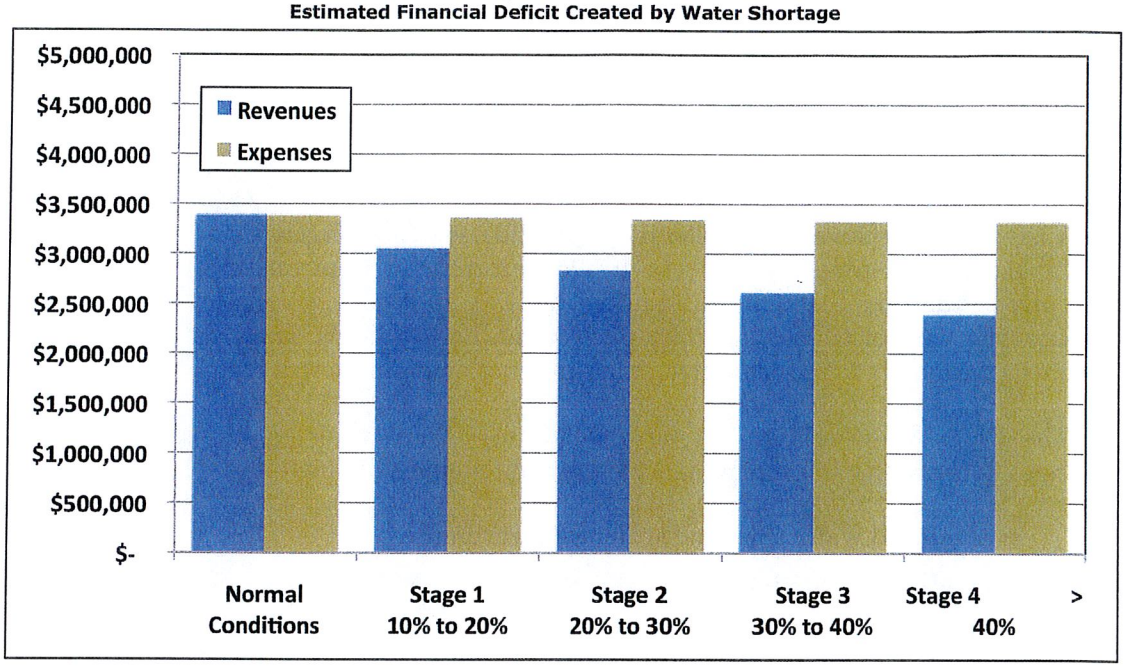
In response to water shortage, and the financial deficit created, the City has the ability to take several actions. The analysis presented herein focuses on three potential courses of action, including:

- Using available financial reserves, including designating a portion of reserves for drought/emergency purposes
- Supplementing water rate revenues through imposition of water shortage surcharges
- In the most severe conditions, reducing the annual contribution (transfers) of water rate revenue to the Capital Fund that supports the capital improvement program; this may or may not affect the timing of capital project expenditures.

The City could also reduce operating and maintenance costs, where possible, defer capital projects, or seek outside funding sources to help bridge a financial deficit.

Using the financial plan model, an analysis of the potential financial impacts of water shortages has been performed. The analysis includes estimating the magnitude of reduced revenue, reduced costs, and increased costs that may be associated with each stage of water shortage. **Exhibit II-10** graphically illustrates the relative magnitude of the financial deficit created by reduced water sales resulting from water shortage conditions.

**Exhibit II-10**
**City of Cloverdale**
**Estimated Financial Deficit Created by Water Shortage**




The water shortage financial analysis reflects conditions through various stages of water shortage. The stages, as defined below, allow the analysis to consider the financial impacts and response strategy over a range of potential shortage conditions. It is recommended that the City incorporate the defined stages of water shortage into its ***Water Shortage Contingency Plan***, which will be an element of the *2015 Urban Water Management Plan* currently in development.

- Normal Condition – No water use reduction required
- Stage 1 – Minor Shortage – 10 to 20 percent water use reduction goal
- Stage 2 – Moderate Shortage – 20 to 30 percent water use reduction goal
- Stage 3 – Urgent Shortage – 30 to 40 percent water use reduction goal
- Stage 4 – Critical Shortage – Over 40 percent water use reduction goal

**Exhibit II-11** summarizes estimated FY 15-16 operating revenues and expenses under *normalized* water supply conditions and under various stages of water shortage. The shortage analysis starts with normal conditions whereby revenues and expenses are effectively in balance. Under water shortage conditions, a financial deficit will emerge and increase with increasing severity of drought conditions. **Exhibit II-12** graphically illustrates how the financial deficit created by reduced water sales could be bridged through a combination of actions. Because the water utility has limited financial reserves, in Stage 1, the City would rely on the Contingency Reserve and would also implement the proposed water shortage rate surcharges to provide supplemental water rate revenue. In more severe conditions, the City may also need to reduce transfers to the Capital Fund the support of the capital improvement program.

**Exhibit II-11**
**City of Cloverdale**
**Bridging the Financial Deficit Created by Water Shortages (FY 15-16)**

| | Normal Supply Conditions (1) | Stage 1 Minor Shortage (Voluntary) | Stage 2 Moderate Shortage (Mandatory) | Stage 3 Urgent Shortage (Mandatory) | Stage 4 Critical Shortage (Mandatory) |
|---|---|---|---|---|---|
| Use Reduction Goal --> | None | 10% to 20% | 20% to 30% | 30% to 40% | > 40% |
| Modeled Use Reduction --> | 0% | 15% | 25% | 35% | 45% |
| ***Est. Financial Deficit from Water Shortage*** | | | | | |
| Reduced Water Sales Revenue | | (334,000) | (556,000) | (779,000) | (1,001,000) |
| Reduced Water Production Costs | | 36,000 | 61,000 | 85,000 | 109,000 |
| Increased Conservation Costs | | (9,000) | (17,000) | (27,000) | (41,000) |
| **Est. Total Financial Deficit** | **-** | **(307,000)** | **(512,000)** | **(721,000)** | **(933,000)** |
| ***Multi-Pronged Corrective Strategy*** | | | | | |
| Use Portion of Conting. Reserve (2) | | 194,000 | 162,000 | 174,000 | 191,000 |
| Reduce Transfers to Capital Fund | | - | 100,000 | 200,000 | 350,000 |
| Impose Water Shortage Surcharge (3) | | 113,000 | 250,000 | 347,000 | 392,000 |
| **Total Corrective Actions** | **-** | **307,000** | **512,000** | **721,000** | **933,000** |
| **Water Shortage Charge (3) -->** | **None** | **6%** | **15%** | **24%** | **32%** |

**Notes:**
(1) Analysis based on FY 15-16 budget with adjustments to reflect normal water supply conditions.
(2) The Contingency Reserve is currently funded at about $700,000 (25% of expenditures).
(3) Water shortage charges are an incremental increase in the water usage rates. Monthly base charges are not affected.

**Exhibit II-12**
**City of Cloverdale**
**Bridging the Deficit Gap Created by Water Shortages**

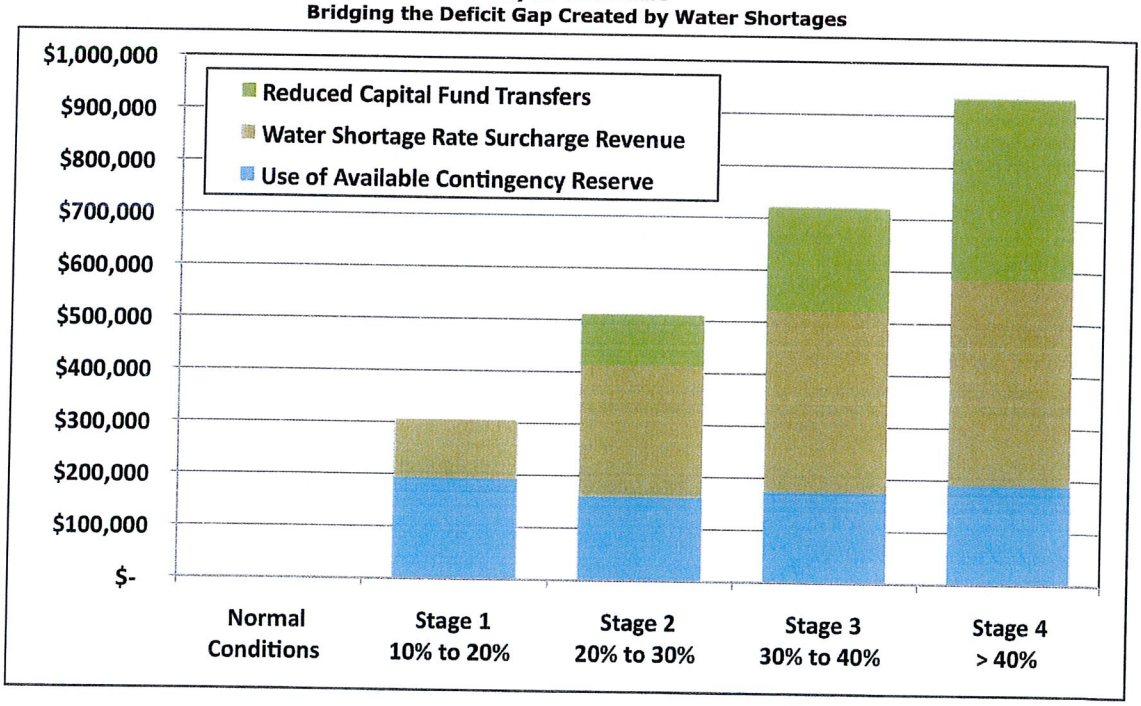


**Exhibit II-13** presents additional details of the analysis of estimated FY 15-16 annual revenue and expenses at each stage of water shortage, based on the limited use of the Contingency Reserve. The analysis assumes water shortage rate surcharges, as described later in this section, would also be used to help limit the financial strain created by reduced water sales during drought conditions.

The water shortage analysis suggests that the current target level for the Contingency Reserve of 25 percent of annual operating and maintenance costs may be insufficient for mitigating much of the financial risk associated with water shortage (even with supplemental revenue from the water shortage rate surcharge). The City should consider modifying its current reserve policy, perhaps increasing the contingency reserve to 50 percent of annual operating and maintenance costs. At present, even with proposed water rate increases, the Contingency Reserve is fully funded; however, very little surplus is anticipated during the five-year planning period. Because continuation of the current drought is a possibility, adopting the water shortage rate surcharges is an important step in protecting the water utility's financial condition against the uncertainty associated with drought conditions.

**Exhibit II-13**
**City of Cloverdale**
**Estimated Financial Deficit Created by Water Shortages (FY 15-16)**

| | Normal Supply Conditions (1) | Stage 1 Minor Shortage (Voluntary) | Stage 2 Moderate Shortage (Mandatory) | Stage 3 Urgent Shortage (Mandatory) | Stage 4 Critical Shortage (Mandatory) |
|---|---|---|---|---|---|
| Use Reduction Goal --> | None | 10% to 20% | 20% to 30% | 30% to 40% | > 40% |
| Modeled Use Reduction --> | | 15% | 25% | 35% | 45% |
| ***Revenues*** | | | | | |
| Base Charge Revenues | 946,000 | 946,000 | 946,000 | 946,000 | 946,000 |
| Water Usage Charge Revenues (2) | 2,225,000 | 1,891,000 | 1,669,000 | 1,446,000 | 1,224,000 |
| Water Shortage Surcharge Rev. (3) | | 113,000 | 250,000 | 347,000 | 392,000 |
| Other Revenue and Transfers In | 215,000 | 215,000 | 215,000 | 215,000 | 215,000 |
| **Total Revenue** | **3,386,000** | **3,165,000** | **3,080,000** | **2,954,000** | **2,777,000** |
| (% of Normal) | | -7% | -9% | -13% | -18% |
| ***Expenditures and Transfers*** | | | | | |
| Treatment, Maint., & Operations | 1,098,000 | 1,098,000 | 1,098,000 | 1,098,000 | 1,098,000 |
| Water Conservation (4) | 50,000 | 59,000 | 67,000 | 77,000 | 91,000 |
| Water Production (5) | 243,000 | 207,000 | 182,000 | 158,000 | 134,000 |
| Metering and Revenue | 318,000 | 318,000 | 318,000 | 318,000 | 318,000 |
| Administrative Overhead | 282,000 | 282,000 | 282,000 | 282,000 | 282,000 |
| Debt Service | 489,000 | 489,000 | 489,000 | 489,000 | 489,000 |
| Transfer to Capital Replac. Fund | 500,000 | 500,000 | 400,000 | 300,000 | 150,000 |
| Addition to Reserves | 406,000 | 406,000 | 406,000 | 406,000 | 406,000 |
| **Total Expend. and Trans.** | **3,386,000** | **3,359,000** | **3,242,000** | **3,128,000** | **2,968,000** |
| (% of Normal) | | -1% | -4% | -8% | -12% |
| ***Surplus/Deficit in Operations*** | **-** | **(194,000)** | **(162,000)** | **(174,000)** | **(191,000)** |

**Notes:**
(1) Analysis based on FY 15-16 budget with adjustments to reflect normal water supply conditions.
(2) Water usage revenue would decline in proportion to water sales.
(3) Water shortage charges are an incremental increase in the water usage rates. Monthly base charges are not affected.
(4) Estimated water conservation program costs assumed to increase in inverse proportion to water use reductions.
(5) Estimated water production costs include electricity for pumping and operating supplies.

**WATER SHORTAGE RATE SURCHARGES**

To help encourage water conservation and to help bridge the financial deficit created by a water shortage, it is recommended that the City adopt water shortage surcharges that could be implemented when water shortage conditions are declared by the City Council. The water shortage rate surcharges would be incremental increases in the water usage rate. Even though the water shortage rate surcharges represent an increase in the water rates, total water rate revenue will still decline with reduced water sales in each stage of shortage. That is, the supplemental revenue generated through the water shortage rate surcharges would only partially bridge the deficit gap created by drought and reduced water sales.

In addition, because a multi-pronged approach to water shortages is suggested, the water shortage rate surcharges have been specifically design such customers that meet water use reduction goals will have lower water bills with the water shortage rate surcharges than they would with normal water usage and normal water rates. Customers that do not meet water use reduction goals may pay more for water service because of the water shortage rate surcharges.

**Exhibit II-14** presents the proposed June 2016 water rate schedule including the effect of water shortage rate surcharges in Stages 1, 2, 3, and 4. As an example, the water usage rate would increase from $4.35 per CCF to $4.61 per CCF during Stage 1 conditions (6 percent surcharge). Because the water shortage rate surcharge would only apply to the water usage rate (and not the fixed monthly base charges) the impact on the total water bill would be mitigated.

The water shortage rate surcharge is not intended to be a penalty for excessive use; rather it represents each customer's fair share of the cost of partially bridging the financial deficit created by reduced water sales during periods of water shortage. Customers would participate in bearing this cost in proportion to their water use.

Water shortage rate surcharges would provide relatively modest revenue increases for dealing with significant water supply shortages. As illustrated graphically in **Exhibit II-15**, the water shortage rate surcharge revenue only partially replaces lost revenue due to reduced water sales. As a result, even with the water shortage rate surcharges, the proposed water rates for water shortage conditions are less than the total cost of providing water service. The information in Exhibit II-15 reflects revenue estimates based on implementation of water shortage rate surcharges in FY 15-16.

If adopted, the water shortage rate surcharges would be implemented when the City Council declares a water shortage of specified severity (stage). The surcharges would be temporary and continue only as long as the shortage conditions exist. When the shortage is declared over, then the water shortage rate surcharges would be discontinued.

**Exhibit II-14**
**City of Cloverdale**
**Proposed Temporary Water Shortage Rate Surcharges Applied to Water Rates for June 2016 (1)**

| | Normal Supply Conditions (1) | Stage 1 Minor Shortage (Voluntary) | Stage 2 Moderate Shortage (Mandatory) | Stage 3 Urgent Shortage (Mandatory) | Stage 4 Critical Shortage (Mandatory) |
|---|---|---|---|---|---|
| Use Reduction Goal --> | None | 10% to 20% | 20% to 30% | 30% to 40% | > 40% |
| **Wtr. Short. Surch. (2) -->** | **None** | **6%** | **15%** | **24%** | **32%** |
| ***Monthly Base Charges*** | | | | | |
| Up to 1" Meter | $ 22.25 | | | | |
| 1 1/2" Meter | $ 42.07 | | | | |
| 2" Meter | $ 65.85 | | No Changes to Base Charges | | |
| 3" Meter | $ 121.35 | | | | |
| 4" Meter | $ 200.63 | | | | |
| ***Water Usage Rates ($/CCF)*** | | | | | |
| All Water Usage (3) | $ 4.35 | $ 4.61 | $ 5.00 | $ 5.39 | $ 5.74 |

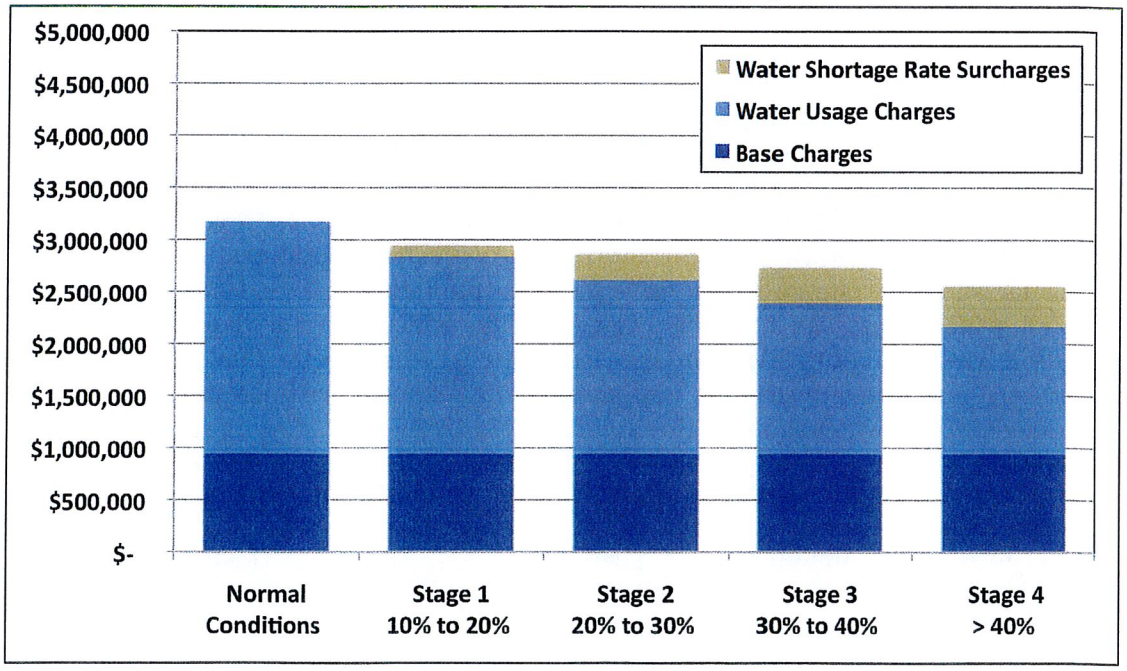
**Notes:**

(1) The water shortage rate surcharge percentages are shown applied to the proposed water usage rate for June 2016 for illustrative purposes. The percentages would be applied to any then-current water usage rates when implemented by declaration of a water shortage by the City Council.

(2) The water shortage rate surcharge would be an incremental (percentage) increase in the water usage rate, but would not be applied to monthly base charges.

(3) The water usage rates shown for Stages 1 through 4 incorporate the water shortage rate surcharge.

**Exhibit II-15**
**City of Cloverdale**
**Estimated Water Rate Revenues Under Water Shortage Conditions**



*Bill Impacts of Water Shortage Rate Surcharges*

Water shortage rate surcharges have been specifically designed such that customers achieving required water use reduction goals will have lower water bills than they would with normal water rates and normal water usage. Customers that do not meet water use reduction goals may have higher water bills. Because the water shortage rate surcharges apply to all water usage, all customers will participate in bridging the financial gap created by water shortage. Of course, those customers that use the least amount of water or conserve the most will pay less through the water shortage rate surcharges.

**Exhibit II-16** illustrates how three different single family customers would be affected by the water shortage rate surcharges across various shortage conditions. Monthly water bills are shown for customers that, under normal conditions, use 11 CCF monthly (typical), 5 CCF (typical in winter), and 20 CCF (typical in summer) of water. Water bills are calculated for customers meeting requested water use reduction goals, and customers that do not conserve at all.

**Exhbit II-16**
**City of Cloverdale**
**Sample Single Family Residential Water Bills with Water Shortage Rate Surcharges**

| Water Shortage Stage | Water Use Reduction Goal | Monthly Water Use (CCF) | Base Charge | Water Usage Charge | Water Shortage Charge | Total Water Bill | % Change from Normal Bill |
|---|---|---|---|---|---|---|---|
| ***Average Single Family Customer Meeting Reduction Goals*** | | | | | | | |
| Normal Supply Conditions | None | 11 | $ 22.25 | $ 47.85 | $ - | $ 70.10 | |
| Stage 1 Minor Shortage | 10% to 20% | 9 | $ 22.25 | $ 39.15 | $ 2.35 | $ 63.75 | **-9.1%** |
| Stage 2 Moderate Shortage | 20% to 30% | 8 | $ 22.25 | $ 34.80 | $ 5.22 | $ 62.27 | **-11.2%** |
| Stage 3 Critical Shortage | 30% to 40% | 7 | $ 22.25 | $ 30.45 | $ 7.31 | $ 60.01 | **-14.4%** |
| Health & Safety Per Capita Limit | > 40% | 6 | $ 22.25 | $ 26.10 | $ 8.35 | $ 56.70 | **-19.1%** |
| ***Average Single Family Customer With No Water Use Reduction*** | | | | | | | |
| Normal Supply Conditions | None | 11 | $ 22.25 | $ 47.85 | $ - | $ 70.10 | |
| Stage 1 Minor Shortage | 10% to 20% | 11 | $ 22.25 | $ 47.85 | $ 2.87 | $ 72.97 | **4.1%** |
| Stage 2 Moderate Shortage | 20% to 30% | 11 | $ 22.25 | $ 47.85 | $ 7.18 | $ 77.28 | **10.2%** |
| Stage 3 Critical Shortage | 30% to 40% | 11 | $ 22.25 | $ 47.85 | $ 11.48 | $ 81.58 | **16.4%** |
| Health & Safety Per Capita Limit | > 40% | 11 | $ 22.25 | $ 47.85 | $ 15.31 | $ 85.41 | **21.8%** |
| ***Low Water-Using Single Family Customer Meeting Reduction Goals*** | | | | | | | |
| Normal Supply Conditions | None | 5 | $ 22.25 | $ 21.75 | $ - | $ 44.00 | |
| Stage 1 Minor Shortage | 10% to 20% | 4.0 | $ 22.25 | $ 17.40 | $ 1.04 | $ 40.69 | **-7.5%** |
| Stage 2 Moderate Shortage | 20% to 30% | 3.5 | $ 22.25 | $ 15.23 | $ 2.28 | $ 39.76 | **-9.6%** |
| Stage 3 Critical Shortage | 30% to 40% | 3.0 | $ 22.25 | $ 13.05 | $ 3.13 | $ 38.43 | **-12.7%** |
| Health & Safety Per Capita Limit | > 40% | 2.5 | $ 22.25 | $ 10.88 | $ 3.48 | $ 36.61 | **-16.8%** |
| ***Low Water-Using Single Family Customer With No Water Use Reduction*** | | | | | | | |
| Normal Supply Conditions | None | 5 | $ 22.25 | $ 21.75 | $ - | $ 44.00 | |
| Stage 1 Minor Shortage | 10% to 20% | 5 | $ 22.25 | $ 21.75 | $ 1.31 | $ 45.31 | **3.0%** |
| Stage 2 Moderate Shortage | 20% to 30% | 5 | $ 22.25 | $ 21.75 | $ 3.26 | $ 47.26 | **7.4%** |
| Stage 3 Critical Shortage | 30% to 40% | 5 | $ 22.25 | $ 21.75 | $ 5.22 | $ 49.22 | **11.9%** |
| Health & Safety Per Capita Limit | > 40% | 5 | $ 22.25 | $ 21.75 | $ 6.96 | $ 50.96 | **15.8%** |
| ***High Water-Using Single Family Customer Meeting Reduction Goals*** | | | | | | | |
| Normal Supply Conditions | None | 20 | $ 22.25 | $ 87.00 | $ - | $ 109.25 | |
| Stage 1 Minor Shortage | 10% to 20% | 17 | $ 22.25 | $ 73.95 | $ 4.44 | $ 100.64 | **-7.9%** |
| Stage 2 Moderate Shortage | 20% to 30% | 15 | $ 22.25 | $ 65.25 | $ 9.79 | $ 97.29 | **-10.9%** |
| Stage 3 Critical Shortage | 30% to 40% | 13 | $ 22.25 | $ 56.55 | $ 13.57 | $ 92.37 | **-15.4%** |
| Health & Safety Per Capita Limit | > 40% | 11 | $ 22.25 | $ 47.85 | $ 15.31 | $ 85.41 | **-21.8%** |
| ***High Water-Using Single Family Customer With No Water Use Reduction*** | | | | | | | |
| Normal Supply Conditions | None | 20 | $ 22.25 | $ 87.00 | $ - | $ 109.25 | |
| Stage 1 Minor Shortage | 10% to 20% | 20 | $ 22.25 | $ 87.00 | $ 5.22 | $ 114.47 | **4.8%** |
| Stage 2 Moderate Shortage | 20% to 30% | 20 | $ 22.25 | $ 87.00 | $ 13.05 | $ 122.30 | **11.9%** |
| Stage 3 Critical Shortage | 30% to 40% | 20 | $ 22.25 | $ 87.00 | $ 20.88 | $ 130.13 | **19.1%** |
| Health & Safety Per Capita Limit | > 40% | 20 | $ 22.25 | $ 87.00 | $ 27.84 | $ 137.09 | **25.5%** |

## SECTION III. SEWER RATES

This section of the report describes the financial plan and sewer rate recommendations for the City's sewer utility. The five-year financial plan is used to determine annual sewer rate revenue requirements. The annual rate revenue requirement is the amount of revenue needed from sewer rates to cover planned operating, maintenance, debt service, and capital program costs with consideration of other revenues and financial reserves. The organization of the section is similar to the preceding section on water.

### FUND STRUCTURE AND CASH FLOWS

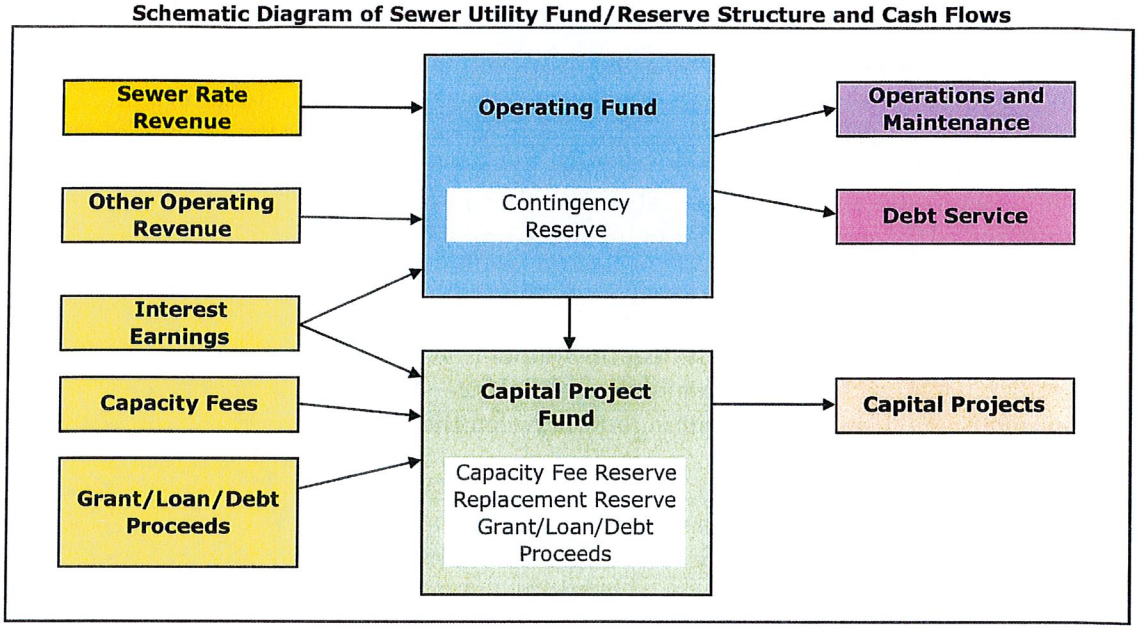
The financial plan is an annual cash flow model. As a cash flow model, it differs from standard accounting income statements, and balance sheets. The financial plan models sources and uses of funds into, out of, and between the various funds and reserves of the sewer utility.

The financial plan model is based on a fund structure not currently used by the City. This structure was discussed with staff, with concurrence that it would provide a helpful framework for evaluating the financial needs of the utility and for clearly demonstrating how operating and maintenance costs, debt service obligations, and capital program needs are being addressed. The proposed structure includes a Capital Project Fund, separate from the Operating Fund, for the purpose of meeting capital program needs. In other respects, such as reserve and account structures, the financial plan model is consistent with current practices of the City. **Exhibit III-1** is a schematic diagram of the funds/reserves and major cash flows associated with the financial plan model.

An understanding of the fund/reserve structure is helpful in understanding the financial plan worksheets that model annual cash flows through the sewer utility from one year to the next. The fund/reserve structure is comprised of:

- ***Operating Fund*** – The Operating Fund is the primary fund within the sewer utility. Most of the sewer system's revenues, including sewer rate revenues, flow into the Operating Fund and all operating and maintenance costs, including debt service payments, are paid out of this fund. Funds are also transferred from the Operating Fund to the Capital Projects Fund to help pay for capital projects intended to rehabilitate and upgrade facilities.
    - *Contingency Reserve* – The City currently has a policy goal to maintain Contingency Reserves within the Operating Fund equal to 25 percent of annual operating and maintenance costs for the sewer system. The purpose of the Contingency Reserve is to provide working capital and funds for unplanned operating and maintenance expenditures. The balance in the Sewer Operating Fund at the beginning of FY 15-16 was above the target Contingency Reserve. In addition, the repayment of a loan by the water utility back to the sewer utility in FY 15-16 will also help improve the sewer utility's financial condition.

**Exhibit III-1**
**City of Cloverdale**
**Schematic Diagram of Sewer Utility Fund/Reserve Structure and Cash Flows**




- *Available Fund Balance* – The balance in the Operating Fund in excess of the target amount for the Contingency Reserves is shown in the financial plan as Available Balance. After all other obligations are met the Available Balance is available to offset rate increases, and the financial plan model generally seeks to reduce any Available Balance over time. A negative value for the Available Balance indicates the shortfall in maintaining the minimum Contingency Reserve.

- ***Capital Projects Fund*** – The Capital Projects Fund is used to account for revenues and debt proceeds available for capital project expenditures. Capital projects funded from this fund are intended to rehabilitate, upgrade, and expand the sewer system to meet current and future needs of the sewer utility. The financial plan model generally seeks to maintain a positive balance in the Capital Projects Fund while also covering the costs of planned capital improvement projects. The Capital Projects Fund for the sewer utility is comprised of two separate reserves.

  - *Capacity Fee Reserve* – The reserve is used to account for capacity fee revenues and expenditures, in compliance with the Government Code.

  - *Replacement Reserves* – Replacement reserves are those monies transferred from the Operating Fund to the Capital Projects Fund, but not yet expended on capital projects.

  Unlike the water utility, the sewer utility does not have unexpended debt proceeds.

**FINANCIAL PLAN ASSUMPTIONS**

The financial plan was created to reflect the FY 15-16 budget and financial conditions as of the beginning of the fiscal year. The financial plan also reflects the City's debt service obligations and capital improvement program, as identified by City staff, during the five-year planning period.

The process used to develop the financial plan involved estimating future revenues and expenditures based on information provided by the City. Future operating and maintenance costs were developed for the planning period through FY 19-20. City staff also identified capital improvement needs at a planning level through this planning period. The financial plan is based on the best available information and assumptions are believed to be reasonable; however, no assurance can be provided as to the accuracy and completeness of the estimates.

Primary assumptions reflected in financial plan analyses include:

- *Interest Rates* – Interest earned on fund/reserve balances is estimated to be 0.25 percent per year through FY 17-18, and then 0.5 percent per year for the remainder of the planning period. Interest calculations are based on beginning-of-year balances. Interest accrues to each of the funds. The City also pays interest on outstanding long-term debt obligations. The interest payments on outstanding debt are those contained in existing contracts and repayment schedules.
- *Inflation Rates* – For financial planning purposes annual inflation for operating and maintenance costs, as well as capital improvement project costs, is assumed to be 3.0 percent annually.
- *Growth Projections* – The financial plan incorporates customer data as of June 2015. The plan assumes that the customer base be stable through FY 16-17 and will grow by 0.5 percent per year from FY 17-18 through FY 19-20.
- *Customer Demand* – Sewer rate analyses rely on average winter water usage by residential customers and total water use of non-residential customers. Usage data from FY 14-15 have been used in the sewer rate analyses.
- *Operation and Maintenance Costs* – The financial plan model is based on current operating and maintenance costs as reflected in the FY 15-16 operating budget, with future estimates developed based on the assumed rate of inflation.
- *Capital Improvement Program* – The sewer utility's capital improvement plan includes multiple projects totaling about $3.6 million over a five-year period, as summarized in **Exhibit III-2**.

  While sewer capacity fee reserves could be used to help pay for wastewater treatment plant (WWTP) capacity enhancements, most of the sewer system improvement costs will need to be funded from a portion of sewer rate revenues.

**Exhibit III-2**
**City of Cloverdale**
**Wastewater Sytstem Capital Improvement Program**

| Project Name | FY 15-16 | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 |
|---|---|---|---|---|---|
| Collect. System Renewal/Replac. | $ 300,000 | $ 300,000 | $ 300,000 | $ 300,000 | $ 300,000 |
| Biosolids Removal | | $ 500,000 | | | |
| WWTP Capacity Enhancements | | $ 150,000 | $ 850,000 | | |
| WWTP Entrance Bridge Replac. | | | | $ 500,000 | |
| Corp. Yard Materials Storage | | $ 100,000 | | | |
| **Total** | **$ 300,000** | **$1,050,000** | **$1,150,000** | **$ 800,000** | **$ 300,000** |
| Inflation Adjusted Total | $ 300,000 | $ 1,082,000 | $ 1,220,000 | $ 874,000 | $ 338,000 |

**Notes:**
(1) Inflated at 3.0 percent per year. Inflated values carried to financial plan exhibits.

The sewer system financial plan includes annual transfers from the Operating Fund to the Capital Projects Fund to pay for planned capital improvement projects. Annual transfers begin with $600,000 in FY 15-16 and increase to $1,000,000 in FY 17-18, then declines to $700,000 by FY 19-20. These transfers are intended to provide the necessary cash flow for the capital program.

- *Debt Obligations* - The one existing sewer system long-term debt obligation is summarized in **Exhibit III-3**. The sewer utility currently pays about $84,000 annually on debt service related to a 1996 SWRDB SRF loan. This loan will be fully repaid in FY 17-18.

  The sewer system financial plan does not include any new debt issues during the five-year planning period.

**Exhibit III-3**
**City of Cloverdale**
**Summary of Sewer System Debt Service Obligations**

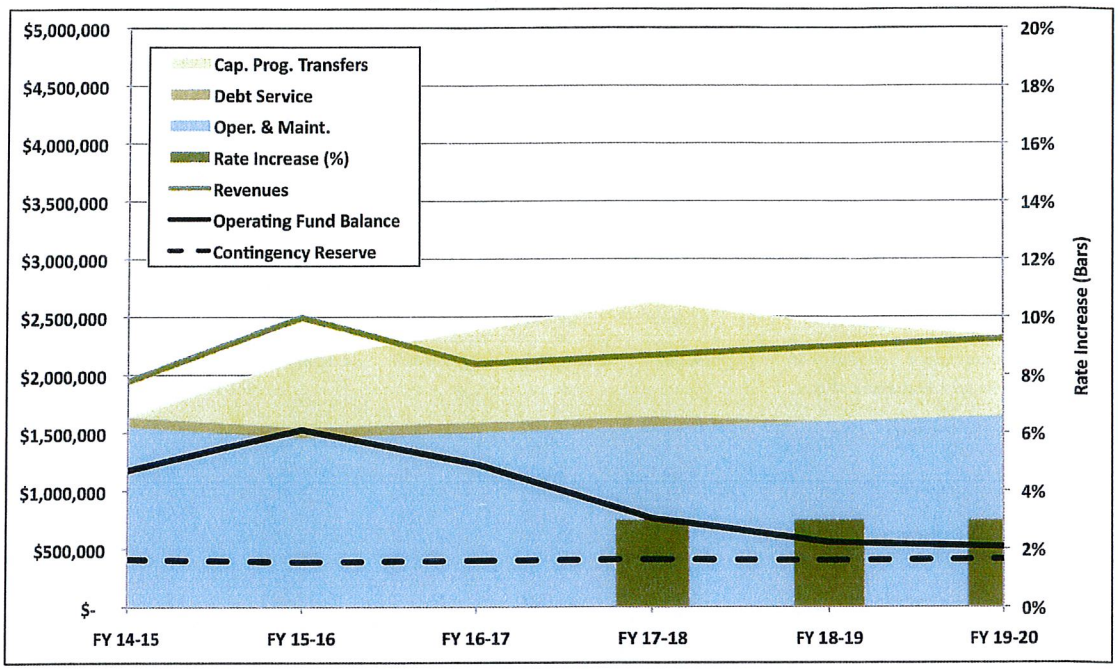
| | FY 14-15 | FY 15-16 | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 |
|---|---|---|---|---|---|---|
| **SEWER SYSTEM** | | | | | | |
| ***1996 SWRCB SRF Loan*** | | | | | | |
| Principal Payment | 75,521 | 77,636 | 79,809 | 81,973 | | |
| Interest Payment | 8,818 | 6,704 | 4,530 | 2,295 | | |
| Total Payment | 84,339 | 84,340 | 84,339 | 84,268 | - | - |
| Remaining Balance | 239,418 | 161,782 | 81,972 | | | |

**Exhibit III-4** provides the details of the financial plan model of the City's sewer utility. **Exhibit III-5** graphically summarizes the revenues, expenses, year-end fund balance, and estimated annual rate increases for the sewer system Operating Fund. The financial plan incorporates the recommended 3 percent per year increases in sewer rates, as described below.

**Exhibit III-4**
**City of Cloverdale**
**Sewer System Financial Plan**

| | Actual FY 14-15 | Budgeted FY 15-16 | FY 16-17 | FY 17-18 | FY 18-19 | FY 19-20 |
|---|---|---|---|---|---|---|
| | Overall Rate Increase --> | | 0% | 3% | 3% | 3% |
| **OPERATING FUND** | | | | | | |
| ***Beginning Balance*** | 871,041 | 1,175,957 | 1,525,968 | 1,229,829 | 760,761 | 554,961 |
| ***Revenues and Transfers In*** | | | | | | |
| Sewer Rates and Charges | 1,734,470 | 1,856,000 | 1,865,000 | 1,931,000 | 1,999,000 | 2,059,000 |
| Sewer Use Permits | 550 | - | - | - | - | - |
| Industrial Wastewater Permits | 111,885 | 111,900 | 115,300 | 118,800 | 122,400 | 126,100 |
| Penalties | 13,379 | 14,966 | 15,400 | 15,900 | 16,400 | 16,900 |
| Interest | 2,454 | 1,500 | 3,800 | 3,100 | 3,800 | 2,800 |
| Refunds and Reimbursements | 161 | - | - | - | - | - |
| Interfund Transfers In | | 420,000 | | | | |
| Interfund Transfers In-PERS | 81,243 | 92,140 | 94,900 | 97,700 | 100,600 | 103,600 |
| **Total Revenues & Transfers In** | **1,944,142** | **2,496,506** | **2,094,400** | **2,166,500** | **2,242,200** | **2,308,400** |
| ***Expenditures and Transfers Out*** | | | | | | |
| *Sewer Operations* | | | | | | |
| Salaries and Benefits | 732,122 | 766,472 | 789,500 | 813,200 | 837,600 | 862,700 |
| Legal Services | 115 | 200 | 200 | 200 | 200 | 200 |
| Banking Fees | 4,663 | 5,000 | 5,200 | 5,400 | 5,600 | 5,800 |
| Other Professional Fees | 17,963 | 56,000 | 57,700 | 59,400 | 61,200 | 63,000 |
| Misc. Contractual Services | 134,164 | 46,570 | 48,000 | 49,400 | 50,900 | 52,400 |
| Other Gov't Services | 24,404 | 20,890 | 21,500 | 22,100 | 22,800 | 23,500 |
| Computer Maintenance | 4,893 | 18,798 | 19,400 | 20,000 | 20,600 | 21,200 |
| Vehicle Repairs | 8,245 | 4,500 | 4,600 | 4,700 | 4,800 | 4,900 |
| General Repair/Maintenance | 21,718 | 12,000 | 12,400 | 12,800 | 13,200 | 13,600 |
| Advertising | 258 | - | - | - | - | - |
| Postage & Shipping | 11,244 | 10,000 | 10,300 | 10,600 | 10,900 | 11,200 |
| Printing & Binding | 573 | - | - | - | - | - |
| Training, Conference, Tuition | 598 | 600 | 600 | 600 | 600 | 600 |
| Travel Expenses, Meals | 35 | 100 | 100 | 100 | 100 | 100 |
| Rentals | 4,640 | 6,000 | 6,200 | 6,400 | 6,600 | 6,800 |
| Operating Supplies | 33,318 | 27,500 | 28,300 | 29,100 | 30,000 | 30,900 |
| Small Tools & Equipment | 40,000 | 30,000 | 30,900 | 31,800 | 32,800 | 33,800 |
| Utilities-Gas & Electric | 198,660 | 190,000 | 195,700 | 201,600 | 207,600 | 213,800 |
| Utilities-Telephone, Pagers & Cell | 175 | 250 | 300 | 300 | 300 | 300 |
| Utiltities-Water | 64,717 | 40,000 | 41,200 | 42,400 | 43,700 | 45,000 |
| Machinery & Equipment | 3,701 | 15,000 | 15,500 | 16,000 | 16,500 | 17,000 |
| Construction | 602 | | | | | |
| Sub-Total TMO | 1,306,808 | 1,249,880 | 1,287,600 | 1,326,100 | 1,366,000 | 1,406,800 |
| *Debt Service* | | | | | | |
| 1996 SWRCB SRF Loan | 84,339 | 84,340 | 84,339 | 84,268 | - | - |
| Sub-Total Debt Service | 84,339 | 84,340 | 84,339 | 84,268 | - | - |
| *Transfers Out* | | | | | | |
| General Fund (Admin. Overhead) | 248,079 | 212,275 | 218,600 | 225,200 | 232,000 | 239,000 |
| Sewer Capital Project Fund | - | 600,000 | 800,000 | 1,000,000 | 850,000 | 700,000 |
| Sub-Total Transfers Out | 248,079 | 812,275 | 1,018,600 | 1,225,200 | 1,082,000 | 939,000 |
| **Total Expend. & Transfers Out** | **1,639,226** | **2,146,495** | **2,390,539** | **2,635,568** | **2,448,000** | **2,345,800** |
| ***Ending Balance*** | **1,175,957** | **1,525,968** | **1,229,829** | **760,761** | **554,961** | **517,561** |
| Conting. Reserve (25% of expend.) | 410,000 | 387,000 | 398,000 | 409,000 | 400,000 | 411,000 |
| Available Balance | 765,957 | 1,138,968 | 831,829 | 351,761 | 154,961 | 106,561 |
| **SEWER CAPITAL PROJECT FUND** | | | | | | |
| ***Beginning Balance*** | | 160,897 | 461,297 | 180,497 | 113,197 | 256,597 |
| ***Revenue and Transfers In*** | | | | | | |
| Transfer from Operations | - | 600,000 | 800,000 | 1,000,000 | 850,000 | 700,000 |
| Sewer Capacity Fees | | | - | 151,800 | 166,800 | 171,800 |
| Interest Earnings | | 400 | 1,200 | 900 | 600 | - |
| **Total Revenues & Transfers In** | - | 600,400 | 801,200 | 1,152,700 | 1,017,400 | 871,800 |
| ***Expenditures*** | | | | | | |
| Capital Projects | | 300,000 | 1,082,000 | 1,220,000 | 874,000 | 338,000 |
| **Total Capital Expenditures** | - | 300,000 | 1,082,000 | 1,220,000 | 874,000 | 338,000 |
| ***Ending Balance*** | **160,897** | **461,297** | **180,497** | **113,197** | **256,597** | **790,397** |
| Capacity Fee Reserve | 151,000 | 151,000 | 1,000 | - | 166,800 | 338,600 |
| Replacement Reserve | 9,897 | 310,297 | 179,497 | 113,197 | 89,797 | 451,797 |

**Exhibit III-5**
**City of Cloverdale**
**Summary of Sewer System Operating Fund**




## FINANCIAL PLAN FINDINGS AND CONCLUSIONS

The preceding portion of this section described the basic framework and assumptions underlying the financial analyses. Specific findings and conclusions pertaining to the sewer utility are presented below, beginning with a description of the current situation.

At present, the City's sewer utility has:

- Sufficient cash in the operating fund to maintain a contingency reserve required by City policy
- Current annual operating and maintenance costs, including debt service obligations totaling about $1.55 million
- Current annual sewer utility revenues of about $1.85 million
- Planned sewer system capital improvements in FY 15-16 totaling about $300,000, and averaging about $750,000 annually over the next five years
- While not needed immediately without modest annual sewer rate increases, the Sewer Operating Fund may not be able to meet service and financial obligations and adequately fund the planned capital improvement program while maintaining prudent financial reserves.

Modest increases in sewer rates are needed in future years to meet the sewer utility's financial needs. It is recommended that the City increase sewer rates as indicated below:

| | |
|---|---|
| June 2016 | 0% |
| July 2017 | 3% |
| July 2018 | 3% |
| July 2019 | 3% |

While an overall rate increase is not immediately needed, change to the rates are recommended to reflect the cost of service analysis, as described later in this section.

The financial plan model reflects assumptions and estimates that are believed reasonable at the present time. However, conditions change. It is recommended that the City review the financial condition of the sewer utility annually as part of the budget process, and perform a more comprehensive financial plan and sewer rate update study every 3 to 5 years, unless otherwise needed sooner.

## CURRENT SEWER RATES

The City of Cloverdale provides sewer service to nearly 3,675 customers, including about 2,750 single family residences and about 700 multi-family dwelling units. There are about 215 non-residential sewer accounts.

The City's current sewer rates were last adjusted in July 2015 and are summarized in **Exhibit III-6**. Current sewer rates include flat monthly charges for single family homes and multi-family dwelling units, and strength-based water usage rates for non-residential customers. In addition, the school district pays for sewer service based on average daily attendance (ADA).

## CUSTOMER ACCOUNT DATA AND SEWER FLOW AND LOADING ESTIMATES

Sewer rate calculations are based on a number of factors related to the City's customers. Factors include the number of customers, customer classes, water usage and sewer flows, and strength characteristics of sewage as determined by BOD and TSS. **Exhibit III-7** summarizes customer account and water usage data obtained from the City's utility billing system, as well as estimates of resulting sewer flow and loading characteristics.

Residential sewer flows are estimated based on average water usage during winter months. A review of residential water usage data indicated that about 73 percent of annual water usage returns to the sewer system (based on average winter water usage). For multi-family customers, about 82 percent of annual water usage is estimated to return to the sewer system. For multi-family customers irrigation water usage tends to be either minimal or separately metered. Non-residential sewer flows are based on actual water usage, as most non-residential irrigation is separately metered. However, sewer rate calculations assume a 90 percent rate of return to the sewer system to reflect minor irrigation usage.

The sewer utility serves about 2,750 single family homes, about 700 multi-family dwellings, and about 215 non-residential customers. On average, single family sewer flows (based on winter water usage) are about 5.5 CCF per month. For multi-family dwellings, the average sewer flow is about 3.4 CCF per month (based on winter water usage). Non-residential sewer flows vary based on customer characteristics.

**Exhibit III-6**
**City of Cloverdale**
**Current Monthly Sewer Rates**

| | | | |
|---|---|---|---|
| ***Residential Flat Rates*** | | | |
| Single Family | $ | 38.64 | per DU |
| Multi-Family | $ | 29.05 | per DU |
| ***Non-Residential Base Charges*** | | | |
| Up to 1" Meter | $ | 8.63 | |
| 1 1/2" Meter | $ | 15.54 | |
| 2" Meter | $ | 23.84 | |
| 3" Meter | $ | 43.20 | |
| 4" Meter | $ | 70.84 | |
| 6" Meter | $ | 139.99 | |
| ***Non-Residential Usage Charges ($/CCF)*** | | | |
| Low Strength | $ | 4.34 | per CCF |
| Medium Strength | $ | 5.39 | per CCF |
| High Strength | $ | 7.79 | per CCF |
| ***Public Schools*** | | | |
| Per 100 ADA | $ | 105.51 | per 100 ADA |

**Notes:**
(1) Effective in July 2015.

Sewer rate analyses consider the strength (loading) characteristics of sewage entering treatment facilities. Strength factors for biochemical oxygen demand (BOD) and total suspended solids (TSS) are considered, as these factors play a key role in treatment plant operations. Residential customers are assigned standard residential strength factors of 240 mg/l for BOD and 200 mg/l for TSS. Low, medium, and high non-residential strength categories have been defined with strength factors as indicated below:

- Low strength: 240 mg/l for BOD 200 mg/l for TSS
- Medium strength: 500 mg/l for BOD 300 mg/l for TSS
- High strength: 1,000 mg/l for BOD 600 mg/l for TSS
- Schools: 150 mg/l for BOD 100 mg/l for TSS

Applying residential and non-residential strength factors to estimates of annual sewer flows results in an estimated annual sewage volume and loading that is commensurate to actual treatment plant inflows. Strength factors assigned to each category of customer are based on guidelines published by the California State Water Resources Control Board (SWRCB) and other sources.

**Exhibit III-7**
**City of Cloverdale**
**Sewer Customer Account Data and Estimated Sewer Flows and Loadings**

| Customer Class | No. of DUs/ Accts. (1) | No. of ESFDs | Water Usage (1) | Rate of Return | Estimated Annual Sewer Flow (2) | Estimated Annual Sewer Flow | BOD Strength (4) | Annual BOD Loading | TSS Strength (4) | Annual TSS Loading |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | CCF | | CCF | MG | mg/l | lbs | mg/l | lbs |
| ***Residential*** | | | | | | | | | | |
| Single Family | 2,754 | 2,754 | 247,795 | 73% | 180,863 | 135 | 240 | 270,788 | 200 | 225,656 |
| Multi-Family (3) | 696 | 436 | 34,759 | 82% | 28,636 | 21 | 240 | 42,874 | 200 | 35,728 |
| ***Non-Residential*** | | | | | | | | | | |
| Low Strength | 133 | 194 | 27,310 | 90% | 24,579 | 18 | 240 | 36,800 | 200 | 30,666 |
| Medium Strength | 55 | 81 | 9,614 | 90% | 8,653 | 6 | 500 | 26,989 | 300 | 16,193 |
| High Strength | 27 | 39 | 19,323 | 90% | 17,391 | 13 | 1,000 | 108,489 | 600 | 65,093 |
| Schools | 9 | 24 | 7,196 | 71% | 5,108 | 4 | 150 | 4,780 | 100 | 3,187 |
| **Totals** | **3,674** | **3,528** | **345,997** | | **265,229** | **198** | **297** | **490,718** | **228** | **376,524** |

**Notes:**
(1) Based on utility billing system data for FY 14-15. DU = dwelling units.
(2) Based on annualized average winter water usage for residential accounts and annual water usage for non-residential accounts.
(3) Utility billing indicate there are 696 multi-family dwelling units served by the wastewater utility through 109 separate service connections.
(4) Based on previous sewer rate analyses, SWRCB guidelines, and adjustments to better match actual treatment plant flows and loadings.

**SEWER RATE CALCULATIONS**

There are three steps to determining sewer rates. These are:

- Determine annual sewer rate revenue requirements
- Analyze the cost of providing service to each customer class
- Design sewer rates to recover costs from each customer class.

*Sewer Rate Revenue Requirements*

The 5-year financial plan was used to identify the sewer rate revenue requirements for each fiscal year of the five-year planning period. Sewer rate calculations presented herein are based on the revenue to be generated from rates proposed for June 2016 and reflect an overall rate increase of 3 percent relative to the current sewer rates. The revenue requirement for sewer rate calculation is $1,865,000. This amount differs from the sewer rate revenue shown in Exhibit III-4, because that financial plan exhibit reflects the rate revenue in FY 15-16, which would be from a combination of the current sewer rates and the proposed sewer rates.

*Cost of Service Analysis*

Once the annual sewer rate revenue requirement has been determined, the next step in the rate setting process is to evaluate the cost of providing service. Sewer rate calculations contained herein are intended to generate the level of revenue commensurate with the revenue requirement from the City's sewer service customers. The manner in which each customer is responsible for the sewer utility's costs is the determining factor in the cost of service analysis.

To develop equitable sewer rates, the revenue requirement is allocated to various customer classifications according to the services provided and the demands placed on the sewer system.

**Exhibit III-8** summarizes how the sewer rate revenue requirement is allocated to fixed charges as well as to flow, BOD, and TSS components, which comprise the usage charges. Once total costs are allocated, unit costs were determined by dividing the total cost for each component by the number of units identified in Exhibit III-7. These unit costs become the basis for then assigning costs to customer classes.

The cost of service analysis for sewer service is more complicated than water rate analysis in that treatment costs are separated from collection system costs. Collection system costs are allocated entirely on the basis of flow, whereas treatment costs are allocated on the basis of flow, BOD, and TSS.

**Exhibit III-8**
**City of Cloverdale**
**Determination of Unit Costs**

| Cost Category | Category Allocation Percentages | Parameter Allocation Percentages (5) | Annual Cost Allocated to Each Parameter | Total Quantities (6) | Unit Cost for Each Parameter |
|---|---|---|---|---|---|
| ***Fixed Charge Costs (1)*** | 25% | | | | |
| Customer Accounts | | 20% | $ 93,000 | 3,674 | $ 25.31 |
| Equiv. Single Family Dwellings (ESFDs) | | 80% | $ 373,000 | 3,528 | $ 105.73 |
| ***Usage Charge Costs for Collection (2)*** | 35% | | | | |
| Flow (MG) | | 100% | $ 653,000 | 198 | $ 3,291.47 |
| ***Usage Charge Costs for Treatment (3)*** | 40% | | | | |
| Flow (MG) | | 34% | $ 254,000 | 198 | $ 1,280.30 |
| BOD (lbs) | | 33% | $ 246,000 | 490,718 | $ 0.501 |
| TSS (lbs) | | 33% | $ 246,000 | 376,524 | $ 0.653 |
| **Total FY 16-17 Wastewater Rate Rev. Rqmt. (4)** | | | **$ 1,865,000** | | |

**Notes:**
(1) Includes estimated administrative costs, debt service costs, a portion of maintenance costs, and transfer to the capital fund.
(2) Includes estimated collection system and a portion of maintenance costs.
(3) Includes estimated wastewater treatment costs.
(4) Revenue requirement for FY 16-17 based on financial plan model presented in Section III.
(5) Parameter allocations based on previous rate analyses, information provided by City, and rate setting practices.
(6) From Exhibit III-7.

The City's budget structure does not lend itself to the segregation of costs into collection and treatment components, or to the allocation of treatment costs to flow, BOD and TSS parameters. We have relied on the information that is available for allocating costs to the various categories, as well as relied upon professional judgment and standard estimating practices used in rate setting to allocate costs across flow, BOD, and TSS parameters. The sewer revenue requirement has been allocated 25 percent to fixed service charges, 35 percent to the collection system, and 40 percent to treatment. Sewer treatment costs have been allocated 34 percent to flow, 33 percent to BOD, and 33 percent to TSS. We believe these allocations are reasonable, and are within the ranges found in other sewer rate analyses.

Unit costs are applied to the annual sewer flows, as well as BOD and TSS loadings associated with each customer class to arrive at the allocation of total costs to each customer class. **Exhibit III-9** presents the allocation of costs to each user class.

## Exhibit III-9
## City of Cloverdale
## Allocation of Sewer Costs to Users (1)

| | | Fixed Charge Costs | | Usage Charge Costs | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Collection | Treatment | | | |
| No. of DUs/ Accts. | Customer Class | Customer Unit Cost = $ 25.31 | Capacity Unit Cost = $ 105.73 | Flow Unit Cost = $ 3,291.47 | Flow Unit Cost = $ 1,280.30 | BOD Unit Cost = $ 0.501 | SS Unit Cost = $ 0.653 | Allocation of Total Costs |
| | ***Residential*** | | | | | | | |
| 2,754 | Single Family | $ 69,712 | $ 291,182 | $ 445,288 | $ 173,206 | $ 135,747 | $ 147,431 | $ 1,262,566 |
| 696 | Multi-Family | $ 17,618 | $ 46,103 | $ 70,502 | $ 27,424 | $ 21,493 | $ 23,343 | $ 206,482 |
| | ***Non-Residential*** | | | | | | | |
| 133 | Low Strength | $ 3,367 | $ 20,512 | $ 60,514 | $ 23,538 | $ 18,448 | $ 20,036 | $ 146,414 |
| 55 | Medium Strength | $ 1,392 | $ 8,564 | $ 21,303 | $ 8,286 | $ 13,530 | $ 10,580 | $ 63,655 |
| 27 | High Strength | $ 683 | $ 4,102 | $ 42,816 | $ 16,654 | $ 54,386 | $ 42,528 | $ 161,171 |
| 9 | Schools | $ 228 | $ 2,538 | $ 12,576 | $ 4,892 | $ 2,396 | $ 2,082 | $ 24,711 |
| **3,674** | **Totals** | **$ 93,000** | **$ 373,000** | **$ 653,000** | **$ 254,000** | **$ 246,000** | **$ 246,000** | **$ 1,865,000** |

**Notes:**

(1) Unit costs from Exhibit III-8 are multiplied by the sewer flow, the BOD loading, or the SS loading for each customer class from Exhibit III-7.

**Exhibit III-10** presents the final sewer user rates and charges recommended for each customer class. Rates for residential customers include flat monthly charges for each dwelling unit. Non-residential (low, medium, and high) customers are subject to a monthly base charge based on meter size and sewer usage rates applied to actual monthly water usage. Usage charges vary for each strength category. The usage charges have also been adjusted for an estimated 90 percent rate of return to the sewer system. That is, it is estimated that 10 percent of non-residential water use (exclusive of dedicated irrigation meters) does not return to the sewer system. Sewer rates for schools include a monthly flat rate applied to the average daily attendance (ADA) for each school.

*Sewer Rate Design*

The proposed sewer rates maintain the current overall sewer rate structure. This structure was modified in 2012 in the following ways. First, single family homes and multi-family dwellings continue to be charged a flat monthly charge for sewer service. Based on demand and cost of service analyses, it is recommended that separate monthly charges continue to apply to single family homes and to multi-family dwelling units. With the proposed sewer rates the difference between these charges reflect the different demand characteristics of each residential type. Second, fixed monthly service (base) charges for non-residential customers continue to be established based on the size of the water meter (similar to water rates). This allows the charge to each customer to reflect the potential demand that can be placed on the sewer system. Third, strength-based usage rates for non-residential customers should be continued with three strength categories - low, medium, and high.

The proposed sewer rates and rate structure reflect the cost of providing service across customer classes and between customers within a class.

**PROPOSED SEWER RATE SCHEDULES**

**Exhibit III-11** summarizes the proposed sewer rate schedule for June 2016, as well as rate adjustments for July 2017, July 2018, and July 2019. The proposed sewer rates for June 2016 are revenue neutral, overall, relative to current sewer rates. This is commensurate with revenue needs identified in the financial plan. Proposed rates for July 2017, July 2018, and July 2019 also reflect annual increases of 3 percent. These rate increases occur without additional rate structure changes. In other words, in July 2017, July 2018, and July 2019 all sewer customers will experience equal percentage increases in sewer bills. Without rate restructuring all bills will change by the same percentage.

**Exhibit III-10**
**City of Cloverdale**
**Sewer Rate Determination for FY 16-17**

| No. of DUs/ Accts. | Customer Class | Est. Ann. Sewer Flow | BOD Strength | TSS Strength | Monthly Fixed Charge | Usage Rate (1) | Fixed Charges | Usage Charges | Total Annual Revenue | Flat Rates ($/mo.) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | CCF | mg/l | mg/l | $/DU | $/CCF | | | | |
| | ***Residential*** | | | | | | | | | |
| 2,754 | Single Family | 180,863 | 240 | 200 | $ 10.92 | $ 4.99 | $ 360,894 | $ 901,673 | $ 1,262,566 | **$ 38.20** /DU |
| 696 | Multi-Family | 28,636 | 240 | 200 | $ 7.63 | $ 4.99 | $ 63,721 | $ 142,762 | $ 206,482 | **$ 24.72** /DU |
| | ***Non-Residential*** | | | | | | | | | |
| 133 | Low Strength | 24,579 | 240 | 200 | **Varies by** | **$ 4.49** | $ 23,878 | $ 122,536 | $ 146,414 | |
| 55 | Medium Strength | 8,653 | 500 | 300 | **Meter Size** | **$ 5.59** | $ 9,956 | $ 53,699 | $ 63,655 | |
| 27 | High Strength | 17,391 | 1,000 | 600 | **(2)** | **$ 8.09** | $ 4,786 | $ 156,385 | $ 161,171 | |
| 9 | Schools | 5,108 | 150 | 100 | | $ 3.05 | $ 2,765 | $ 21,946 | $ 24,711 | **$ 148.15** /100 ADA |
| **3,674** | **Totals** | **265,229** | | | | | **$ 466,000** | **$ 1,399,000** | **$ 1,865,000** | |

**Notes:**
(1) Sewer usage rates apply to average winter water use for residential customers and actual monthly water use for non-residential customers.
(2) Monthly service charges for non-residential customers vary based on the size of the water meter (see below).

**Exhibit III-11**
**City of Cloverdale**
**Proposed Monthly Sewer Rate Schedules**

| | June 2016 | July 2017 | July 2018 | July 2019 |
|---|---|---|---|---|
| ***Residential Flat Rates*** | | | | |
| Single Family Residential (per DU) | $ 38.20 | $ 39.35 | $ 40.53 | $ 41.75 |
| Multi-Family Residential (per DU) | $ 24.72 | $ 25.46 | $ 26.22 | $ 27.01 |
| ***Non-Residential Base Charges*** | | | | |
| Up to 1" Meter | $ 10.92 | $ 11.25 | $ 11.59 | $ 11.94 |
| 1 1/2" Meter | $ 19.73 | $ 20.32 | $ 20.93 | $ 21.56 |
| 2" Meter | $ 30.30 | $ 31.21 | $ 32.15 | $ 33.11 |
| 3" Meter | $ 54.97 | $ 56.62 | $ 58.32 | $ 60.07 |
| 4" Meter | $ 90.22 | $ 92.93 | $ 95.72 | $ 98.59 |
| ***Non-Residential Usage Charges ($/CCF)*** | | | | |
| Low Strength | $ 4.49 | $ 4.62 | $ 4.76 | $ 4.90 |
| Medium Strength | $ 5.59 | $ 5.76 | $ 5.93 | $ 6.11 |
| High Strength | $ 8.09 | $ 8.33 | $ 8.58 | $ 8.84 |
| ***Public Schools*** | | | | |
| Per 100 ADA | $ 148.15 | $ 152.59 | $ 157.17 | $ 161.89 |

# City of Cloverdale

## *Water and Sewer Rate Study*
## *Summary of Recommendations*

February 23, 2016

***The Reed Group, Inc.***

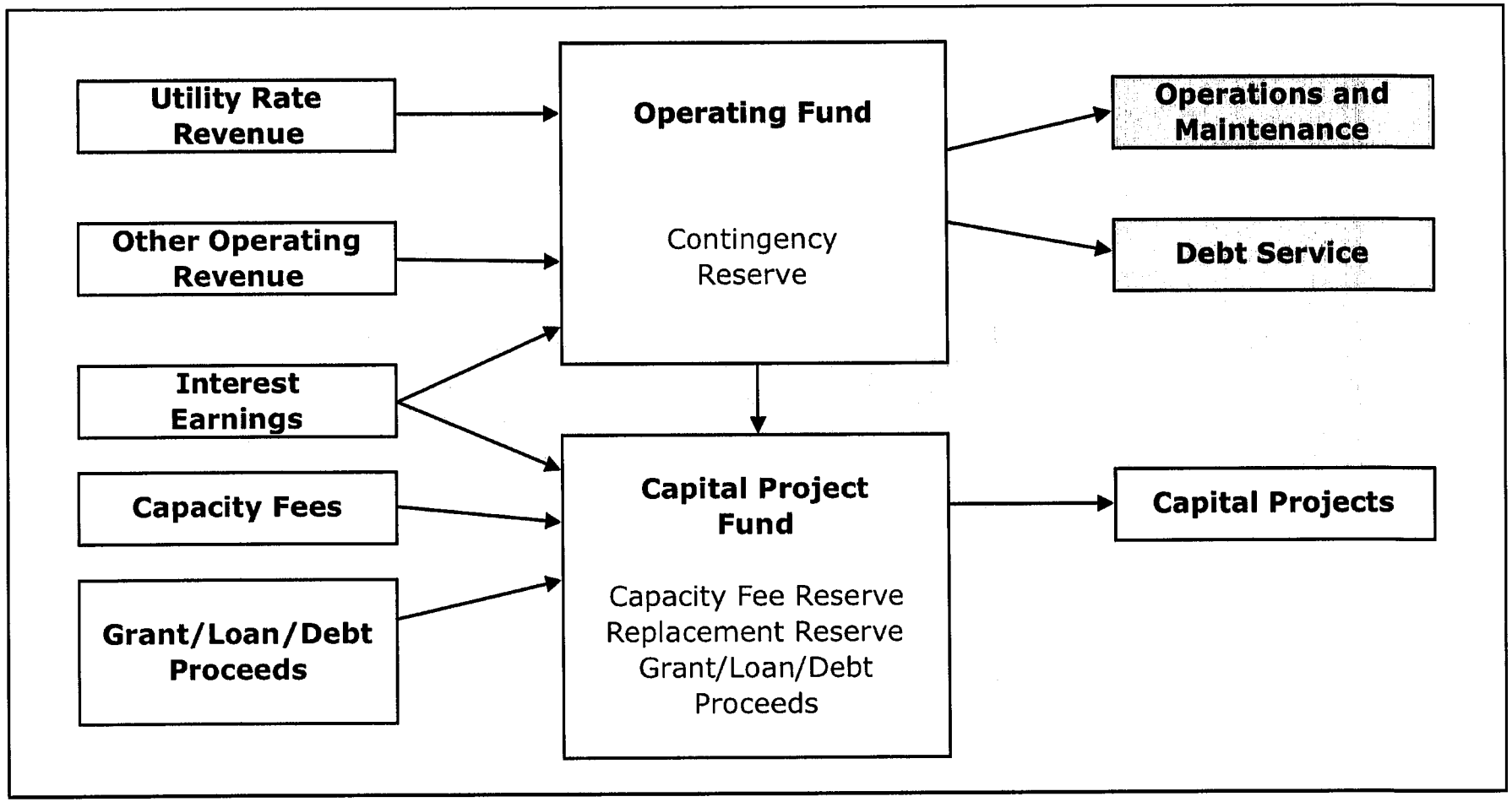
# Study Objectives

- Prepare 5-year financial plan model
- Assess current financial situation and ongoing revenue needs
- Perform cost of service analyses to support rate recommendations
- Propose rate structure changes consistent with rate-setting objectives
- Assist with adoption and implementation of new water and sewer rates

# Current Situation

- Water and sewer rates last adjusted in July 2015
- Drought and state-mandated water use reductions have impacted water sales
  - City's water use reductions have exceeded the state mandate
- *San Juan Capistrano* appellate court decision has clarified cost of service requirements
- Water and sewer capital improvement programs are not adequately funded

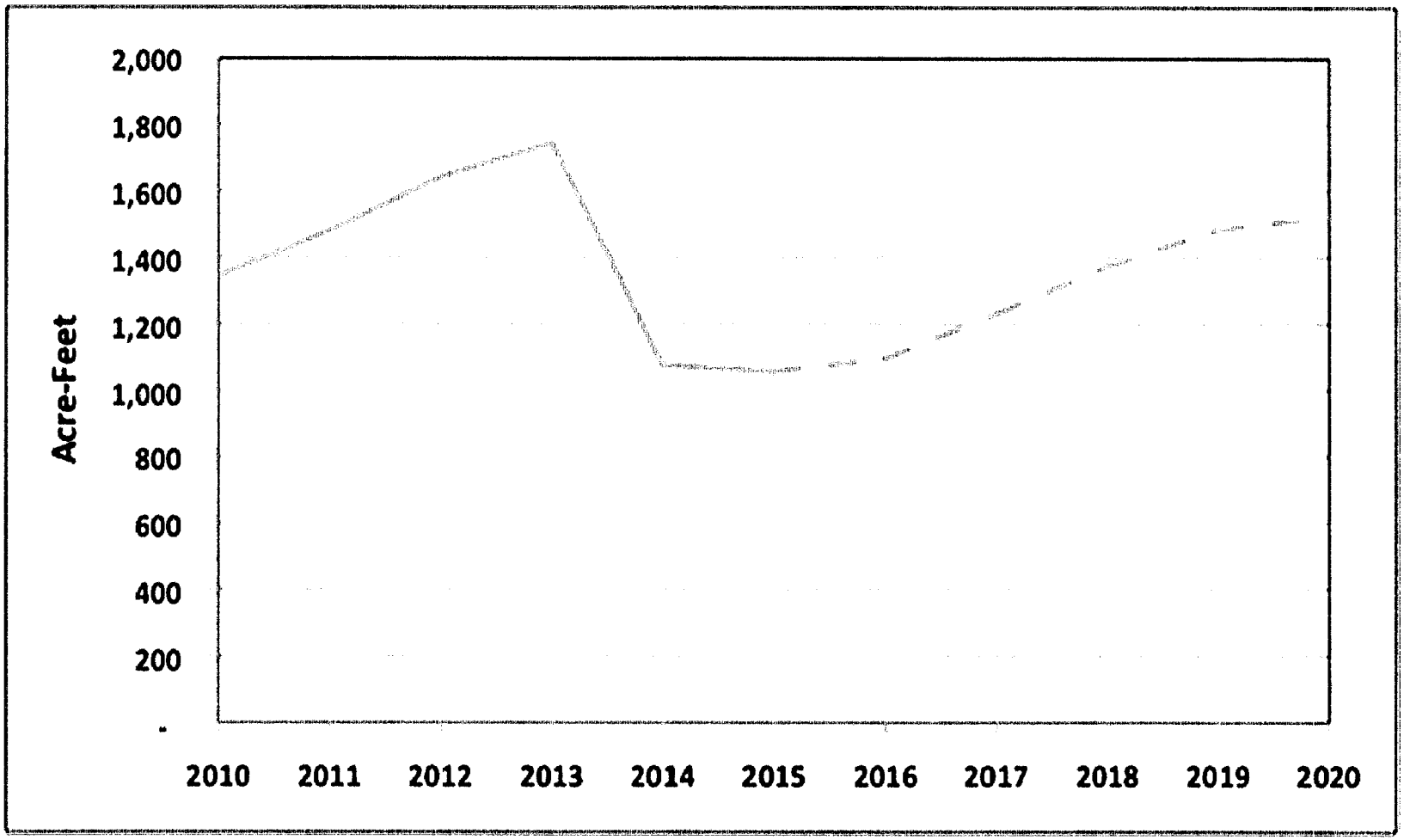
# Financial Plan Schematic



# Assumptions

- FY 15-16 budget and 10-year CIP
- Inflation, interest, and growth rates
  - Inflation: 3% per year
  - Interest: 0.25% to 0.50% per year
  - Growth: 0.5% per year
- Post-drought demand rebound estimated to occur over several years
- Current debt service obligations
  - Water utility: ~$500,000 per year
  - Sewer utility: ~$84,000 per year
- Contingency reserve: 25% of O&M

# Historical and Estimated Future Water Production



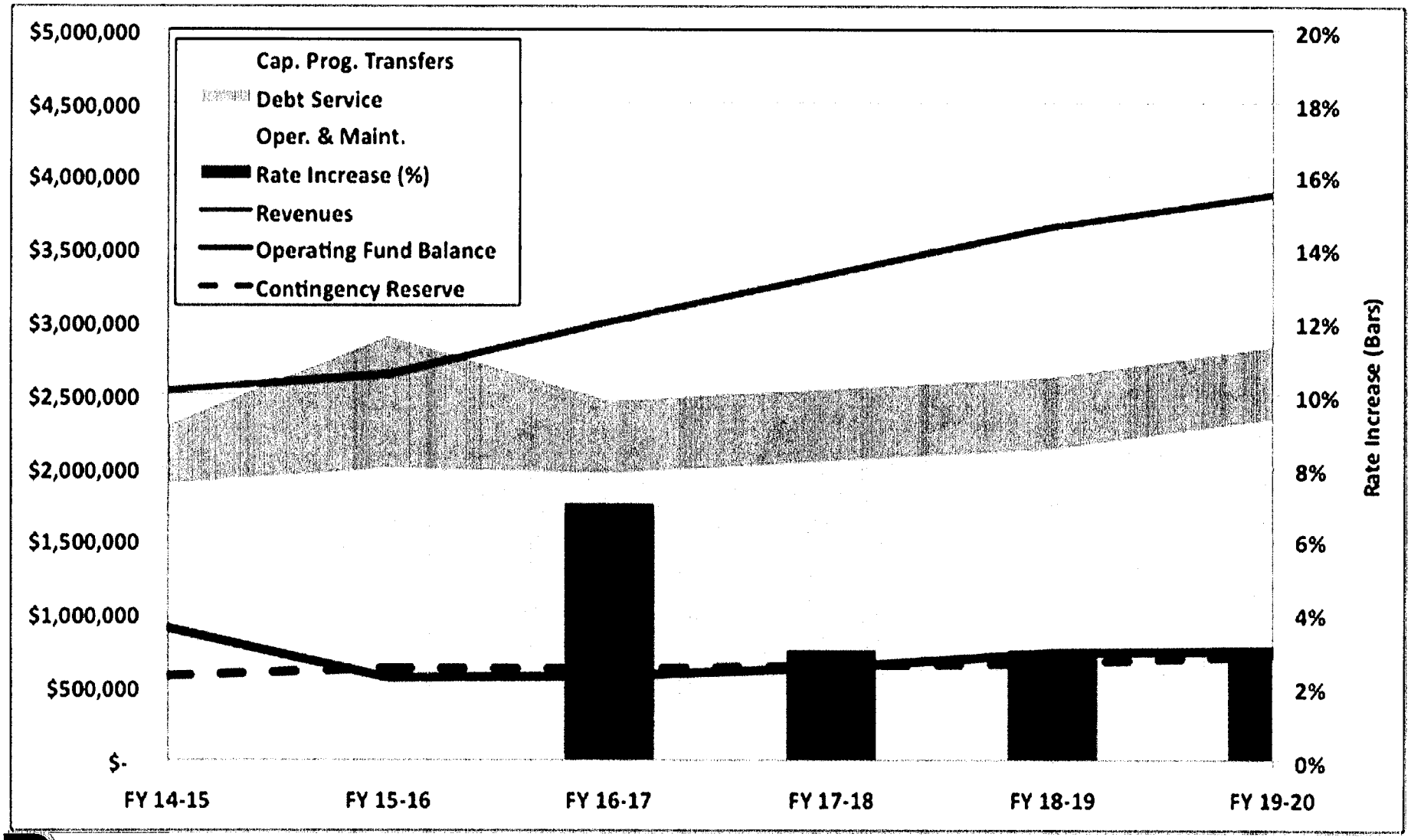
# Financial Strategy

- Boost water rates to help fund the planned water system CIP
- Use a portion of available sewer system reserves to help fund the planned CIP
- Gradually implement needed annual water rate increases
- Monitor financial condition during post-drought demand rebound
- Adopt a financial strategy to reduce risk during future water supply shortages

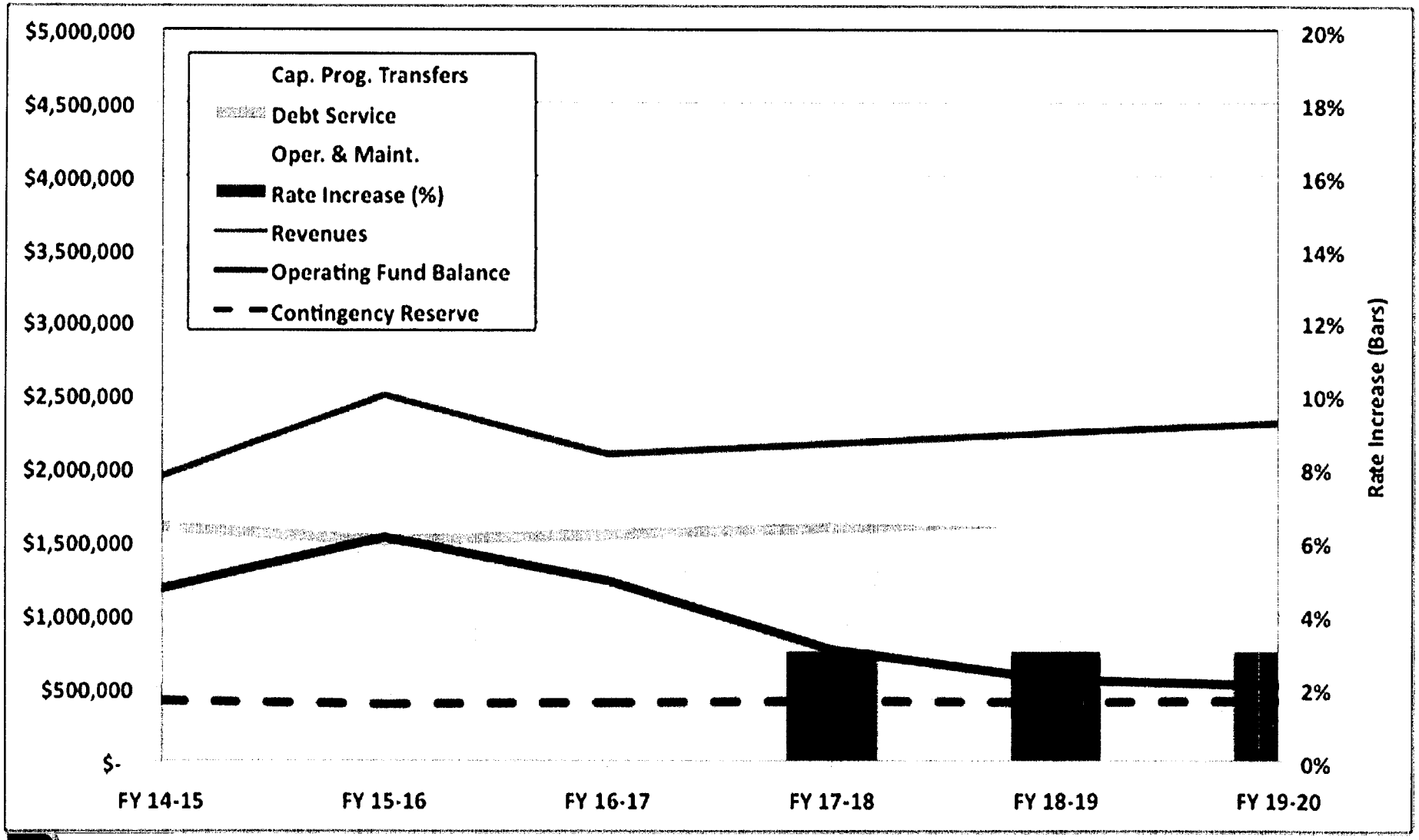
# Proposed Water and Sewer Rate Increases

| | Water | Sewer |
|---|---|---|
| April 2016 | 7% | 0% |
| July 2017 | 3% | 3% |
| July 2018 | 3% | 3% |
| July 2019 | 3% | 3% |

# Water Financial Plan Summary



# Sewer Financial Plan Summary



# Rate Setting Objectives

- Generate sufficient revenues to meet financial obligations
- Reflect the cost of providing service to customers
- Encourage water conservation and efficient water use

# Proposed Water and Sewer Rate Structure Changes

- Replace the single family 3-tier water usage rate structure with a uniform water usage rate
  - Maintain uniform water usage rate for other customer classes
- Maintain flat sewer service charges for residential customers
- Update water and sewer rates based on cost of service analysis
- Adopt a multi-year rate plan

# Proposed Water Rates

| | June 2016 | July 2017 | July 2018 | July 2019 |
|---|---|---|---|---|
| ***Monthly Base Charges*** | | | | |
| Up to 1" Meter | $ 22.25 | $ 22.92 | $ 23.61 | $ 24.32 |
| 1 1/2" Meter | $ 42.07 | $ 43.33 | $ 44.63 | $ 45.97 |
| 2" Meter | $ 65.85 | $ 67.83 | $ 69.86 | $ 71.96 |
| 3" Meter | $ 121.35 | $ 124.99 | $ 128.74 | $ 132.60 |
| 4" Meter | $ 200.63 | $ 206.65 | $ 212.85 | $ 219.24 |
| ***Water Usage Rates ($/CCF)*** | | | | |
| All Water Usage | $ 4.35 | $ 4.48 | $ 4.61 | $ 4.75 |

**Notes:**

(1) Water rates outside the City should continue to be 5 percent higher than inside the City.

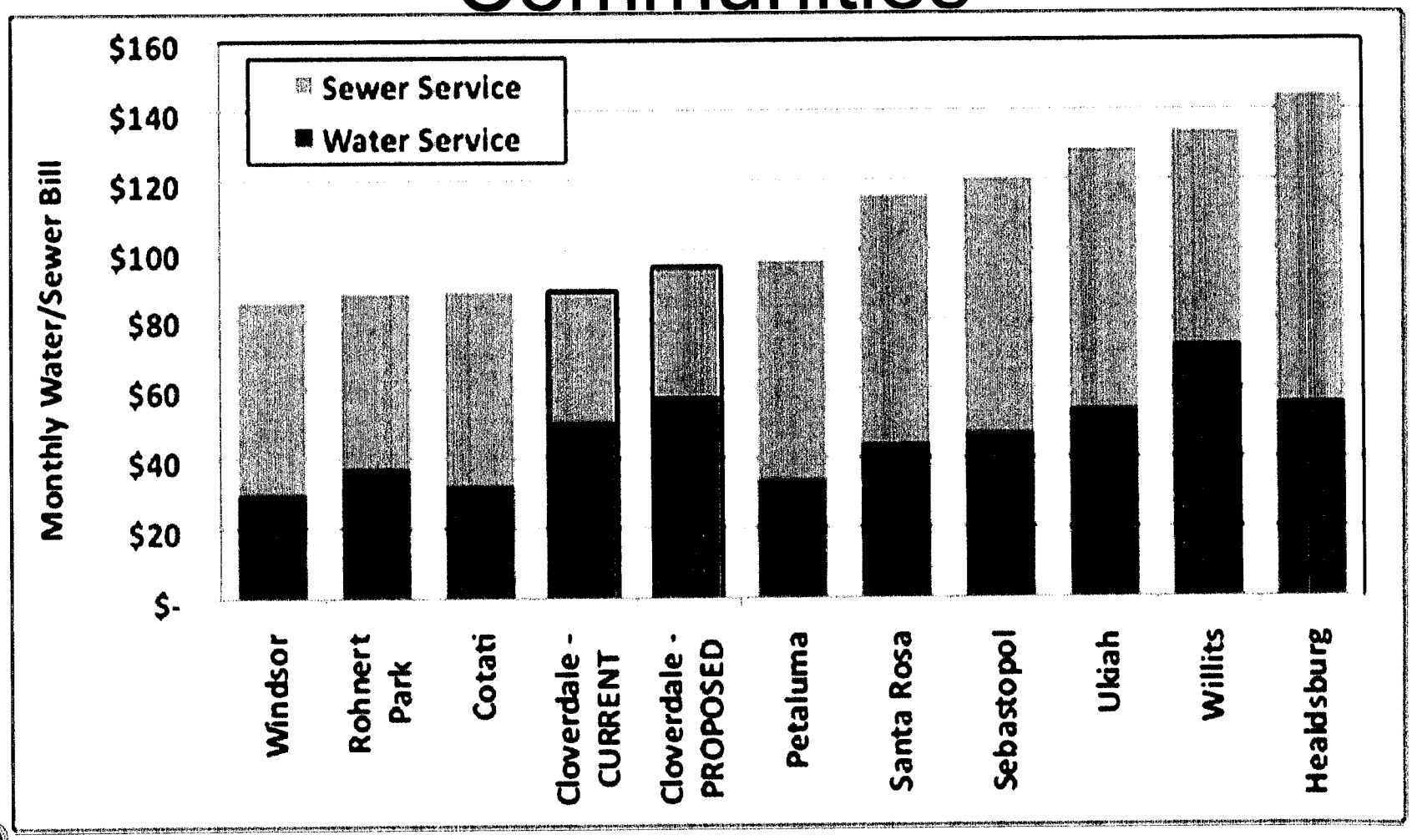
# Proposed Sewer Rates

| | June 2016 | July 2017 | July 2018 | July 2019 |
|---|---|---|---|---|
| ***Residential Flat Rates*** | | | | |
| Single Family Residential (per DU) | $ 38.20 | $ 39.35 | $ 40.53 | $ 41.75 |
| Multi-Family Residential (per DU) | $ 24.72 | $ 25.46 | $ 26.22 | $ 27.01 |
| ***Non-Residential Base Charges*** | | | | |
| Up to 1" Meter | $ 10.92 | $ 11.25 | $ 11.59 | $ 11.94 |
| 1 1/2" Meter | $ 19.73 | $ 20.32 | $ 20.93 | $ 21.56 |
| 2" Meter | $ 30.30 | $ 31.21 | $ 32.15 | $ 33.11 |
| 3" Meter | $ 54.97 | $ 56.62 | $ 58.32 | $ 60.07 |
| 4" Meter | $ 90.22 | $ 92.93 | $ 95.72 | $ 98.59 |
| ***Non-Residential Usage Charges ($/CCF)*** | | | | |
| Low Strength | $ 4.49 | $ 4.62 | $ 4.76 | $ 4.90 |
| Medium Strength | $ 5.59 | $ 5.76 | $ 5.93 | $ 6.11 |
| High Strength | $ 8.09 | $ 8.33 | $ 8.58 | $ 8.84 |
| ***Public Schools*** | | | | |
| Per 100 ADA | $ 148.15 | $ 152.59 | $ 157.17 | $ 161.89 |

# Sample Water and Sewer Bills for Typical Customers

| | Current Rates | | | Proposed Rates | | | Change | |
|---|---|---|---|---|---|---|---|---|
| | Water | Sewer | Total | Water | Sewer | Total | $s | % |
| ***Single Family Residential*** | | | | | | | | |
| Low Use (5 CCF) | $ 38.80 | $ 38.64 | $ 77.44 | $ 44.00 | $ 38.20 | $ 82.20 | $ 4.76 | 6% |
| Average Use (8 CCF) | $ 49.78 | $ 38.64 | $ 88.42 | $ 57.05 | $ 38.20 | $ 95.25 | $ 6.83 | 8% |
| High Use (15 CCF) | $ 80.00 | $ 38.64 | $ 118.64 | $ 87.50 | $ 38.20 | $ 125.70 | $ 7.06 | 6% |
| ***Multi-Family Residential*** | | | | | | | | |
| Duplex (5/8" mtr., 15 CCF) | $ 80.80 | $ 58.10 | $ 138.90 | $ 87.50 | $ 49.44 | $ 136.94 | $ (1.96) | -1% |
| Apart. w/ 6 DUs (1" mtr, 30 CCF) | $ 141.10 | $ 174.30 | $ 315.40 | $ 152.75 | $ 148.33 | $ 301.08 | $ (14.32) | -5% |
| Apart. w/ 28 DUs (2" mtr., 140 CCF) | $ 621.11 | $ 813.40 | $1,434.51 | $ 674.85 | $ 692.23 | $1,367.08 | $ (67.43) | -5% |
| ***Non-Residential*** | | | | | | | | |
| Medical Office (1" mtr., 28 CCF) | $ 133.06 | $ 130.15 | $ 263.21 | $ 144.05 | $ 136.64 | $ 280.69 | $ 17.48 | 7% |
| Retail (1" mtr. 12 CCF) | $ 68.74 | $ 60.71 | $ 129.45 | $ 74.45 | $ 64.80 | $ 139.25 | $ 9.80 | 8% |
| Laundromat (2" mtr., 180 CCF) | $ 781.91 | $ 805.04 | $1,586.95 | $ 848.85 | $ 838.50 | $1,687.35 | $ 100.40 | 6% |
| Hotel (2" mtr, 60 CCF) | $ 299.51 | $ 347.24 | $ 646.75 | $ 326.85 | $ 365.70 | $ 692.55 | $ 45.80 | 7% |
| Restaurant (2" mtr., 90 CCF) | $ 420.11 | $ 724.94 | $1,145.05 | $ 457.35 | $ 758.40 | $1,215.75 | $ 70.70 | 6% |
| City Park (3" mtr., 500 CCF) | $2,116.44 | n/a | $2,116.44 | $2,296.35 | n/a | $2,296.35 | $ 179.91 | 9% |

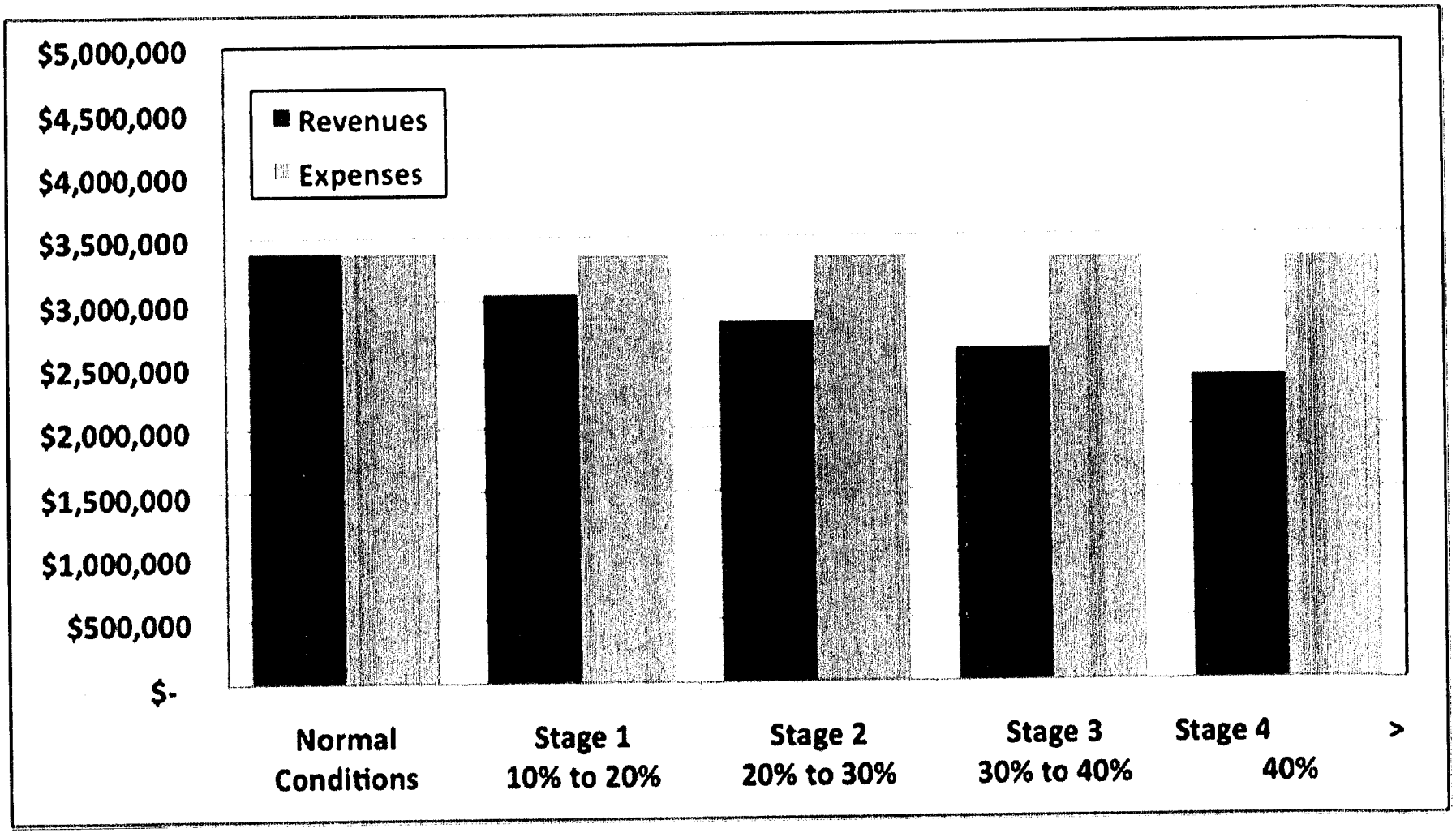
# Comparison of Single Family Water/Sewer Bills with Other Communities



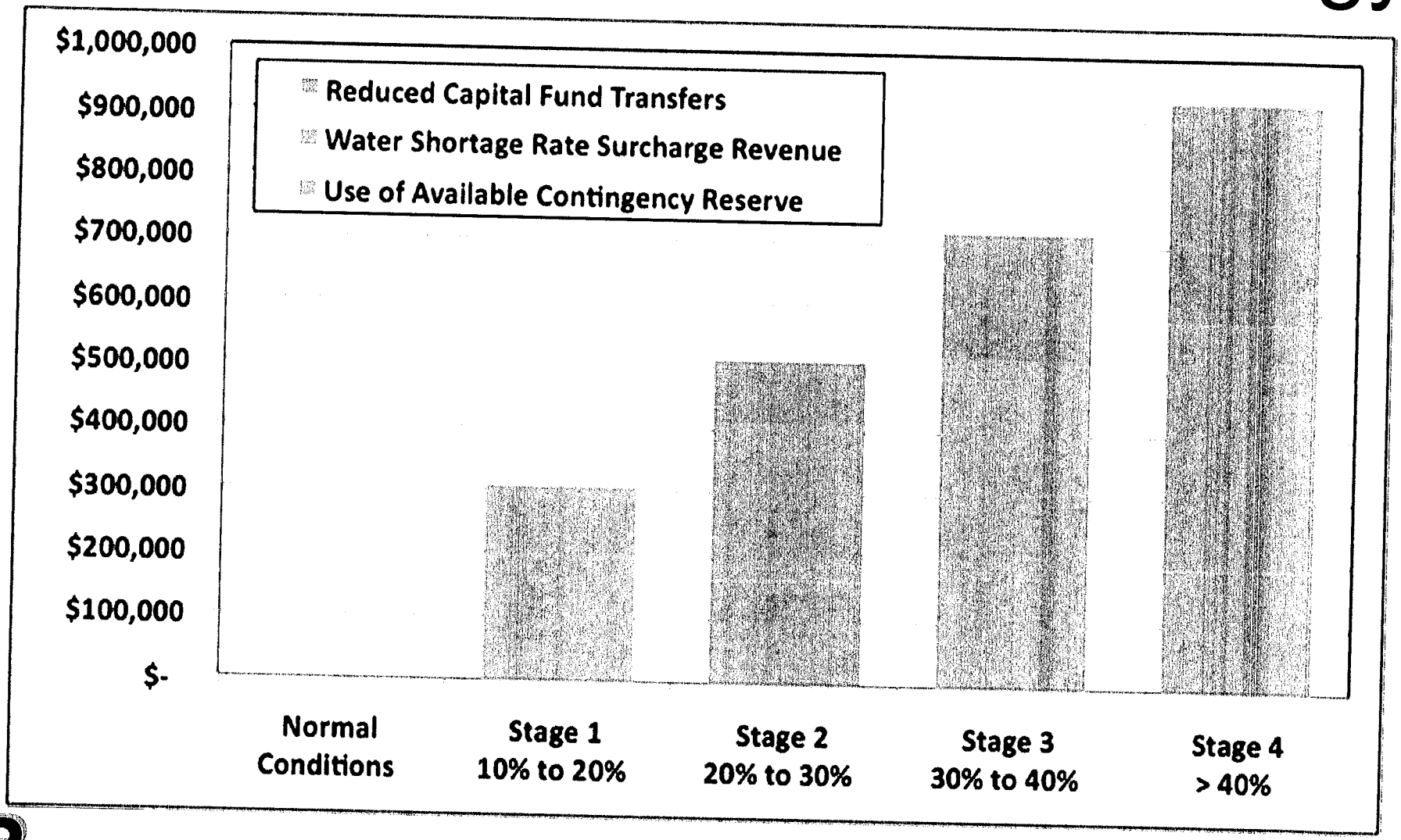
# Financial Impact of Water Shortages

- Drought conditions can create financial instability as reduced water sales result in a financial deficit
- Recommend a multi-prong strategy for offsetting the impact of drought
  - Use portion of contingency stabilization reserve
  - Adopt temporary water shortage rate surcharge
  - Reduce CIP transfers in severe conditions

# Water Shortage Financial Deficits



# Water Shortage Financial Strategy



# Temporary Water Shortage Rate Surcharges

| | Normal Supply Conditions (1) | Stage 1 Minor Shortage (Voluntary) | Stage 2 Moderate Shortage (Mandatory) | Stage 3 Urgent Shortage (Mandatory) | Stage 4 Critical Shortage (Mandatory) |
|---|---|---|---|---|---|
| Use Reduction Goal --> | None | 10% to 20% | 20% to 30% | 30% to 40% | > 40% |
| **Wtr. Short. Surch. (2) -->** | **None** | **6%** | **15%** | **24%** | **32%** |
| ***Monthly Base Charges*** | | | | | |
| Up to 1" Meter | $ 22.25 | | | | |
| 1 1/2" Meter | $ 42.07 | | | | |
| 2" Meter | $ 65.85 | | No Changes to Base Charges | | |
| 3" Meter | $ 121.35 | | | | |
| 4" Meter | $ 200.63 | | | | |
| ***Water Usage Rates ($/CCF)*** | | | | | |
| All Water Usage (3) | $ 4.35 | $ 4.61 | $ 5.00 | $ 5.39 | $ 5.74 |

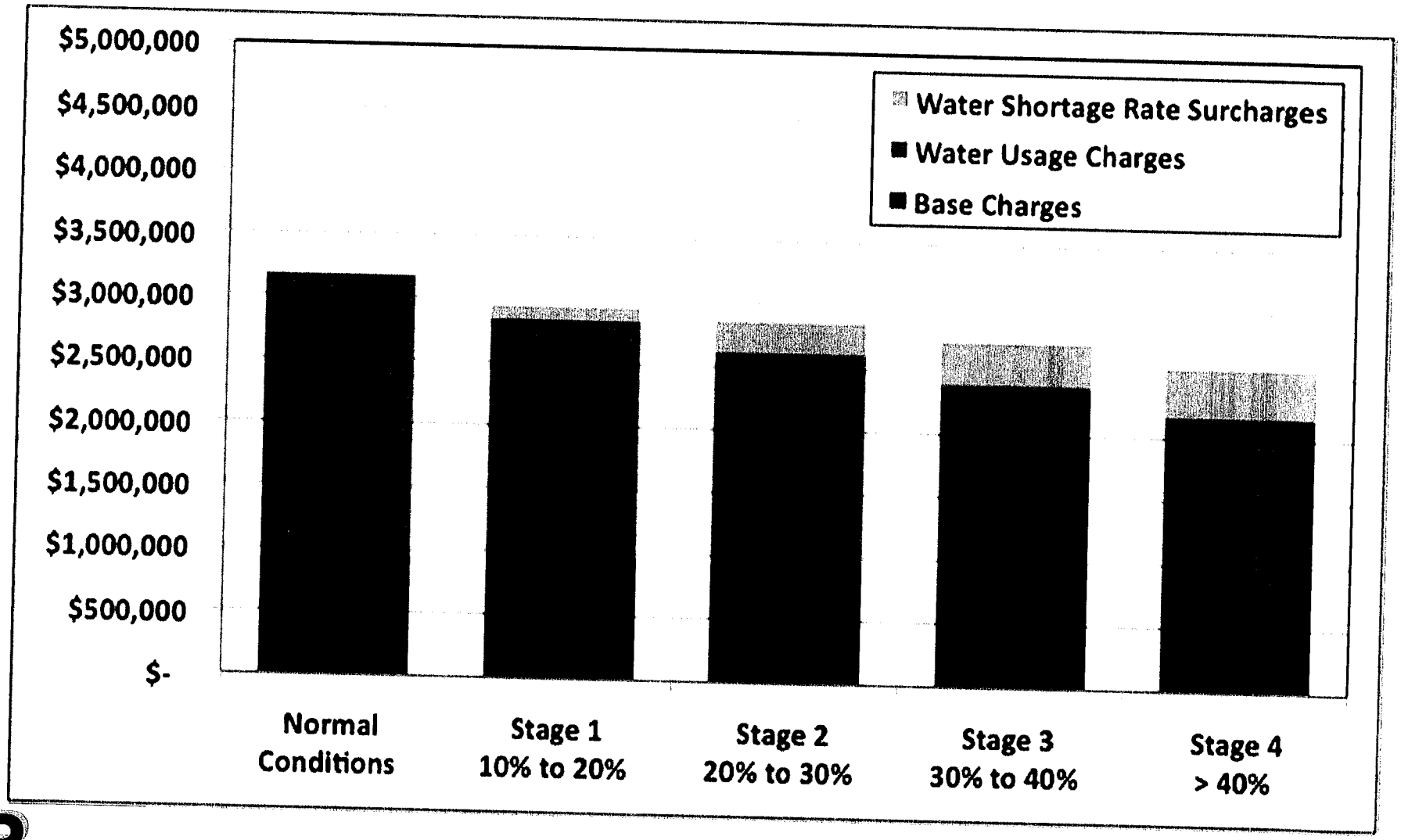
**Notes:**

(1) The water shortage rate surcharge percentages are shown applied to the proposed water usage rate for June 2016 for illustrative purposes. The percentages would be applied to any then-current water usage rates when implemented by declaration of a water shortage by the City Council.

(2) The water shortage rate surcharge would be an incremental (percentage) increase in the water usage rate, but would not be applied to monthly base charges.

(3) The water usage rates shown for Stages 1 through 4 incorporate the water shortage rate surcharge.

# Water Shortage Rate Revenue



# Bill Impacts of Shortage Strategy

| Water Shortage Stage | Water Use Reduction Goal | Monthly Water Use (CCF) | Base Charge | Water Usage Charge | Water Shortage Charge | Total Water Bill | % Change from Normal Bill |
|---|---|---|---|---|---|---|---|
| ***Average Single Family Customer Meeting Reduction Goals*** | | | | | | | |
| Normal Supply Conditions | None | 11 | $ 22.25 | $ 47.85 | $ - | $ 70.10 | |
| Stage 1 Minor Shortage | 10% to 20% | 9 | $ 22.25 | $ 39.15 | $ 2.35 | $ 63.75 | **-9.1%** |
| Stage 2 Moderate Shortage | 20% to 30% | 8 | $ 22.25 | $ 34.80 | $ 5.22 | $ 62.27 | **-11.2%** |
| Stage 3 Critical Shortage | 30% to 40% | 7 | $ 22.25 | $ 30.45 | $ 7.31 | $ 60.01 | **-14.4%** |
| Health & Safety Per Capita Limit | > 40% | 6 | $ 22.25 | $ 26.10 | $ 8.35 | $ 56.70 | **-19.1%** |
| ***Average Single Family Customer With No Water Use Reduction*** | | | | | | | |
| Normal Supply Conditions | None | 11 | $ 22.25 | $ 47.85 | $ - | $ 70.10 | |
| Stage 1 Minor Shortage | 10% to 20% | 11 | $ 22.25 | $ 47.85 | $ 2.87 | $ 72.97 | **4.1%** |
| Stage 2 Moderate Shortage | 20% to 30% | 11 | $ 22.25 | $ 47.85 | $ 7.18 | $ 77.28 | **10.2%** |
| Stage 3 Critical Shortage | 30% to 40% | 11 | $ 22.25 | $ 47.85 | $ 11.48 | $ 81.58 | **16.4%** |
| Health & Safety Per Capita Limit | > 40% | 11 | $ 22.25 | $ 47.85 | $ 15.31 | $ 85.41 | **21.8%** |

# Rate Adoption Process

- Finalize rate recommendations based on comments from City Council and staff
- Prepare and mail the required public notice of proposed rate changes
  - 45-days prior to public hearing
- Hold public hearing (April 26) and consider protests
- In absence of majority protect, adopt new water and sewer rates

# Summary

- Water and sewer rate increases are needed to meet service and financial obligations
- Proposed water and sewer rates reflect proportionality requirements for cost of service
- Multi-year rate increases intended to ease impacts while still meeting financial needs
- Water shortage strategy and temporary surcharges provide tools to mitigate financial risk in future shortages

CITY OF CLOVERDALE

**City Council/Successor Agency**
**Agenda Item Summary**

Agenda Item: 12
Meeting Date: February 23, 2016

| Agenda Section | Staff Contact |
|---|---|
| Finance, Administration & Police | Stephen Cramer, Police Chief |

**Agenda Item Title**

Presentation and Discussion of Proposed Ordinance Repealing and Replacing Cloverdale Municipal Code Chapter 5.24 Relating to Massage Therapy and Massage Establishments

**SUMMARY:**

The purpose of this agenda item is for presentation and discussion of a proposed ordinance repealing and replacing Cloverdale Municipal Code Chapter 5.24 relating to massage therapy and massage establishments in the City of Cloverdale. The City's current massage ordinance has not been updated since its adoption in 1975.

**BACKGROUND:**

On September 27, 2008, Senate Bill 731 ("SB 731"), entitled the "Massage Therapy Act," was signed into law. SB 731 attempted to address the concerns and frustration amongst massage professionals relating to the various regulations for massage practitioners and establishments throughout the State and to provide uniform regulations for the massage industry. Prior to enactment of the Massage Therapy Act, local governments in California had broad authority to regulate massage practitioners and establishments within their jurisdictions. Additionally, cities and counties were able to regulate establishments through zoning ordinances to limit the location of massage establishments to certain zoning districts and/or to require a conditional use permit to operate. SB 731 created a program of voluntary certification for massage practitioners by a State supported non-profit organization, the California Massage Therapy Council ("CAMTC"). SB 731 also imposed a variety of restrictions on cities and counties, including a mandate that local zoning regulations could not distinguish between massage establishments and other personal and professional services. SB 731 had a sunset provision of January 1, 2015.

On September 18, 2014, Governor Brown signed Assembly Bill 1147 ("AB 1147"), with an effective date of January 1, 2015. AB 1147 extended the Massage Therapy Act and made significant changes to the structure of CAMTC and to Business and Professions Code sections 460, 4600-4621, and Government Code section 51034. AB 1147 also allowed cities and counties to return to regulating massage establishments through zoning regulations. Specifically, Assembly Bill 1147 allows cities and counties to:

- Pass ordinances that require that all people who perform massage to be CAMTC certified;
- Regulate land uses for the purpose of managing massage establishments in their communities;
- Require that all massage establishments obtain a license, permit, certificate or other authorization in order to operate lawfully in the jurisdiction; and

- Adopt or enforce a local ordinance governing zoning, business licensing, or reasonable health and safety requirements for all message establishments (limited by GC 51034).

Although AB 1147 did return some regulating power to local government, AB 1147 generally restricted cities and counties from regulating the practice of massage, and specifically prohibited cities and counties from regulating, among other things, defining or regulating any massage establishment as adult entertainment and requiring client draping that goes beyond the covering of genitalia and female breasts.

**DISCUSSION:**

The City of Cloverdale's existing massage ordinance has not been revised since its adoption in 1975. Since that time, the City has seen an increase in massage businesses and currently has twenty-nine (29) files relating to massage. Of these 29 massage business, the following has been identified:

- 19 do not hold a valid Cloverdale Police Department Massage Permit (this requirement currently violates AB 1147 if therapist has CAMTC certificate);

- 19 do not have valid City of Cloverdale business licenses; and

- 13 have CAMTC certificates (only eight (8) are currently valid).

Additionally, there are several massage therapists who list home addresses on their permits and/or CAMTC licenses but do not have a Cloverdale Home Occupation Permit/License, there is no current list of independent massage therapy contractors from the local spas and none of the files have copies of current business licenses or CAMTC certificates. Furthermore, nine (9) massage therapists were issued permits that have no expiration date because prior Police Chiefs granted lifetime permits. As a result, there is no accurate way to track therapists under such a permit mechanism. All of these files show varying degrees of compliance with the Municipal Code and each business has a different permitting standard.

Staff is currently preparing a proposed ordinance that attempts to provide a streamlined permitting process for individuals and establishments providing massage services in the City to correct the aforementioned deficiencies.

The current ordinance is also out of compliance with state law. Several sections of the Cloverdale Municipal Code (5.24.110, 5.24.020, 5.24.050, 5.24.070, and 5.24.130) directly contradict the language of AB 1147. Additionally, the current ordinance is not consistent with other sections of the Cloverdale Municipal Code in addition to the current structure of the City departments.

The proposed ordinance will seek to bring Cloverdale's Municipal Code into compliance with state law and generally update the definitions and terminology of the ordinance.

*General Permit/Licensing Requirements of Proposed Ordinance*

The proposed ordinance will require, among other things, that any person that performs or engages in the practice of massage possess either a CAMTC certificate or a Certified Massage Therapist Certificate that shall be issued by the Chief of Police. The proposed ordinance will also require that a massage establishment (fixed place of business) possess a Certified Massage Establishment Certificate that shall

also be issued by the Chief of Police. Any person who applies for a Certified Massage Establishment or Therapist Certificate is subject to fingerprinting and a background check. In addition to the certificates, every person or business entity must also obtain a business license pursuant to Chapter 5.04 of the Cloverdale Municipal Code and if a massage therapist wishes to operate a massage business from his or her home, a home occupation permit pursuant to Chapter 18.03 is also required.

*Health and Safety/Operating Requirements of Proposed Ordinance*

The proposed ordinance will also seek to prevent and discourage the misuse of massage therapy as a front for prostitution, human trafficking, and other illicit activities. The goals is to protect the interests of the public health, safety, and welfare of the community by providing certain minimum health and safety, building, sanitation, and operation standards for massage therapists and businesses. Additionally, it will be the intent of the proposed ordinance to protect the interests of the public health, safety, and welfare of the community by requiring certain minimum educational qualifications for the massage therapists. Some of the proposed health and safety and operating regulations provide the following:

- Requires clean linens and equipment;
- Prohibits massage for sexual gratification;
- Prohibits sexually suggestive advertisement;
- Massage establishments must comply with all applicable building and fire code requirements of the City;
- Massages can only be given between 7 a.m. and 10 p.m.;
- CAMTC Certificates or Certified Massage Therapist Certificate must be d displayed in reception area or location where massage will be performed; and
- Massage establishments cannot be used as a residence.

*Minimum Educational Requirements of Proposed Ordinance*

The proposed ordinance will require that anyone who applies for a Certified Massage Therapy Certificate meet minimum educational standards by possessing at least two of the following:

1. An original copy of a diploma, certificate or academic transcript that demonstrates completion of three hundred (300) hours of in-class instruction from a recognized school; or
2. Satisfactory passage of the National Certification Exam for Therapeutic Massage or Bodywork; or
3. Membership in good standing in a national professional massage organization or association that requires its members to have the following:
   a. Substantiation of at least one hundred (100) hours of massage training or education;

b. Possession of practitioner's liability insurance coverage in the minimum amount of one million dollars ($1,000,000) per event;

c. Adherence to a code of ethics; and

d. Renewal of membership at a minimum of once every two (2) years.

4. The Applicant has a long-standing (over twenty (20) years) history of conducting massages in the City without any complaints or Municipal Code violations.

A massage therapist who has obtained a CAMTC certificate is not required to obtain a Certified Massage Therapy Certificate because that person has already met the educational standards set forth by CAMTC and passed a background check.

*No Zoning Regulations in Proposed Ordinance*

Although AB 1147 allows cities to regulate massage establishments through zoning regulations, staff has determined that such regulation is not currently necessary or beneficial to the City. The City does not currently have an over-concentration of massage establishments in any one area of the City.

**Budget/Financial Impact**

The City Police Department will expend considerable staff time in the administration of the Certified Massage Therapist and Establishment Certificates, the investigating of complaints, conducting inspections and enforcing violations. The Police Department will be able to recover some of the costs through fees for the administrative costs of the Certificates. Additionally, there may be some cost recovery through fines that are charged as a result of violations of the Municipal Code.

**Subcommittee Recommendation**

This agenda item was presented to the Finance/Police Subcommittee on January 28, 2016.

**Recommended Council Action**

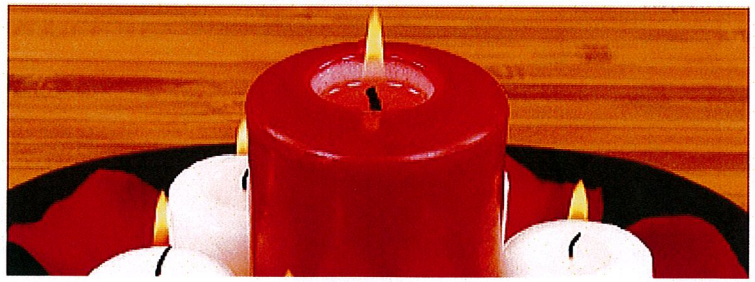
The City Manager recommends that the City Council discuss the issue related to massage therapy and give Staff feedback regarding finalizing a proposed ordinance.

**cc:**

2606401.2

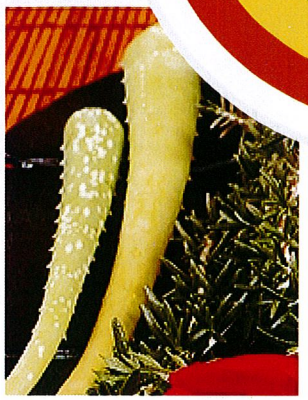
# Massage Therapy Ordinance

## Updating an Outdated Ordinance to Comply with Current State Law



# Massage Therapy

CITY OF CLOVERDALE

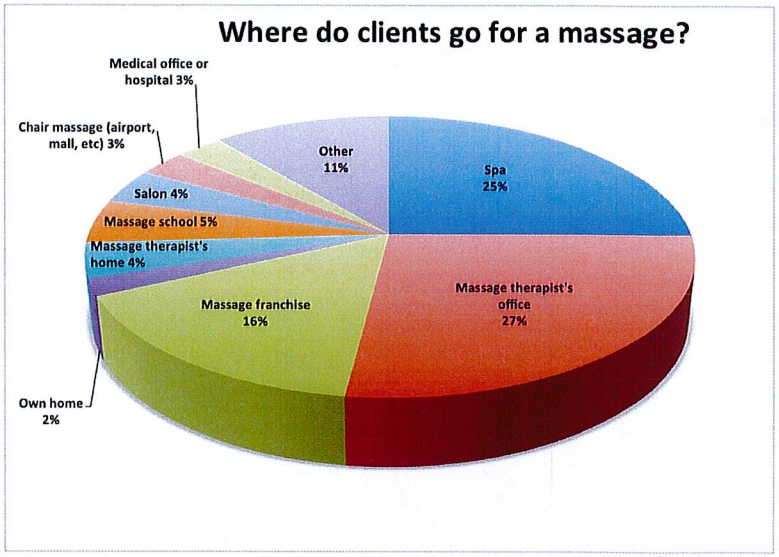


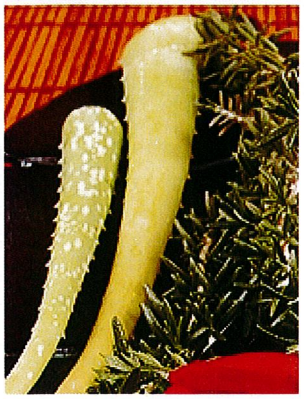
1. How Did We Get Here?
2. Outdated Ordinance (1975)
3. California Massage Therapy Council
4. Proposed Draft Ordinance Highlights

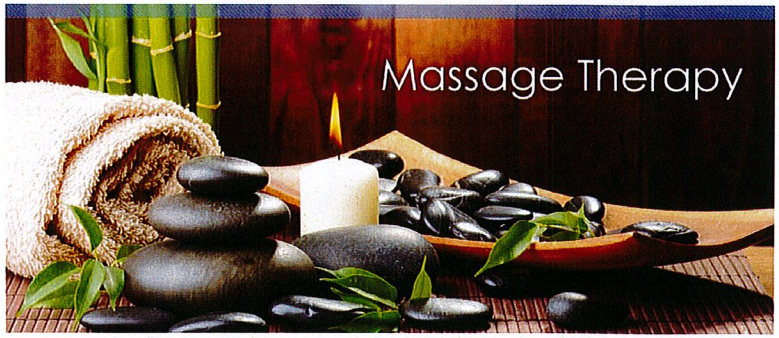
*To keep the body in good health is a duty, otherwise we shall not be able to keep our mind strong and clear…* *Buddha*

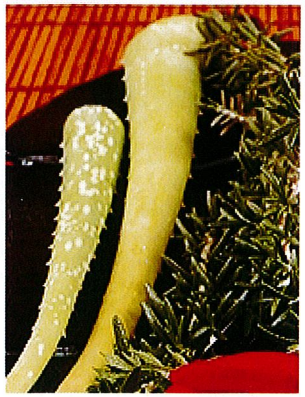
## How Did We Get Here?

- I received a welcome letter from CAMTC
- I began researching our internal massage therapist files
- I was ***stunned*** by the disorganization & missing information!



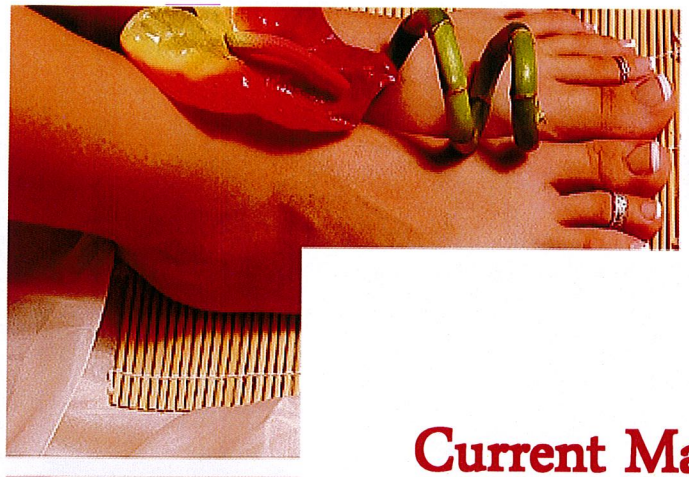


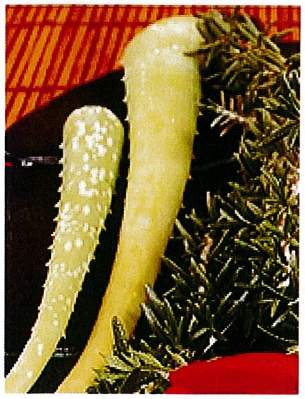


## Current Massage Therapy Files Not in Compliance

We have twenty-nine (29) internal massage therapist files & they are in complete disarray. Of these 29:

- Nineteen (19) do not hold a valid Cloverdale Police Department Massage Permit (*currently violates state law with CAMTC certificate*);
- Nineteen (19) do not have valid City of Cloverdale business licenses;
- Thirteen (13) have California Massage Therapy Council ("CAMTC") certificates (*although only eight [8] are currently valid*)



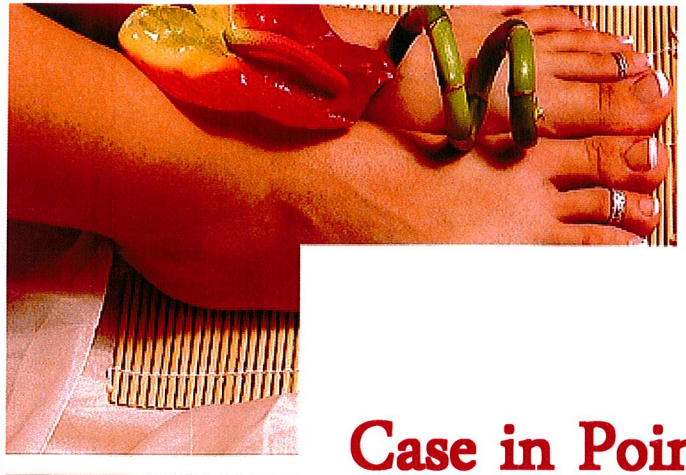


## Current Massage Therapy Files Not in Compliance

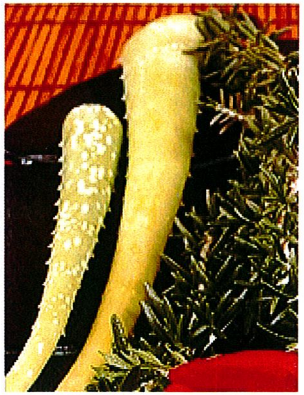
- There are several massage therapists who list home addresses on their permits and/or CAMTC licenses but do not have a Cloverdale Home Occupation permit/license;
- No current list of independent massage therapy contractors from the local spas;
- ***None*** of the files have copies of current business licenses or CAMTC Certificates

## Prior Administrations Allowed Lifetime Permits

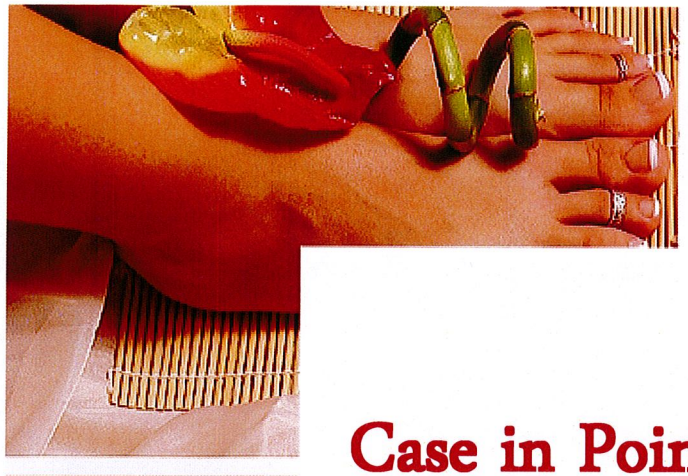
- Nine (9) massage therapists were issued permits that have no expiration date - prior police chiefs granted ***lifetime*** permits;
- No accurate way to track therapists under this permit mechanism.

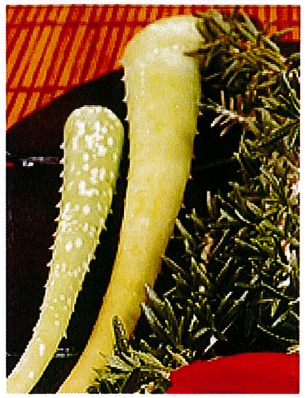


## Case in Point: Massage Therapy Operation



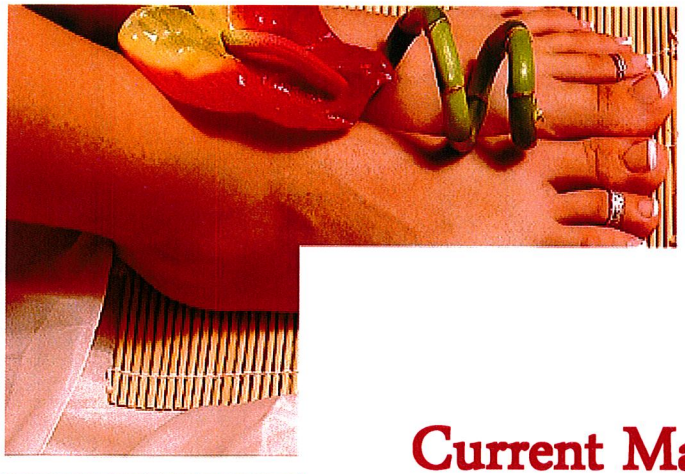
One particular massage therapy operation (#30) has been in existence for approximately eighteen (18) years, with a downtown storefront operation. The owner/massage therapist has a valid business license but (1) no CPD file, (2) no permit from the police department, and (3) no CAMTC Certificate. Her entire documentation consists of her massage school diploma from the 1980's

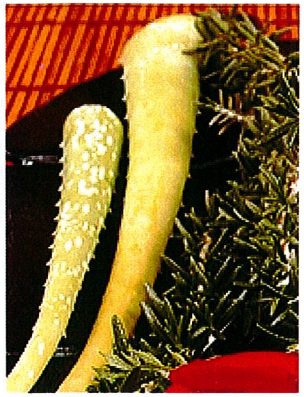




## Case in Point: Massage Therapy Operation

- The City of Cloverdale business license fees section has no specific line-item for massage therapy. Massage therapy business licenses fall under "general services" with a $56.25 annual business license fee (5.04.100 CMC);
- Currently, massage therapists and/or massage establishments are required to pay a $250 permit fee to the police department. This fee covers a two-year period. Violates state law (as to individuals with CAMTC certification).





## Current Massage Therapy Ordinance from 1975

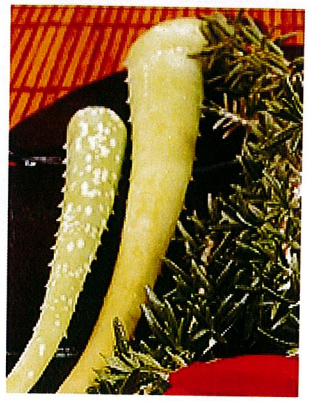
# *OUR ORDINANCE IS OUTDATED & OUT OF COMPLIANCE WITH STATE LAW*

# *IT'S TIME TO REPEAL & REPLACE*

**40** YEARS 1975 2015

## From "Massage Parlors" to "Massage Therapy"

- Police Chief is the ultimate arbiter
- Expands definitions
- Brings ordinance into compliance with current laws;
- Regulates massage therapists in an organized manner



Massage Therapy Schools and Certification Requirements in California

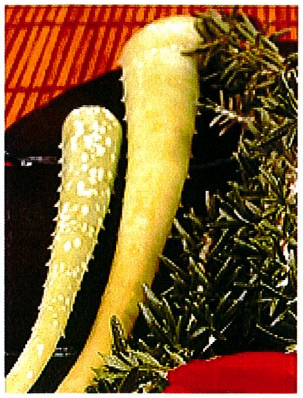
**CAMTC MISSION**

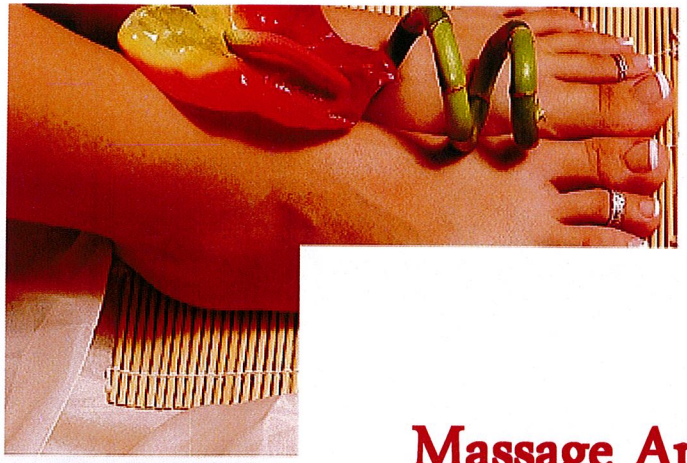
California Massage Therapy Council's mission is to protect the public by certifying qualified massage professionals in California.

# Massage Establishment Permit (1975)

**5.24.020 CMC states:**

It is unlawful for any person to engage in, conduct or carry on, or to permit to be engaged in, conducted or carried on, in or upon any premises in the city, the operation of a massage establishment or an outcall massage service, as defined in this chapter, ***without first having obtained a permit from the police department*** issued pursuant to the provisions of this chapter.



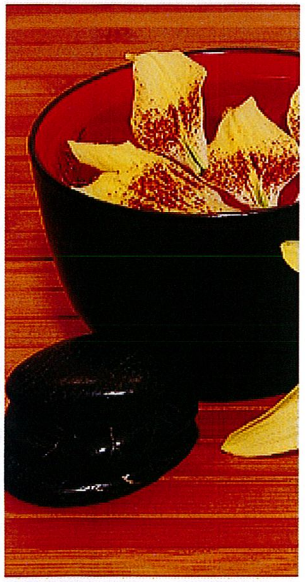


# Massage Application & Filing Fee (1975)

**5.24.050 CMC states:**

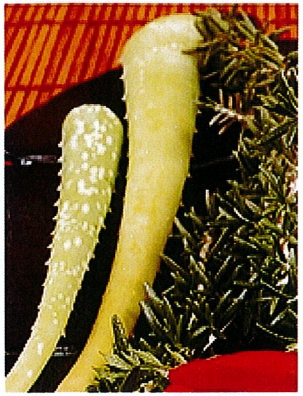
Every applicant for a permit to maintain, operate or conduct a massage establishment or outcall massage service shall file an application with the chief of police upon a form provided by the chief of police, ***and shall pay a filing fee*** as provided in the resolution establishing fees and charges for various municipal services, filed in the office of the city clerk.

## Investigative Fee (1975)



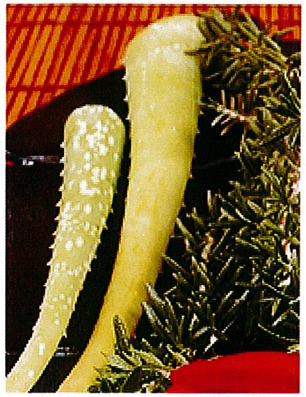
**5.24.070 CMC states:**

> Any person who engages in the practice of massage, as defined in this chapter, shall file an application with the chief of police upon a form provided by the chief of police, ***and shall pay an investigative fee*** as provided in the resolution establishing fees and charges for various municipal services, filed in the office of the city clerk.



# Pubic Works/Planning Department Inspections

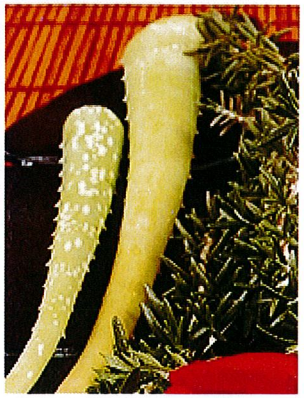
## (1975)



**5.24.100 CMC states:**

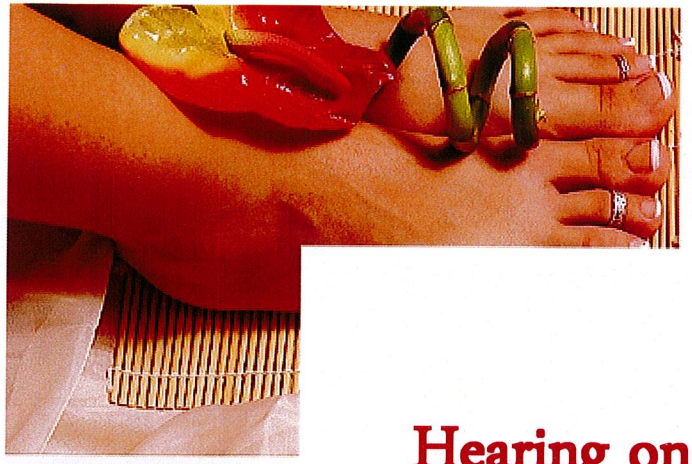
> The chief of police, upon receiving an application for a massage establishment permit or an outcall massage service permit shall refer the applications to the ***public works department and the city planning department***, which departments shall inspect the premises proposed to be devoted as a massage establishment, and shall make separate written recommendations to the chief of police concerning compliance with the respective requirements within ten days after receipt of the aforementioned referral.

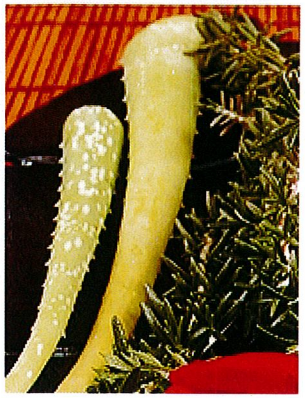
## City Health Officer (1975)



**5.24.110 CMC states:**

The chief of police shall also submit a copy of the application to the city health officer, who shall thereupon ***conduct an investigation into the personal health and health history of the applicant, and shall require proof that the applicant is free from all communicable diseases.*** The applicant shall also furnish an acceptable report of ***chest X-ray*** showing freedom from tuberculosis. The health officer may also, in his discretion, order a ***physical examination*** of any person engaged in the massage practice.





# Hearing on Application (1975)

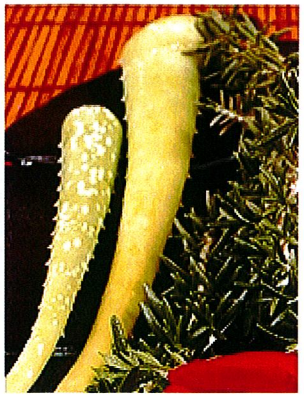
**5.24.130 CMC states:**

A. When an application is filed for a permit under this chapter and the reports required by Section 5.24.100 have been received, the chief of police shall fix a time and place for a hearing thereon.

B. Not less than ten days before the date of such hearing, the chief of police shall cause to be posted a notice of such hearing in a conspicuous place on the property in which or on which the proposed massage establishment or massage service is to be operated and shall, by registered mail, send a similar notice to the applicant. Such posting of notice shall be carried out by the police department.

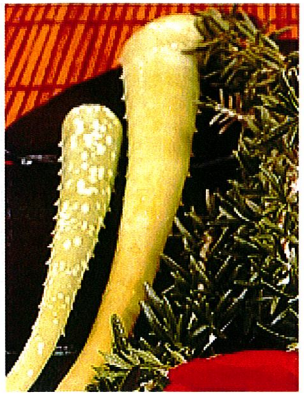
## Other Significant Issues (1975)

- We don't have a 'City Health Officer';
- No 'investigative fee' designated in fee schedule;
- Current city business license fee does not & fee insufficient ($56.25)
- No requirement to obtain a Home Occupation Permit;
- Violation only allows for criminal prosecution, no abatement option;
- No health & safety requirements



## California Massage Therapy History

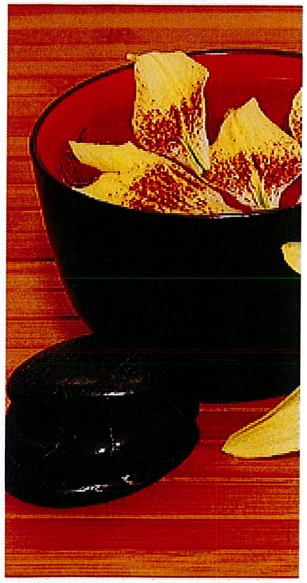
The Massage Therapy Act (California Business and Professions Code sections 460, 4600-4621, and Government Code section 51034) establishes statewide standards for voluntary certification of massage professionals that meet the requirements in the law and provides direction to cities and counties on the regulation of massage professionals and businesses.



# California Massage Therapy Council

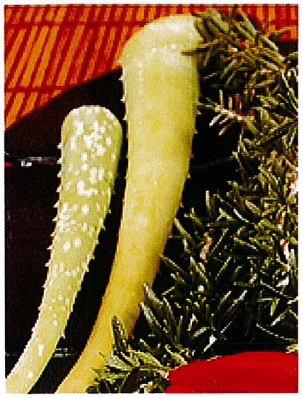
The bill that initially authorized the California Massage Therapy Council (CAMTC) was signed into law on September 27, 2008 by Governor Schwarzenegger and became effective January 1, 2009. It provided for the creation of a private non-profit corporation, CAMTC, to provide voluntary statewide certification to eligible massage professionals no sooner than September 1, 2009. In 2014, CAMTC was re-authorized by AB 1147, which is effective January 1, 2015, and has significantly changed the law.

CALIFORNIA
MASSAGE THERAPY
COUNCIL



## California Massage Therapy Council

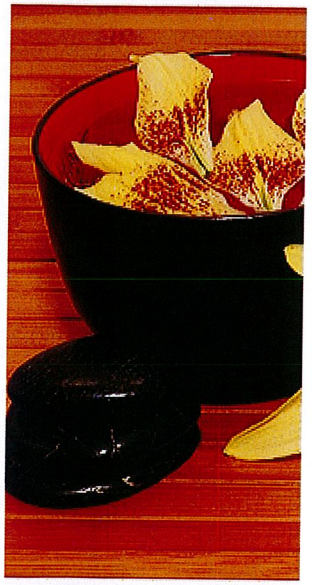
Under AB 1147, since January 1, 2015, cities are free to regulate massage businesses as long as the regulation of those businesses do not violate the provisions of Business & Professions Code sections 460, 4600-4621, Government Code section 51034, and the other general legal requirements applicable to cities' authority to regulate businesses.



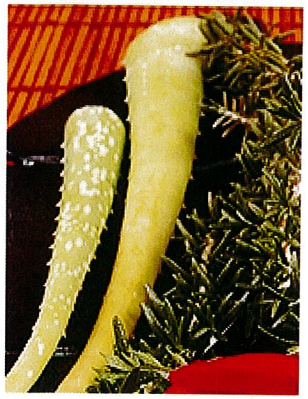
# California Massage Therapy Council-Legislative Intent

- Broad control over land use be vested in local government for the purpose of managing massage establishments, but that the requirements & practice of the massage therapy profession remain a matter of statewide concern, regulation, and oversight
- Local governments may impose & enforce only "reasonable & necessary" fees & regulations

# California Massage Therapy Council



- Cities may, by local ordinance, require that all massage establishments obtain a license, permit, certificate, or other authorization in order to operate lawfully in their jurisdiction

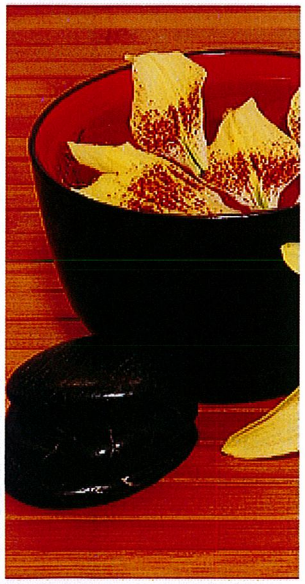


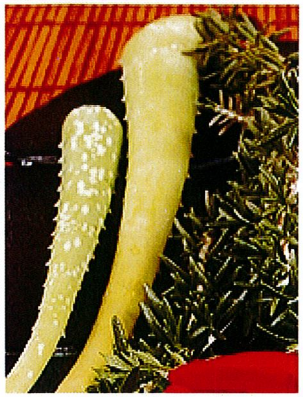
CALIFORNIA MASSAGE THERAPY COUNCIL

CMT

CERTIFIED MASSAGE THERAPIST

# CAMTC CERTIFICATE EXAMPLE





## CALIFORNIA MASSAGE THERAPY COUNCIL

*By authority of the State of California Code B&P Section 4600, the California Massage Therapy Council hereby awards to*

Corinne Frances Mendoza

*the designation of*

## CERTIFIED MASSAGE THERAPIST

*Let it be known by all that, having met the standards set forth by the California Massage Therapy Council and having demonstrated knowledge of applicable disciplines related to the practice of massage therapy, Corinne Frances Mendoza is recognized as a CMT in good standing, including all the rights and privileges pertaining thereto, as witnessed by the signature below.*

*Given at Sacramento, California, Thursday, December 04, 2014.*

California Massage Therapy Council
Established 2009

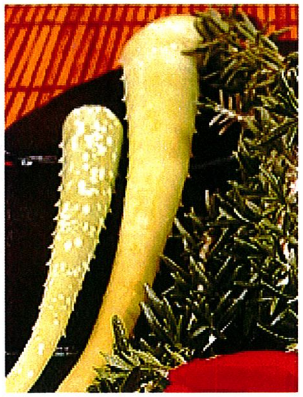
*Mark Dixon, Chairman of the Board*
*California Massage Therapy Council*
*CAMTC, One Capitol Mall, Suite 320, Sacramento, CA 95814*

CERTIFICATE # 17407
EXPIRES: 12/15/2016
CERTIFIED SINCE: 12/15/2010

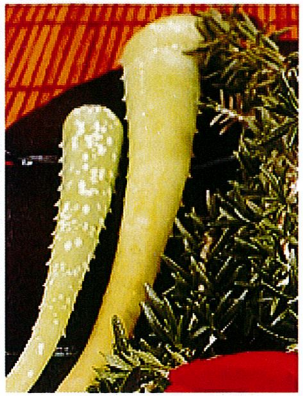
The validity and authenticity of this certificate may be verified online by entering the name and certificate number at: www.camtc.org

## New Restrictions under AB 1147

Cities are specifically prohibited from requiring a CAMTC certified individual to pass a background check, provide proof of education or complete additional education, require a permit for an individual (not a business) to provide massage for compensation, require individual registration, require an authorization & charge a fee to an individual in order to verify CAMTC certification, or require any other authorization to provide massage for compensation

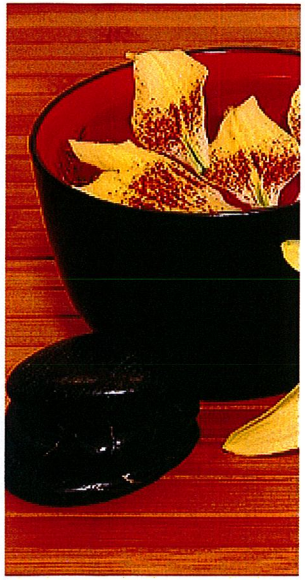


# Proposed Draft Ordinance Highlights



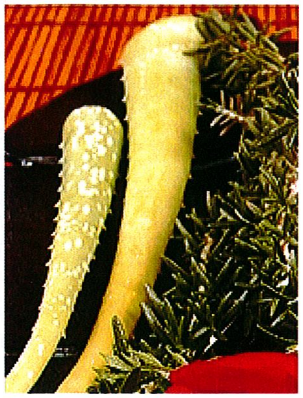
- Enhanced, comprehensive definitions
- Exemptions (doctors, athletic trainers, massage students, etc.)
- Out-call Massage and On-Site Massage Restrictions
- CAMTC Certificate Required or Certified Massage Therapist Certificate
- Certified Massage Establishment Certificate required for Business Establishments
- Updated Health & Safety Requirements for *ALL* massage establishments/therapists
- Massage Establishment Inspections
- Business License & Home Occupation Permit Required
- Allows for either criminal prosecution or administrative remedies (City's intent is for compliance through abatement)

## Proposed Draft Ordinance Highlights



Specifically provides three different avenues to obtain proper massage therapy permit:

- Certified Massage Establishment Certificate
- Valid CAMTC Certificate
- Certified Massage Therapist Certificate

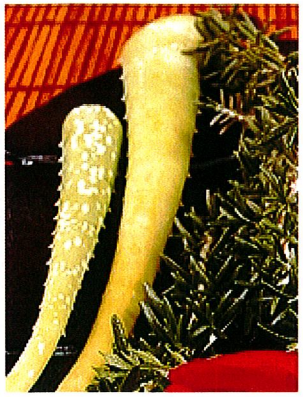


## Massage Therapy Establishments:

### Massage Therapy Establishments are required to:

- Obtain a City Certified Massage Establishment Certificate (yearly)
- Pay an application fee
- Obtain a City business license
- Notice to property owner

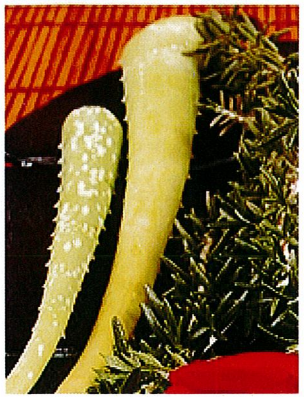
## Individual Massage Therapists With CAMTC Certificates



**Individual therapists *with* CAMTC Certificates are required to:**

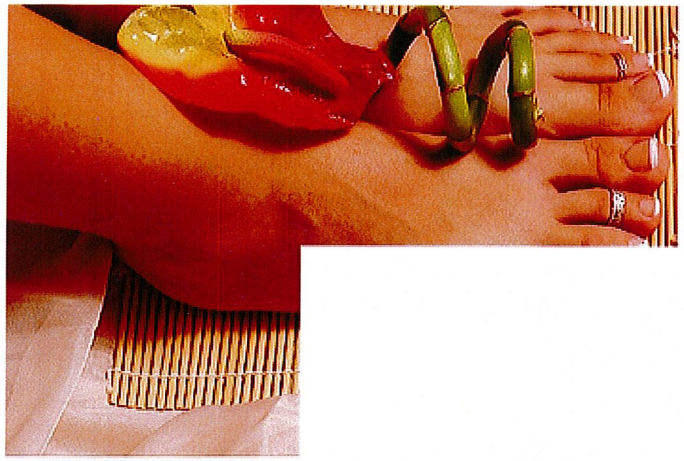
- Comply with all CAMTC rules and regulations
- Obtain a City business license (if a solo practitioner or an independent contractor)
- Obtain a City Home Occupation Permit (if applicable)

# Individual Massage Therapists Without CAMTC Certificates

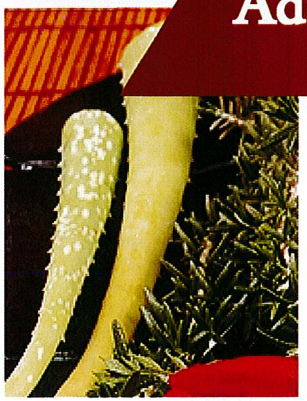


## Individual massage therapists *without* CAMTC Certificates are required to:

- Submit an Application for Massage Therapist Certificate to the Chief of Police
- Submit to background check, including fingerprinting
- Notice to Property Owner
- Obtain City business license
- Obtain City Home Occupancy license (if applicable)



# NEXT STEPS TOWARD ADOPTION

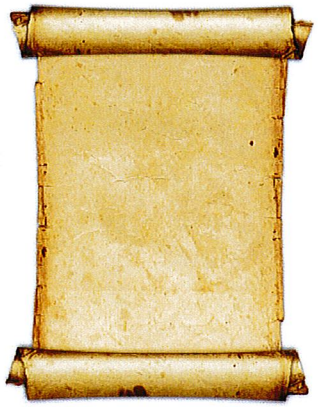
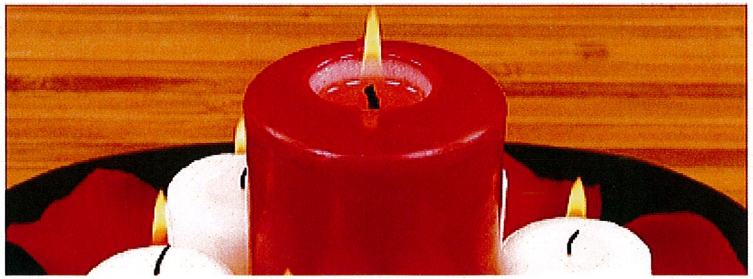


Path toward 'Repeal & Replace'

Council Comments & Direction

First Reading ~ March 22nd

Second Reading ~ April 5th



# Thank You!