

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2018 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax; although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "CONCLUDING INFORMATION – Tax Matters."



\$140,955,000
SILICON VALLEY CLEAN WATER
(San Mateo County, California)
2018 Wastewater Revenue Bonds

Due: August 1, as shown on the inside cover

Dated: Date of Delivery

The Authority: Silicon Valley Clean Water (formerly named the South Bayside System Authority) (the "Authority") is a joint exercise of powers authority established to provide wastewater transmission, treatment, and effluent disposal for the cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (collectively, the "Members").

Purpose: The captioned bonds (the "2018 Bonds") are being issued to (i) finance the acquisition and construction of capital improvements to the Authority's wastewater system and (ii) pay costs of issuing the 2018 Bonds.

Book-Entry; Denominations; Payment Dates: The 2018 Bonds will bear interest at the rates shown on the inside cover, payable semiannually on February 1 and August 1 of each year, commencing on August 1, 2018, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The 2018 Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the 2018 Bonds will not receive certificates representing their interests in the 2018 Bonds. Payments of the principal of, premium, if any, and interest on the 2018 Bonds will be made by to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2018 Bonds. See "THE 2018 BONDS."

"Record Date" for the 2018 Bonds is defined in the Indenture of Trust dated as of February 1, 2018 (the "Indenture"), between the Authority and ZB, National Association dba Zions Bank, as trustee (the "Trustee") as the 15th calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

Security: The 2018 Bonds are limited obligations of the Authority, which are payable solely from and secured solely by the Revenues pledged under the Indenture, consisting primarily of payments made by the City of Redwood City, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members") under individual Financing Agreements between the Authority and each of the Participating Members. The 2018 Bonds do not constitute an indebtedness of the Authority, the Participating Members, the State of California or any political subdivision or agency thereof within the meaning of any constitutional or statutory provisions. Neither the faith and credit nor the taxing power of the State of California, nor any political corporation or subdivision or agency thereof, nor the faith and credit of the Authority or the Participating Members, is pledged to the payment of the principal of or interest on the 2018 Bonds.

The Participating Members' obligations under their respective Financing Agreements are secured by a pledge of Net Revenues derived from the respective wastewater systems of the Participating Members. The Participating Members executed and delivered these or similar Financing Agreements in connection with issuance by the Authority of its (i) \$55,855,000 initial principal amount 2009 Wastewater Revenue Bonds (the "2009 Bonds"), (ii) \$60,000,000 initial principal amount of 2014 Wastewater Revenue Bonds (the "2014 Bonds") and (iii) \$70,200,000 initial principal amount of 2015 Wastewater Revenue Bonds (the "2015 Bonds"). Under the Financing Agreements, each Participating Member's obligation with respect to the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, and its obligation with respect to the 2018 Bonds is payable on a parity basis from Net Revenues of the Participating Member's wastewater collection system. In addition, the Participating Members are authorized to incur additional obligations payable from Net Revenues on a parity basis with their obligations under the Financing Agreements.

The Authority is not funding a debt service reserve account for the 2018 Bonds.

Redemption: The 2018 Bonds are subject to optional and mandatory sinking fund redemption prior to their stated date of maturity.

MATURITY SCHEDULE
(see inside cover)

The Bonds were sold and awarded pursuant to competitive bidding processes held on February 8, 2018, as set forth in the Official Notice of Sale with respect to the 2018 Bonds. The 2018 Bonds are offered when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters also will be passed upon for the Authority by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. It is anticipated that the 2018 Bonds in definitive form will be available for delivery to Cede & Co., as nominee of DTC, on or about February 22, 2018.

Dated: February 8, 2018

MATURITY SCHEDULE

Base CUSIP†: 82707B

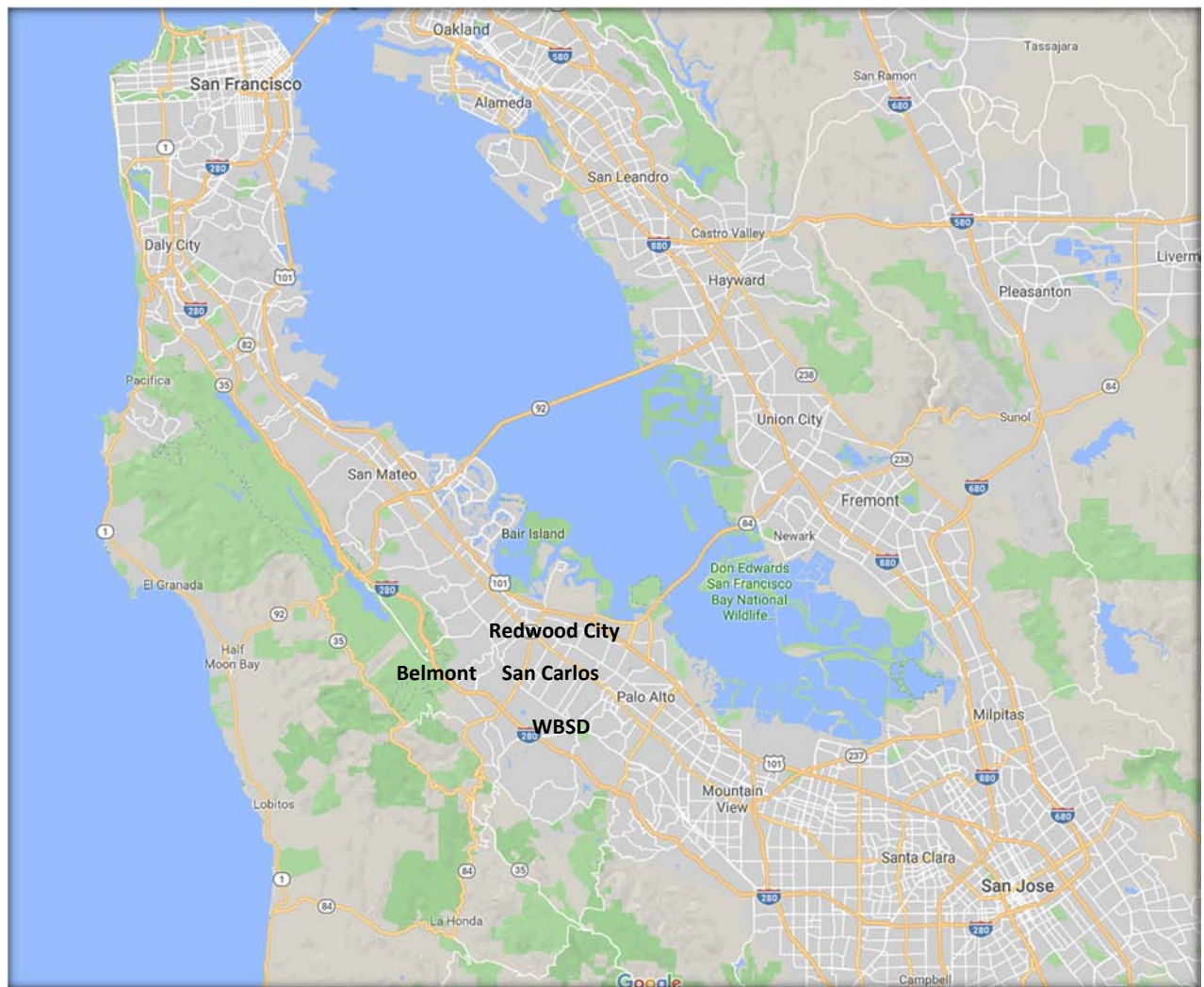
\$125,850,000 Serial Bonds

<u>Maturity Date</u> <u>(August 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP†</u>
2018	\$2,460,000	5.000%	1.150%	101.690	BZ1
2019	2,245,000	5.000	1.280	105.296	CA5
2020	2,360,000	5.000	1.420	108.560	CB3
2021	2,480,000	5.000	1.550	111.518	CC1
2022	2,605,000	5.000	1.670	114.197	CD9
2023	2,745,000	5.000	1.780	116.628	CE7
2024	2,880,000	5.000	1.900	118.710	CF4
2025	3,025,000	5.000	2.020	120.492	CG2
2026	3,185,000	5.000	2.130	122.065	CH0
2027	3,345,000	5.000	2.250	123.273	CJ6
2028	3,515,000	5.000	2.350	123.371 C	CK3
2029	3,695,000	5.000	2.450	122.377 C	CL1
2030	3,890,000	5.000	2.540	121.491 C	CM9
2031	4,090,000	5.000	2.580	121.100 C	CN7
2032	4,255,000	3.000	3.210	97.587	CP2
2033	4,405,000	4.000	3.000	108.539 C	CQ0
2034	4,565,000	3.125	3.323	97.500	CR8
2035	4,730,000	4.000	3.200	106.764 C	CS6
2036	4,920,000	4.000	3.250	106.326 C	CT4
2037	5,110,000	3.250	3.400	97.877	CU1
2038	5,275,000	3.250	3.430	97.369	CV9
2039	5,450,000	3.250	3.449	97.000	CW7
2040	5,645,000	4.000	3.400	105.023 C	CX5
2041	5,880,000	4.000	3.420	104.851 C	CY3
2042	6,125,000	4.000	3.430	104.765 C	CZ0
2043	6,350,000	3.500	3.500	100.000	DA4
2044	6,600,000	4.000	3.450	104.593 C	DB2
2045	6,870,000	4.000	3.460	104.508 C	DC0
2046	7,150,000	4.000	3.470	104.422 C	DD8

\$15,105,000 3.500% Term Bond due August 1, 2048; Yield 3.581%; Price: 98.500; CUSIP† DF3

C: Priced to optional call at par on February 1, 2028.

† CUSIP Copyright 2018, CUSIP Global Services, and a registered trademark of American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of American Bankers Association by S&P Capital IQ. Neither the District nor the Purchasers take any responsibility for the accuracy of the CUSIP data.



[THIS PAGE INTENTIONALLY LEFT BLANK]

SILICON VALLEY CLEAN WATER

Authority Commissioners

<u>Commissioner</u>	<u>Title</u>	<u>Member Agency Represented</u>
John Seybert	Chair	City of Redwood City
Warren Lieberman	Vice Chair	City of Belmont
Robert Grassilli	Secretary	City of San Carlos
George Otte	Member	West Bay Sanitary District

Authority Management

Daniel T. Child, *Manager*
Teresa Herrera, *Assistant Manager/Authority Engineer*
Monte Hamamoto, *Wastewater Superintendent*
Matthew Anderson, *Chief Financial Officer*

Professional Services

Bond Counsel and Disclosure Counsel
Jones Hall, A Professional Law Corporation
San Francisco, California

Municipal Advisor
Fieldman, Rolapp & Associates Inc.
Irvine, California

Authority Counsel
Fitzgerald Law Offices
Burlingame, California

Trustee
ZB, National Association dba Zions Bank

Los Angeles, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the 2018 Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2018 Bonds.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Authority and the Participating Members, in any press release and in any oral statement made with the approval of an authorized officer of the Authority and the Participating Members, the words or phrases “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “forecast,” “expect,” “intend” and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Authority and the Participating Members since the date of this Official Statement.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority, the Participating Members or the Purchaser to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2018 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Limited Scope of Information. The Authority and the Participating Members have obtained certain information set forth in this Official Statement from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor to be construed as a representation of such by the Authority and the Participating Members. The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale of the 2018 Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority and the Participating Members since the date of this Official Statement. All summaries of or references to the documents referred to in this Official Statement are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. All capitalized terms used in this Official Statement, unless noted otherwise, have the meanings given in the Indenture.

The Purchaser has provided the following sentence for inclusion in this Official Statement: The Purchaser has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Purchaser does not guarantee the accuracy or completeness of such information.

Stabilization of Prices. In connection with this offering, the Purchaser may overallocate or effect transactions which stabilize or maintain the market price of the 2018 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Purchaser may offer and sell the 2018 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page and the public offering prices may be changed from time to time by the Purchaser.

THE 2018 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2018 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

Websites. The Authority and the Members maintain Internet websites. The information on those websites is not incorporated by reference in this Official Statement.

TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
INTRODUCTION.....	1
Silicon Valley Clean Water.....	1
Purpose of the 2018 Bonds.....	2
Security for the 2018 Bonds.....	3
Parity Debt of the Participating Members ...	4
Other Debt of the Authority	4
Disclaimer	5
FINANCING PLAN	6
General.....	6
The Project	6
Anticipated Sources and Uses of Funds	7
DEBT SERVICE SCHEDULE	8
COMBINED DEBT SERVICE SCHEDULE...	9
THE 2018 BONDS	10
Authority for Issuance	10
Description of the 2018 Bonds	10
Redemption	11
SECURITY FOR THE 2018 BONDS	12
General.....	12
Financing Agreements	12
No Reserve Fund.....	14
Issuance of Parity Debt by the Authority ..	14
State Revolving Fund Loans of the	
Authority	15
Line of Credit	15
THE AUTHORITY AND THE WASTEWATER	
SYSTEM	16
The Authority	16
Governance & Management	17
Comparative Residential Sewer Charges	18
Participating Member Historical & Adopted	
Sewer Rate Increases.....	20
The Wastewater System	21
Sewer Utility Regulatory Issues	25
Capital Improvement Program	25
Financial Plan	27
Member Financial Projections	28
Budget and Billing Process	28
Maximum Capacity Rights Owned by	
Members	29
Wastewater Flow	29
Capacity Fees for New Development	30
Outstanding Debt	30
CONSTITUTIONAL LIMITATIONS ON	
APPROPRIATIONS.....	32
Article XIIIB Gann Limit.....	32
Articles XIIC and XIID	32
RISK FACTORS	36
Demand for the Sewer Service	36
Wastewater System Expenses	36
Parity Debt	36
Natural Disasters	37
Limitations on Remedies Available;	
Bankruptcy	37
Limited Obligations	38
Change in Law	38
Loss of Tax Exemption	39
Secondary Market for Bonds	39
Build America Bonds.....	39
CONCLUDING INFORMATION	40
Continuing Disclosure	40
Absence of Litigation.....	41
Legal Matters	41
Tax Matters	41
Ratings	43
Competitive Sale of Bonds.....	44
Municipal Advisor	44
Miscellaneous	44

Appendix A – Information About Redwood City’s Wastewater System
Appendix B – Information About the City of San Carlos’ Wastewater System
Appendix C – Information About the West Bay Sanitary District
Appendix D – Area Statistical Information
Appendix E – Summary of Principal Legal Documents
Appendix F – Forms of Continuing Disclosure Certificates
Appendix G – Form of Bond Counsel Opinion
Appendix H – DTC and the Book-Entry Only System
Appendix I – Audited Financial Report for Silicon Valley Clean Water – Fiscal Year Ended June 30, 2017
Appendix J – Comprehensive Annual Financial Report for the City of Redwood City – Fiscal Year Ended June 30, 2017
Appendix K – Comprehensive Annual Financial Report for the City of San Carlos – Fiscal Year Ended June 30, 2017
Appendix L – Financial Statements and Independent Auditor’s Report for West Bay Sanitary District – Fiscal Year Ended June 30, 2017

[THIS PAGE INTENTIONALLY LEFT BLANK]

\$140,955,000
Silicon Valley Clean Water
(San Mateo County, California)
2018 Wastewater Revenue Bonds

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and attached appendices, and the documents that it summarizes or describes. A full review should be made of the entire Official Statement. Unless otherwise indicated, capitalized terms used but not defined in this Official Statement have the respective meanings ascribed to them in the Indenture (as that term is defined below).

This Official Statement, including the cover page and attached appendices, is provided to furnish information regarding the bonds captioned above (the “**2018 Bonds**”) to be issued by Silicon Valley Clean Water (formerly the South Bayside System Authority) (the “**Authority**”) under authority conferred by its Joint Powers Agreement (as that term is defined below).

Silicon Valley Clean Water

Silicon Valley Clean Water is a joint exercise of powers authority that provides wastewater transmission, treatment, and effluent disposal services to the Cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (collectively, the “**Members**”), all of which are located in the northern part of Silicon Valley, between the Cities of San Francisco and San Jose. The Authority’s wastewater treatment plant is located in the City of Redwood City. The Authority serves more than 200,000 people and businesses located predominantly in San Mateo County, California. See “THE AUTHORITY AND THE WASTEWATER SYSTEM” below.

The Authority owns and operates a regional wastewater treatment plant with an average dry weather flow permit capacity of 29 million gallons per day, an approximately nine-mile influent force main pipeline that conveys wastewater from the Members to the Authority’s treatment plant, five wastewater pump stations, and a 1.25-mile effluent disposal pipeline that discharges treated effluent into the San Francisco Bay. The Authority also provides recycled water to the City of Redwood City.

Since 2008, the Authority has been rebuilding, rehabilitating, and upgrading its wastewater transmission and treatment facilities, which are approaching the end of their useful operating lives. The Authority has previously funded or has received funding commitments for over \$244 million to be used for capital improvements. An October 2017 update of the Authority’s 2008 10-Year Capital Improvement Program (the “**CIP**”) identified approximately \$596 million of capital projects to be funded between 2018 and 2025, of which \$450.3 million (75.5%) is to replace the sewer conveyance system, \$80.0 million (13.4%) is to for treatment plant improvements, and \$66 million (11%) is to address anticipated regulatory changes regarding nutrient removal. The Authority anticipates funding its remaining CIP expenditures via a combination of bonds (including the 2018 Bonds), State Revolving Fund Loans issued by the California State Water Resources Control Board (the “**SWRCB**”), a line of credit with Wells Fargo Bank, National Association and cash funding. See “THE AUTHORITY AND THE WASTEWATER SYSTEM – Capital Improvement Program” and “THE AUTHORITY AND THE WASTEWATER SYSTEM – Financial Plan.”

The 2018 Bonds are being issued to generate funding for the next phase of the Authority's CIP. Financing Agreements adopted between the Authority and the City of Redwood City, the City of San Carlos, and the West Bay Sanitary District (collectively, the "**Participating Members**") obligate each of these agencies to make payments to the Authority for their respective allocable share of debt service on the 2018 Bonds. The City of Belmont is not a Participating Member for this financing and is not obligated to make any debt service payments on the 2018 Bonds. The Participating Members include:

- **City of Redwood City** - The City of Redwood City ("**Redwood City**") is located approximately 25 miles south of San Francisco and 23 miles north of San Jose. Redwood City has a population of roughly 85,601 and owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 31 sewer lift stations. In addition to providing wastewater service within its boundaries, Redwood City also conveys wastewater from five San Mateo County sewer maintenance districts and the Town of Woodside to the Authority for treatment and effluent disposal pursuant to agreements with each agency.
- **City of San Carlos** - The City of San Carlos ("**San Carlos**") is located approximately 22 miles south of San Francisco and about 26 miles north of San Jose. San Carlos has a population of roughly 29,311 and owns and operates a sanitary sewer collection system consisting of approximately 105 miles of sewer pipelines and 6 sewer lift stations. In addition to providing wastewater service within its boundaries, San Carlos also conveys wastewater from four San Mateo County sewer maintenance districts to the Authority for treatment and effluent disposal pursuant to agreements with each agency.
- **West Bay Sanitary District** - The West Bay Sanitary District ("**West Bay Sanitary District**") is an independent special district that provides wastewater service to the City of Menlo Park and surrounding areas. The West Bay Sanitary District is located approximately 26 miles south of San Francisco and 20 miles north of San Jose. The West Bay Sanitary District serves a population of approximately 55,000 and owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 13 sewer pump stations.

Each of the Members has been proactively raising sewer rates to support their allocable share of funding requirements for the Authority's operations and CIP, as well as their own operating and capital programs. See "THE AUTHORITY AND THE WASTEWATER SYSTEM - Participating Member Historical & Adopted Sewer Rate Increases."

Purpose of the 2018 Bonds

The 2018 Bonds are being issued to (i) finance the acquisition and construction of capital improvements to the Authority's wastewater system (the "**Project**") and (ii) pay costs of issuing the 2018 Bonds. The Project includes capital improvements that are allocable to the Participating Members. The City of Belmont will fund its share of the allocable improvements independently.

Security for the 2018 Bonds

The 2018 Bonds are being issued under an Indenture of Trust, dated as of February 1, 2018 (the “**Indenture**”), between the Authority and ZB, National Association dba Zions Bank, as trustee (the “**Trustee**”). The 2018 Bonds are limited obligations of the Authority, payable solely from “**Revenues**” under the Indenture consisting primarily of (i) certain amounts payable by the Participating Members under the Financing Agreements described below (the “**SVCW Bond Payments**”), representing the portion of debt service on the 2018 Bonds that is allocable to each Participating Member (the “**Allocable Share**”), and (ii) amounts on hand from time to time in the funds established under the Indenture. The 2018 Bonds are not secured by other revenues of the Authority.

Each Participating Member is obligated to pay debt service for its Allocable Share of the 2018 Bonds as follows:

<u>Participating Member</u>	<u>Allocable Share of 2018 Bonds (\$)</u>	<u>Allocable Share of 2018 Bonds (%)</u>
Redwood City	\$82,210,000	58.32%
San Carlos	25,635,000	18.19
West Bay Sanitary District	33,110,000	23.49
Total	\$140,955,000	100.00%

Each Participating Member is obligated to pay debt service for the Authority’s prior series of bonds, as follows:

<u>Participating Member</u>	<u>Allocable Share</u>			<u>Total</u>	<u>% of Total Bonds</u>
	<u>2009 Bonds</u>	<u>2014 Bonds</u>	<u>2015 Bonds</u>		
Redwood City	\$1,500,000.00	\$30,678,753.72	\$35,225,000.00	\$67,403,753.72	52.50%
San Carlos	390,000.00	9,563,029.26	12,180,000.00	22,133,029.26	17.24
West Bay Sanitary District	665,000.00	16,953,217.02	21,245,000.00	38,863,217.02	30.27
Total	\$2,555,000.00	\$57,195,000.00	68,650,000.00	\$128,400,000.00	100.00%

The Authority anticipates that the City of Belmont will contribute approximately \$16.9 million towards the next phase of the CIP.

The Authority previously entered into the following Financing Agreements (each, a “**Financing Agreement**”):

- Financing Agreements with Redwood City and the West Bay Sanitary District, each dated as of December 1, 2008, as amended by a First Amendment to Financing Agreement dated as of March 20, 2014, obligates those parties to make payments to the Authority with respect to the Authority’s (i) \$55,855,000 initial principal amount 2009 Wastewater Revenue Bonds (the “**2009 Bonds**”), which were partially refunded on a crossover basis in October 2015, (ii) \$60,000,000 initial principal amount of 2014 Wastewater Revenue Bonds (the “**2014 Bonds**”), (iii) \$70,200,000 initial principal amount of 2015 Wastewater Revenue Bonds (the “**2015 Bonds**”), (iv) the 2018 Bonds and (v) all future bond issuances of the Authority.
- Financing Agreements with San Carlos, dated as of (i) July 1, 2009, in connection with the Authority’s issuance of its 2009 Bonds, which were partially refunded on a crossover basis in October 2015, (ii) March 20, 2014, in connection with the

Authority's issuance of its 2014 Bonds, (iii) November 1, 2015, in connection with the Authority's issuance of its 2015 Bonds and (iv) January 1, 2018, in connection with the Authority's issuance of its 2018 Bonds.

Under the Financing Agreements, each Participating Member is obligated to make SVCW Bond Payments to the Authority in an amount sufficient to pay that Participating Member's Allocable Share of debt service on (i) the 2009 Bonds, (ii) the 2014 Bonds, (iii) the 2015 Bonds, (iv) the 2018 Bonds, and (v) any bonds issued by the Authority in the future.

Each Participating Member's obligation to make the SVCW Bond Payments under its respective Financing Agreement is secured by a lien on and pledge of Net Revenues derived from the wastewater system of the Participating Member, and is not secured by the full faith and credit or general funds of the Participating Member. Each Participating Member's obligation to make SVCW Bond Payments with respect to the 2018 Bonds is payable on a parity basis with its obligation to pay its Allocable Share of debt service on the 2009 Bonds, the 2014 Bonds, and the 2015 Bonds. There is no joint or several liability among the Participating Members, and each Participating Member is obligated only for its Allocable Share. See "THE AUTHORITY AND THE WASTEWATER SYSTEM - Outstanding Debt."

The Authority is not funding a debt service reserve for the 2018 Bonds.

Parity Debt of the Participating Members

The Participating Members are authorized under their respective Financing Agreements to incur additional obligations payable from Net Revenues, which may be on a parity with the SVCW Bond Payments that secure the 2018 Bonds. As of the date hereof, none of the Participating Members has incurred any obligations on a parity with their obligations in respect of the 2009 Bonds, the 2014 Bonds, and the 2015 Bonds. See "SECURITY FOR THE 2018 BONDS – Issuance of Parity Debt by the Participating Members."

Other Debt of the Authority

The Authority is not authorized to issue additional obligations payable from Revenues, because "Revenues" is defined to include the SVCW Bond Payments that represent debt service payments on the 2018 Bonds. However, the Authority has previously issued the 2009 Bonds, the 2014 Bonds, and the 2015 Bonds, each of which are payable from SVCW Bond Payments that represent debt service on those bonds, and may issue bonds in the future payable from increased SVCW Bond Payments.

SRF Loans. The Authority has previously been awarded funding commitments for a combined total of approximately \$57 million under three loans from the SWRCB (each an "**SRF Loan**"), outstanding in the amount of approximately \$55 million as of August 2, 2017. Going forward, the Authority intends to continue to apply for low-cost SRF Loans. At present, the Authority is estimating that it will apply for SRF Loans of approximately \$65 million from the SWRCB in order to fund the nutrient removal projects. There can be no guarantee that the Authority will be awarded additional SRF Loans, in which case the Authority may alternatively issue additional parity debt. SRF Loans are payable from a source of the Authority's revenues that is separate and distinct from the source of revenues which is pledged for payment of the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, and the 2018 Bonds; and each Participating Member will be responsible for payments to the Authority for repayment of the SRF Loans pursuant to the Joint Powers Agreement (as defined below). While the SRF Loans are not direct obligations of

the Participating Members, and are not secured by a pledge of Net Revenues, payments from each Participating Member are paid to the Authority pursuant to the Joint Powers Agreement (as defined below). Payments made by the Participating Members with respect to the SRF Loans are not secured by a pledge of or lien on the Net Revenues from the respective wastewater systems of such Participating Members, nor are they an Operation and Maintenance Cost of the Participating Members. See “SECURITY FOR THE 2018 BONDS - State Revolving Fund Loans of the Authority”.

Line of Credit. The Authority has a short-term line of credit with Wells Fargo Bank, National Association (the “**Line of Credit**”), which is used to provide interim funding. Specifically, the Line of Credit furnishes interim cash flow funding as needed when the Authority is awaiting reimbursement from its SRF Loans. The Line of Credit is also payable from a source of the Authority’s revenues that is separate and distinct from the source of revenues which is pledged for payment of the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, and the 2018 Bonds; and each Participating Member will be responsible for payments to the Authority for repayment of the Line of Credit pursuant to the Joint Powers Agreement (as defined below). Although the line of credit is secured by Authority revenues, payments made by the Participating Members with respect to the Line of Credit are not secured by a pledge of or lien on the Net Revenues of the respective wastewater systems of such Participating Members. See “SECURITY FOR THE 2018 BONDS – Line of Credit.”

Disclaimer

This introduction is not a summary of this Official Statement. Information presented in this section is described more completely elsewhere in this Official Statement, which should be read in its entirety. Terms used in this Official Statement and not otherwise defined have the meanings ascribed to them in the Indenture. All references herein to the 2018 Bonds, the Indenture, the Joint Powers Agreement, and the Financing Agreements are qualified in their entirety by reference to the actual documents. Documents referred to in this Official Statement can be obtained from the financial advisor prior to the closing, and from the Authority thereafter.

[remainder of page intentionally left blank]

FINANCING PLAN

General

The 2018 Bonds are being issued to (i) finance the acquisition and construction of capital improvements to the Authority's wastewater system (the "**Project**") and (ii) pay costs of issuing the 2018 Bonds.

The Project

The Authority continues to move forward with construction of CIP projects to rebuild, rehabilitate, and upgrade its wastewater conveyance and treatment facilities. Current CIP activities are concentrated on the Regional Environmental Sewer Conveyance Upgrade program (the "**RESCU Program**") that will replace aging pipelines, rehabilitate pump stations, and construct receiving and headworks facilities at the treatment plant. See "THE AUTHORITY AND THE WASTEWATER SYSTEM – Capital Improvement Plan" for additional information about the RESCU Program.

In addition to activities related to the RESCU Program, projects include technological upgrades and system-wide automation designed to improve operational efficiency, manage electricity use, and ensure wastewater treatment is not interrupted.

The Authority has previously funded or received funding commitments for over \$244 million to be used for capital improvements, including funds from the 2008 Bonds, the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, cash contributions from the City of Belmont and the City of Redwood City, SRF Loans, the Line of Credit, and interest earned on project funds. An October 2017 update of the CIP identified roughly \$596 million of additional capital funding still needed through 2025. The Authority anticipates funding its remaining capital improvement costs via a combination of bonds (including the 2018 Bonds), SRF Loans issued by the SWRCB, the Line of Credit and cash funding.

Under the Joint Powers Agreement, each of the Members is contractually obligated to fund its allocable share of the Authority's capital improvements. The City of Belmont anticipates providing cash (either from its own financing or its reserves) for its allocable share of related capital improvements of the Authority's CIP rather than participating in the issuance of the 2018 Bonds.

See "THE AUTHORITY AND THE WASTEWATER SYSTEM – Capital Improvement Plan" and "THE AUTHORITY AND THE WASTEWATER SYSTEM – Financial Plan" for additional information about the CIP and the Authority's plans for meeting the capital funding needs.

Anticipated Sources and Uses of Funds

The following table sets forth the estimated sources and uses of funds with respect to the 2018 Bonds.

Sources:

Bond Proceeds	\$140,955,000.00
Net Original Issue Premium	<u>9,404,525.50</u>
<i>Total Sources</i>	<u>\$150,359,525.50</u>

Uses:

Deposit to Project Fund	\$148,975,391.79
Purchaser's Discount	925,746.21
Costs of Issuance ⁽¹⁾	<u>458,387.50</u>
<i>Total Uses</i>	<u>\$150,359,525.50</u>

- (1) Estimate includes legal and financing costs, printing costs, initial fees of the Trustee, Bond Counsel and Disclosure Counsel fees, Financial Advisor fees, Rating Agency fees, certain other costs, and contingency.

DEBT SERVICE SCHEDULE

The following table presents the annual debt service on the 2018 Bonds, assuming there are no optional redemptions. The Participating Members' payments under the Financing Agreements are scheduled to be sufficient in time and amount to pay debt service on the 2018 Bonds when due.

Period Ending (August 1)	Principal	Interest	Total Debt Service
2018	\$2,460,000.00	\$2,541,733.70	\$5,001,733.70
2019	2,245,000.00	5,631,868.76	7,876,868.76
2020	2,360,000.00	5,519,618.76	7,879,618.76
2021	2,480,000.00	5,401,618.76	7,881,618.76
2022	2,605,000.00	5,277,618.76	7,882,618.76
2023	2,745,000.00	5,147,368.76	7,892,368.76
2024	2,880,000.00	5,010,118.76	7,890,118.76
2025	3,025,000.00	4,866,118.76	7,891,118.76
2026	3,185,000.00	4,714,868.76	7,899,868.76
2027	3,345,000.00	4,555,618.76	7,900,618.76
2028	3,515,000.00	4,388,368.76	7,903,368.76
2029	3,695,000.00	4,212,618.76	7,907,618.76
2030	3,890,000.00	4,027,868.76	7,917,868.76
2031	4,090,000.00	3,833,368.76	7,923,368.76
2032	4,255,000.00	3,628,868.76	7,883,868.76
2033	4,405,000.00	3,501,218.76	7,906,218.76
2034	4,565,000.00	3,325,018.76	7,890,018.76
2035	4,730,000.00	3,182,362.50	7,912,362.50
2036	4,920,000.00	2,993,162.50	7,913,162.50
2037	5,110,000.00	2,796,362.50	7,906,362.50
2038	5,275,000.00	2,630,287.50	7,905,287.50
2039	5,450,000.00	2,458,850.00	7,908,850.00
2040	5,645,000.00	2,281,725.00	7,926,725.00
2041	5,880,000.00	2,055,925.00	7,935,925.00
2042	6,125,000.00	1,820,725.00	7,945,725.00
2043	6,350,000.00	1,575,725.00	7,925,725.00
2044	6,600,000.00	1,353,475.00	7,953,475.00
2045	6,870,000.00	1,089,475.00	7,959,475.00
2046	7,150,000.00	814,675.00	7,964,675.00
2047	7,425,000.00	528,675.00	7,953,675.00
2048	7,680,000.00	268,800.00	7,948,800.00
Total	\$140,955,000.00	\$101,434,108.86	\$242,389,108.86

COMBINED DEBT SERVICE SCHEDULE

The following table shows the aggregate annual debt service on the parity and subordinate obligations of the Authority, assuming there are no optional redemptions. The Participating Members' payments under the Financing Agreements are scheduled to be sufficient to pay debt service on the obligations shown below, when due.

Period Ending (June 30)	Parity Debt				Subordinate Debt		Total Debt Service
	2009 Bonds ⁽¹⁾	2014 Bonds	2015 Bonds ⁽²⁾	2018 Bonds	Existing SRF Loan Payments	Conveyance Planning SRF Loan Payments ⁽³⁾	
2018	\$4,943,389.00	\$3,860,100.00	\$2,308,800.00	--	\$2,630,598.53	--	\$13,742,887.53
2019	4,909,805.00	3,862,100.00	2,300,100.00	\$7,817,668.08	2,630,598.53	--	21,520,271.61
2020	3,115,746.25	3,862,500.00	3,250,225.00	7,820,744.76	2,630,598.53	\$1,526,132.15	22,205,945.69
2021	--	3,864,500.00	5,330,500.00	7,820,619.76	2,630,598.53	1,526,132.15	21,172,349.44
2022	--	3,863,500.00	5,326,500.00	7,819,619.76	2,630,598.53	1,526,132.15	21,166,349.44
2023	--	3,864,500.00	5,322,375.00	7,817,494.76	2,630,598.53	1,526,132.15	21,161,099.44
2024	--	3,862,250.00	5,317,875.00	7,823,744.76	2,630,598.53	1,526,132.15	21,160,599.44
2025	--	3,861,750.00	5,327,375.00	7,818,119.76	2,630,598.53	1,526,132.15	21,163,974.44
2026	--	3,862,750.00	5,306,000.00	7,815,494.76	2,630,598.53	1,526,132.15	21,140,974.44
2027	--	3,865,000.00	5,294,000.00	7,820,244.76	2,630,598.53	1,526,132.15	21,135,974.44
2028	--	3,863,250.00	5,300,375.00	7,816,994.76	2,630,598.53	1,526,132.15	21,137,349.44
2029	--	3,862,500.00	5,294,625.00	7,815,494.76	2,630,598.53	1,526,132.15	21,129,349.44
2030	--	3,862,500.00	5,281,875.00	7,815,244.76	2,630,598.53	--	19,590,217.29
2031	--	3,863,000.00	4,657,625.00	7,820,619.76	2,630,598.53	--	18,971,842.29
2032	--	3,863,750.00	4,652,125.00	7,821,119.76	2,630,598.53	--	18,967,592.29
2033	--	3,864,500.00	4,640,125.00	7,820,044.76	2,630,598.53	--	18,955,267.29
2034	--	3,865,000.00	4,636,250.00	7,818,119.76	1,888,096.89	--	18,207,465.65
2035	--	3,860,000.00	4,620,250.00	7,818,691.63	1,888,096.89	--	18,187,037.52
2036	--	3,863,600.00	4,616,750.00	7,817,763.50	1,888,096.89	--	18,186,209.39
2037	--	3,863,100.00	4,610,125.00	7,814,763.50	1,888,096.89	--	18,176,084.39
2038	--	3,861,350.00	4,595,250.00	7,823,325.00	--	--	16,279,925.00
2039	--	3,863,100.00	4,586,750.00	7,819,569.75	--	--	16,269,418.75
2040	--	3,862,850.00	4,569,250.00	7,820,288.50	--	--	16,252,387.50
2041	--	3,859,750.00	1,656,750.00	7,813,825.00	--	--	13,330,325.00
2042	--	3,861,000.00	1,652,250.00	7,818,325.00	--	--	13,331,575.00
2043	--	3,864,250.00	1,654,500.00	7,823,225.00	--	--	13,341,975.00
2044	--	3,864,000.00	1,648,375.00	7,814,600.00	--	--	13,326,975.00
2045	--	--	1,648,750.00	7,821,475.00	--	--	9,470,225.00
2046	--	--	1,650,250.00	7,822,075.00	--	--	9,472,325.00
2047	--	--	--	7,821,675.00	--	--	7,821,675.00
2048	--	--	--	7,823,738.50	--	--	7,823,737.50
2049	--	--	--	7,814,400.00	--	--	7,814,400.00
Total	\$12,968,940.25	\$104,296,450.00	\$117,056,000.00	\$242,389,108.86	\$49,641,964.04	\$15,261,321.50	\$541,613,784.65

(1) Represents approximate allocated share of gross debt service on the Series 2009 Bonds; does not include any Refundable Credits.

(2) Excludes debt service payments made from escrow funds as a result of the crossover refunding of the 2009 Bonds.

(3) Preliminary debt service estimate and amortization shown; final amount and amortization, which the Authority is attempting to extend, will be determined after the SRF-Loan project is completed. The related project is expected to be completed during calendar year 2018.

THE 2018 BONDS

Authority for Issuance

The 2018 Bonds will be issued by the Authority in accordance with Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code (commencing with Section 6584) (the “**Bond Law**”) of the State of California (the “**State**”), resolutions adopted by the governing boards of the Authority and the Participating Members, and the Indenture.

Description of the 2018 Bonds

Bond Terms: The 2018 Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000. The 2018 Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

Payments of Principal and Interest: Interest on the 2018 Bonds will be payable on February 1 and August 1 in each year, beginning August 1, 2018 (each an “**Interest Payment Date**”).

Interest on the 2018 Bonds is payable from the Interest Payment Date next preceding the date of authentication thereof unless:

- (i) a 2018 Bond is authenticated on or before an Interest Payment Date and after the close of business on the preceding Record Date, in which event it will bear interest from such Interest Payment Date,
- (ii) a 2018 Bond is authenticated on or before July 15, 2018, in which event interest thereon will be payable from the Closing Date, or
- (iii) interest on any 2018 Bond is in default as of the date of authentication thereof, in which event interest thereon will be payable from the date to which interest has been paid in full, payable on each Interest Payment Date.

Interest is payable on the 2018 Bonds on each Interest Payment Date to the persons in whose names the ownership of the 2018 Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as provided below. Interest on any 2018 Bond which is not punctually paid or duly provided for on any Interest Payment Date is payable to the person in whose name the ownership of such 2018 Bond is registered on the Registration Books at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Trustee, notice of which is given to such Owner by first-class mail not less than 10 days prior to such special record date.

The Trustee will pay interest on the 2018 Bonds by check of the Trustee mailed by first class mail, postage prepaid, on each Interest Payment Date to the Owners of the Bonds at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. At the written request of the Owner of 2018 Bonds in an aggregate principal amount of at least \$1,000,000, which written request is on file with the Trustee as of any Record Date, the Trustee will pay interest on such 2018 Bonds on each succeeding Interest Payment Date by wire transfer in immediately available funds to such account of a financial institution within the United States of America as specified in such written request, which written

request will remain in effect until rescinded in writing by the Owner. The Trustee will pay principal of the Bonds in lawful money of the United States of America by check of the Trustee upon presentation and surrender thereof at the Office of the Trustee.

Redemption

Optional Redemption: The 2018 Bonds maturing on or before August 1, 2027 are not subject to optional redemption prior to maturity. The 2018 Bonds maturing on or after August 1, 2028 may be called prior to maturity and redeemed at the option of the Authority on any date on or after February 1, 2028, as a whole or in part, from any source of available funds, at a redemption price of 100% of the of the principal amount of the 2018 Bonds to be redeemed, together with accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption: Subject to certain provisions of the Indenture, the 2018 Bonds maturing on August 1, 2048 are subject to mandatory redemption in whole, or in part by lot, from sinking fund payments made under the Indenture at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest to the date of redemption, in the aggregate respective principal amounts and on August 1 in the years shown in the following table:

Term Bond maturing August 1, 2048

<u>Payment Date</u> <u>(August 1)</u>	<u>Payment</u> <u>Amount</u>
2047	\$7,425,000
2048 (Maturity)	7,680,000

Notice of Redemption: The Trustee will mail notice of any redemption to the respective Owners of any 2018 Bonds designated for redemption at their respective addresses appearing on the registration books, to the Securities Depositories and to the Municipal Securities Rulemaking Board, at least 30 but not more than 60 days prior to the date fixed for redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such 2018 Bonds or the cessation of the accrual of interest thereon.

The Authority has the right to rescind any notice of optional redemption of the 2018 Bonds under the Indenture by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the 2018 Bonds then called for redemption, and such cancellation shall not constitute an event of default. The Authority and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption.

Manner of Redemption of 2018 Bonds of the Same Maturity: Whenever provision is made in the Indenture for the redemption of less than all of the 2018 Bonds of the same maturity, the Trustee will select the 2018 Bonds to be redeemed by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, all 2018 Bonds will be deemed to be comprised of separate \$5,000 denominations and such separate denominations will be treated as separate 2018 Bonds which may be separately redeemed.

SECURITY FOR THE 2018 BONDS

General

The 2018 Bonds are limited obligations of the Authority, payable solely from “**Revenues**” under the Indenture consisting primarily of (i) SVCW Bond Payments to be received by the Trustee on behalf of the Authority from Participating Members, and (ii) amounts on hand from time to time in the funds established under the Indenture. In conjunction with the issuance of the 2018 Bonds, and pursuant to the Financing Agreements, the Authority has directed the Participating Members to make the SVCW Bond Payments directly to the Trustee.

All SVCW Bond Payments received by the Trustee will be deposited in the Revenue Fund which will be maintained by the Trustee under the Indenture. On or before each date on which principal of or interest or premium (if any) on the 2018 Bonds becomes due and payable, the Trustee will transfer the amounts necessary to make scheduled principal and interest payments on the 2018 Bonds and pay the redemption price of any 2018 Bonds called for redemption.

Financing Agreements

General. As described in this Official Statement, the Authority and each of the Participating Members originally entered into Financing Agreements concurrently with the issuance of the 2008 Bonds, which have been fully paid and redeemed from the proceeds of the 2015 Bonds; and San Carlos entered into new Financing Agreements relating to the 2009 Bonds, the 2014 Bonds, and the 2015 Bonds. A more complete description of the Financing Agreements is set forth in Appendix E. Certain key provisions are summarized below.

SVCW Bond Payments. Each of the Participating Members is responsible for paying its Allocable Share of debt service on the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, the 2018 Bonds, and any bonds the Authority may issue in the future that such Participating Member chooses to participate in. These issuances constitute SVCW Bond Payments under the Financing Agreements of the Participating Members. The Authority allocates debt service to each of the Participating Members in accordance with the Joint Powers Agreement. See “THE AUTHORITY AND THE WASTEWATER SYSTEM” below.

Pledge of Net Revenues. Under each Financing Agreement, the SVCW Bond Payments of a Participating Member are secured by a lien on and pledge of Net Revenues derived from the wastewater system of the Participating Member. “**Net Revenues**” consist generally of wastewater system “**Gross Revenues**” remaining after payment of “**Operation and Maintenance Costs.**” The Net Revenues from one Participating Member’s wastewater system are pledged solely to its own SVCW Bond Payments and any other indebtedness of such Participating Member secured by a lien on and pledge of Net Revenues; no Participating Member has any liability or responsibility for the SVCW Bond Payments of another Participating Member.

Flow of Funds. Each of the Participating Members covenants and agrees that all Gross Revenues derived from its wastewater system will be deposited in a wastewater fund, which will be maintained so long as the related Financing Agreement remains outstanding. Amounts on deposit in each Participating Member’s wastewater fund will be used to pay, in the following order of priority:

- (a) all Operation and Maintenance Costs of the Participating Member’s wastewater collection and transmission system;

- (b) the SVCW Bond Payments of such Participating Member, and payments of principal of and interest on any Parity Debt (as defined below) issued by such Participating Member;
- (c) any other payments required to comply with the provisions of the Joint Powers Agreement, including payments due with respect to SRF Loans or the Line of Credit, and any Parity Debt Documents;
- (d) any other lawful expenses of the Participating Member's wastewater collection and transmission system.

Rate Covenants. Each of the Participating Members covenants to establish rates and charges for its wastewater system during each fiscal year, as follows:

- To yield Gross Revenues sufficient to pay Operation and Maintenance Costs of the Participating Member's wastewater collection and transmission system, fund its allocable share of debt service on the 2009 Bonds, the 2014 Bonds, the 2015 Bonds and any additional Parity Debt, and pay any other obligations payable from the Gross Revenues of its wastewater system; and
- Generate wastewater system Net Revenues equal to at least 120% of the Participating Member's allocable share of debt service on the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, the 2018 Bonds (i.e., the Participating Member's SVCW Bond Payments), and any Parity Debt, provided that the unencumbered fund balance of the Participating Member's wastewater system as of the last day of the immediately preceding fiscal year can be counted as Net Revenues in an amount not to exceed 20% of debt service on the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, the 2018 Bonds, and any Parity Debt.

No Senior Lien Debt. Each of the Participating Members covenants that it will not issue or incur any additional bonds or other obligations which are senior to its allocable share of debt service payments for the 2018 Bonds.

Pro Rata Nature of SVCW Bond Payments. As described above, each Participating Member's SVCW Bond Payment obligation is equal to its Allocable Share of debt service with respect to the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, the 2018 Bonds, and any future bonds issued by the Authority that are payable from SVCW Bond Payments. Each Participating Member's Allocable Share of debt service is calculated based on its allocated share of the Authority's capital improvement costs to be funded by each debt issue (as determined in accordance with the Joint Powers Agreement, as defined herein) less any cash contributions toward their share of allocated costs. SVCW Bond Payments will be allocated to the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, and the 2018 Bonds (and any such future bonds issued by the Authority) on a pro rata basis. The Participating Member's SVCW Bond Payments are projected to be sufficient to pay debt service on the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, the 2018 Bonds.

Issuance of Parity Debt by the Participating Members. Each of the Participating Members may issue parity debt ("Parity Debt") payable from the Net Revenues of its wastewater systems provided that the following conditions are met:

- (a) the Participating Member is not in default on payment of the SVCW Bond Payments or any parity debt;

(b) the amount of Net Revenues as shown by the books of the Participating Member for the latest fiscal year for which audited statements are available, or as shown by the books of the Participating Member for any more recent 12-month period, are at least equal to 120% of the amount of Maximum Annual Debt Service on the related SVCW Bond Payments and any parity debt issued by the Participating Member, provided that Net Revenues may be increased to reflect:

(i) any increase in wastewater system rates and charges that have been adopted prior to the issuance of parity debt and that will be in effect in any of the subsequent three fiscal years in an amount by which the Net Revenues would have increased if the increase had been in effect during that period;

(ii) unencumbered wastewater system fund balances as of the last day of the immediately preceding fiscal year, but in no case in an amount exceeding 20% of Maximum Annual Debt Service;

(iii) any additions or improvements or extensions of each Participating Member's wastewater system that were not in effect during the 12-month period in an amount equal to the estimated additional average annual Net Revenues that would be derived during the first three years in which the addition, improvement, or extension is to be in operation, all as shown by the certificate of a qualified independent financial consultant employed by the Participating Member;

(c) the Participating Member shall be in compliance with all conditions for issuing parity debt as set forth in any Parity Debt Documents.

Issuance of Subordinate Debt. Each of the Participating Members may issue unsecured or subordinate obligations.

Third-Party Beneficiaries. The Trustee is a third-party beneficiary and is entitled to the benefits of the Financing Agreements with the same force and effect as if the Trustee were a party to each of the Financing Agreements.

No Reserve Fund

Neither the Authority nor the Participating Members is establishing a debt service reserve fund for the 2018 Bonds.

Issuance of Parity Debt by the Authority

Under the Indenture, the Authority covenants that, except for the 2018 Bonds, no additional bonds, notes, or other indebtedness will be issued or incurred which are payable from Revenues in whole or in part. However, the Authority has the right to issue additional bonds, notes or other obligations that are secured by payments made by any or all of the Members, which payments may be secured by a pledge of and lien on Net Revenues of such Members on a parity with the SVCW Bond Payments. In such case, Participating Members must satisfy the conditions for their respective issuance of Parity Debt. See "- Financing Agreements - Issuance of Parity Debt by the Participating Members.": Nothing in the Indenture limits the authority of the Participating Members to issue parity obligations in accordance with their respective Financing Agreements as described under "- Financing Agreements" above.

State Revolving Fund Loans of the Authority

The Authority has previously borrowed \$11,489,095 under that certain Project Finance Agreement, dated February 1, 2012, by and between the Authority and the SWRCB, \$31,549,337 under that certain Project Finance Agreement, dated May 10, 2012, by and between the Authority and the SWRCB and \$14,000,000 under that certain Project Finance Agreement, dated April 28, 2016 (each, as amended, an “**SRF Loan**”), which SRF Loans account for a combined total of \$57,038,432 of capital project funding commitments. The SRF Loans were outstanding in the amount of approximately \$55 million, as of August 2, 2017. The final amount of the SRF Loans may be amended depending on the amount of final project costs determined eligible for funding after the projects have been completed. The SRF Loans, and any future loans from the SWRCB to the Authority, if any, constitute indebtedness of the Authority and do not constitute indebtedness of the Participating Members pursuant to the Financing Agreements. The Authority anticipates applying for additional funding of approximately \$65 million through SRF Loans over the next eight years. There can be no assurance that the Authority will be awarded additional funding through SRF Loans, in which case the Authority may alternatively issue debt on a parity with the 2018 Bonds.

The SRF Loans are secured by a pledge of the Authority’s net revenues, which net revenues do not include the revenues securing the SVCW Bond Payments. Pursuant to the Joint Powers Agreement, the Authority is authorized to charge its Members for their proportionate share of debt service payments on the SRF Loans. This revenue source is separate and distinct from Revenues pledged to the 2018 Bonds, and the SRF Loans are accordingly not considered parity debt to the 2009 Bonds, 2014 Bonds, 2015 Bonds, or 2018 Bonds. The 2009 Bonds, 2014 Bonds, 2015 Bonds, and 2018 Bonds have priority in payment over the SRF Loans because each Participating Member’s SVCW Bond Payments are secured by a pledge of the Participating Member’s Net Revenues, while the payments made by each Participating Member to the Authority that are used to pay the SRF Loans are not secured by a pledge of the Participating Member’s Net Revenues.

Line of Credit

The Authority has also obtained a \$30,000,000 short-term line of credit (the “**Line of Credit**”) with Wells Fargo Bank, National Association, which is used to provide interim financing. Specifically, the Line of Credit furnishes interim cash flows whenever the Authority is awaiting reimbursement from its SRF Loans. This Line of Credit replaced a previous line of credit with Bank of the West, and is secured by a source of revenues of the Authority that is distinct from the Revenues securing the 2018 Bonds and revenues securing the 2009 Bonds, the 2014 Bonds and 2015 Bonds. As of January 25, 2018, \$11.5 million outstanding under the Line of Credit.

The 2009 Bonds, 2014 Bonds, 2015 Bonds, and 2018 Bonds have priority in payment over the Line of Credit because each Participating Member’s SVCW Bond Payments are secured by a pledge of the Participating Member’s Net Revenues, while the payments made by each Participating Member to the Authority that are used to pay the Line of Credit are not secured by a pledge of the Participating Member’s Net Revenues.

The Line of Credit expires on May 29, 2018. The Authority expects to renew the Line of Credit, but there can be no assurance that the Line of Credit will in fact be renewed, or what the terms or amount will be.

THE AUTHORITY AND THE WASTEWATER SYSTEM

The Authority

The Authority is a joint exercise of powers authority that provides wastewater transmission, treatment, and effluent disposal services to the Cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (defined as the “**Members**” in this Official Statement). The Members are all located in the northern part of Silicon Valley, nearly midway between the cities of San Francisco and San Jose. The Authority’s wastewater treatment plant is located in Redwood City and serves more than 200,000 people in located in its Members’ communities.

The Authority is a distinct public entity that operates under a Joint Exercise of Powers Agreement (the “**Joint Powers Agreement**”) dated November 13, 1975, as amended, among the Members. Under the Joint Powers Agreement, the Authority owns and operates certain wastewater facilities and the Members are obligated to pay the Authority for their allocable share of the Authority’s operating, maintenance, and capital expenses. The Authority is organized and exists under the laws of the State of California.

Authority facilities include: a wastewater treatment plant located in Redwood City, wastewater pump stations in Menlo Park, Redwood City, Belmont, and San Carlos; a booster pump station located in San Carlos; an approximately nine-mile influent force main pipeline that conveys wastewater from Members to the wastewater treatment plant; and a 1.25-mile effluent disposal pipeline to discharge treated effluent into the San Francisco Bay. The Authority also provides recycled water to Redwood City following treatment by the Authority pursuant to applicable standards, under an agreement for the production of recycled water, through disinfection facilities owned by Redwood City and operated by the Authority. Under the agreement, Redwood City reimburses the Authority for costs associated with the production of recycled water. The Authority operates in full compliance with its Waste Discharge Permit issued by the State of California.

Participating Members in this 2018 Bond issue include the City of Redwood City, the City of San Carlos and the West Bay Sanitary District. Each has covenanted to pay its allocable share of debt service on the 2018 Bonds. The City of Belmont has elected not to be a Participating Member and has no obligation to pay any debt service on the 2018 Bonds.

- **City of Redwood City** - Redwood City is located approximately 25 miles south of San Francisco, roughly midway between San Francisco and San Jose, and has a population of roughly 85,600 people. Redwood City owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 31 sewer lift stations. In addition to providing wastewater service within its boundaries, the City also conveys wastewater from five San Mateo County sewer maintenance districts and the Town of Woodside to the Authority for treatment and effluent disposal pursuant to agreements with each agency. See Appendix A for a description of the City of Redwood City and its Sewer System.
- **City of San Carlos** - San Carlos is located approximately 22 miles south of San Francisco and about 26 miles north of San Jose. San Carlos has a population of roughly 29,000 people and owns and operates a sanitary sewer collection system consisting of approximately 105 miles of sewer pipelines ranging in size from 5 to 27 inches in diameter, and 6 sewer lift stations. In addition to providing wastewater service within its boundaries, San Carlos also conveys wastewater from four San Mateo County sewer maintenance

districts to the Authority for treatment and effluent disposal pursuant to agreements with each agency. See Appendix B for a description of the City of San Carlos and its Sewer System.

- **West Bay Sanitary District** - The West Bay Sanitary District (“**WBSD**”) is an independent special district that provides wastewater service to the City of Menlo Park and surrounding areas. The WBSD is located approximately 26 miles south of San Francisco and about 20 miles north of San Jose. WBSD serves a population of approximately 55,000 people and owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines, and 13 sewer pump stations. See Appendix C for a description of the WBSD and its Sewer System.
- **City of Belmont** - The City of Belmont is located approximately 20 miles south of San Francisco and has a population of roughly 28,000 people. The City of Belmont owns and operates a sanitary sewer collection system consisting of approximately 80 miles of sewer pipelines and 12 sewer lift stations. The City of Belmont is not a Participating Member with respect to the 2018 Bonds. The City of Belmont is obligated to contribute its share towards the completion of the Authority’s CIP. Belmont has historically contributed amounts towards the CIP from cash or the sale of bonds by the City of Belmont. The City of Belmont is expected to contribute approximately \$16.9 million towards the Projects over the next 18 months.

See “APPENDIX A”, “APPENDIX B” and “APPENDIX C” for additional information regarding the Participating Members.

Governance & Management

Commission. The Authority is governed by a four-member “**Commission**” consisting of one appointed member from each of the Members’ governing bodies. Current Commission Members are:

<u>Commissioner</u>	<u>Title</u>	<u>Agency Represented</u>
John Seybert	Chair	City of Redwood City
Warren Lieberman	Vice Chair	City of Belmont
Robert Grassilli	Secretary	City of San Carlos
George Otte	Member	West Bay Sanitary District

Voting is proportional to the Members’ respective ownership interests in the Authority’s wastewater system. There is currently a total of 100 votes which are allocated as follows:

Redwood City	42 votes
West Bay Sanitary District	28 votes
San Carlos	19 votes
City of Belmont	11 votes

A proportionally-weighted vote of at least three-fourths of the total Commission votes is required to adopt or amend bylaws, rules, and regulations; to adopt or modify any budget; to approve any capital costs, contracts, appropriations, or transfers of more than \$75,000; to employ the manager, engineers, and certain other consultants; to sell or dispose of property; and to

approve other designated items. Other actions of the Commission must be approved by a majority of total possible votes.

Any amendment of the Joint Powers Agreement requires the concurrence of all of the Members. In addition, any amendment to the Joint Powers Agreement must also be approved by a four-fifths vote by each of the Members' governing bodies.

SVCW has no taxing power and therefore receives nearly all of its funding, other than interest earnings and other miscellaneous revenues, according to rules established by the Joint Powers Agreement. Combined, Members pay all expenditures associated with operations, capital repairs, capital improvements, contributions to capital improvement reserves, debt service, and debt reserves. According to the Joint Powers Agreement, capital improvement costs and contributions to capital improvement reserves are allocated as follows:

Redwood City	48.57%
West Bay Sanitary District	26.84%
San Carlos	15.14%
City of Belmont	9.45%

Capital and Operating Budgets. Each year the SVCW Commission adopts an Operating and pay-go Capital budget for the following year. The budget establishes the funding requirements for each of the Members. Operating expenses, capital project contributions, and cash reserve contributions are paid in twelve monthly installments. Payments in respect of debt service on the SRF Loans are paid on an annual basis.

Operating costs are allocated to each Member based on a three-year average of each Member's annual pro-rata share of total wastewater flow and strength loadings as measured by biological oxygen demand ("**BOD**") and suspended solids ("**SS**"). As a result, the Budget for fiscal year 2017-18 allocated operating costs as follows:

Redwood City	46.5%
West Bay Sanitary District	27.9%
San Carlos	12.8%
City of Belmont	12.8%

After the close of the fiscal year, the payments made by each Member towards operating budgets are reconciled against the actual expenditures allocated to each Member according to the Joint Powers Agreement. Any difference is applied toward fund reserves held by the Authority on behalf of each Member.

Member Residential Sewer Charges. Significant rate increases were necessary to fund SVCW's capital improvement projects. Since 2008, Members have proactively raised sewer rates to support their allocable share of the CIP, as well as to fund their own operating and capital programs. See Table 3 for the single-family residential monthly sewer rate increases as adopted by each Member from 2007-08 to current.

Comparative Residential Sewer Charges

Wastewater Rates. Each of the Participating Members' wastewater rates has increased in recent years, and it is anticipated that rates will continue to increase annually. See the sections entitled "Wastewater Rates" in each of Appendices A, B and C for information about the

Participating Members' current wastewater rates. The table below shows single-family residential monthly sewer charges for each of the Participating Members since for fiscal years 2012-13 through 2017-18.

Table 1
SILICON VALLEY CLEAN WATER
Single-Family Residential Monthly Sewer Service Charges

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Redwood City	\$57.88	\$63.09	\$68.77	\$74.95	\$75.11	\$76.68
San Carlos	53.10	67.29	80.75	88.82	88.82	93.26
West Bay Sanitary District	62.67	68.33	74.42	81.08	85.92	89.33

Source: Participating Members

Comparative Rates. The following table shows a comparison of regional monthly sewer service charges for a typical single-family home billed as of December, 2017.

Table 2
SILICON VALLEY CLEAN WATER
Single-Family Residential Monthly Sewer Service Charges

City of Palo Alto	\$34.83
City of Los Altos	38.34
City of Sunnyvale	47.18
East Palo Alto SD	47.92
South San Francisco	62.00
Foster City	65.27
Mountain View	74.87
Redwood City	76.68
Belmont*	78.67
Los Altos Hills	85.00
San Bruno*	85.56
West Bay Sanitary District	89.33
San Carlos	93.26
Burlingame	98.00
San Mateo	98.48
Emerald Lake Hts Zone 2	106.67
Montara*	108.93
Pacifica*	111.12
Crystal Springs CSD	112.50
Millbrae	123.00
Brisbane*	123.33
Daly City	123.33
Burlingame Hills SMD	132.92
Hillsborough	213.17

* Based on 800 cubic feet of monthly winter water use. All others use fixed charges that do not vary with consumption.

Source: Prepared by the Authority based on data from each agency's published rates.

Participating Member Historical & Adopted Sewer Rate Increases

The Participating Members levy fixed sewer service charges for residential accounts and consumption-based charges for non-residential accounts. Sewer service charges from West Bay Sanitary District and San Carlos are billed on San Mateo County's property tax bills. San Mateo County is on the Teeter Plan, under which the County pays each agency for the full amount of sewer service charges assessed on the County's tax rolls. The County has the option to discontinue an agency's participation in the Teeter Plan. Redwood City collects sewer charges on a combined utility bill that also includes water and garbage services.

The table below shows historical and adopted sewer rate increases for each of the Participating Members since the 2012-13 fiscal year.

Table 3
SILICON VALLEY CLEAN WATER
Participating Members Historical and Adopted Sewer Rate Increases

Fiscal Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Redwood City	9%	9%	9%	9%	2%	2%	2%
San Carlos	6	25	20	10	0	5	5
West Bay SD	9	9	9	9	6	4	TBD

Source: Based on rate studies as provided by each Member.

Fund Reserves. In recent years, the Authority and each of the Participating Members have increased the amount of reserves available for funding operating and pay-go capital expenses and debt service. The following table shows a summary of each Participating Member's combined operating and pay-go capital fund reserves as of June 30, 2016 and 2017. The Authority can make no assurance that the Participating Members will maintain their reserves in the future at the levels shown in the following table.

Operating and Capital Fund Reserves⁽¹⁾ (\$ in millions)

	June 30, 2016	June 30, 2017
Redwood City	\$ 25.3	\$ 31.5
San Carlos	15.8	12.3
West Bay Sanitary	38.7	46.2
Subtotal	79.8	90.0
Silicon Valley Clean Water	<u>28.3</u>	<u>30.0</u>
Total	\$108.1	\$120.1

(1) Excludes debt service reserve funds for the 2009 Bonds.

Source: Audited Financial Statements

Manager. The Commission appoints a Manager who is responsible for day-to-day management of the Authority under policy guidelines set by the Commission. In 2006, the Commission appointed Daniel Child as Manager. Mr. Child has more than 35 years of experience in the management of various municipal, industrial, and public works facilities. Before joining the Authority, he served as area manager/vice president of operations for Veolia Water North America West LLC, the nation's leading water services provider for local and federal governments and business and industry. In that capacity, he managed the activities of more than 60 water treatment, wastewater treatment and public works operations throughout the western U.S. Before that, he served as an account manager for US Filter Corporation/Davis Products Division (which was acquired by Veolia), providing municipalities and consulting firms with products and engineering support to meet various wastewater treatment needs.

Mr. Child began his career in 1981, working six years as wastewater superintendent for the Price River Water Improvement District in Carbon County, Utah. He served as operations manager with the Victor Valley Wastewater Reclamation Authority in southern California, from September 1987 to February 1989 and also from February 1992 to August 1995. In between, he served as wastewater superintendent for the City of San Diego's Metropolitan Wastewater Division. He is a past president of the Desert and Mountain Section of the California Water Environment Association.

Chief Engineer / Assistant Manager. Teresa Herrera has over 35 years of wastewater engineering experience, and joined Silicon Valley Clean Water in 2008 as Plant Engineer to create an Engineering Department and implement its inaugural Capital Improvement Program. In 2012 Teresa was promoted to Assistant Manager/Authority Engineer. Teresa now oversees the Authority's \$833 million CIP and is implementing SVCW's first Design-Build projects.

Teresa received her Bachelor's degree in Civil Engineering from California Polytechnic State University and her Masters of Science in Civil Engineering from the University of California, Davis. Teresa then joined the consulting firm of Whitley Burchett & Associates (WBA). She served as president of the company from 2001 to 2008. WBA served public agencies throughout Northern California as District Engineer, Program Managers and Project Managers for both large and small wastewater agency facilities.

Chief Financial Officer. Matt Anderson joined SVCW in 2014 as the Chief Financial Officer. He has 25 years of financial management experience in the water and transportation industries. Prior to joining SVCW Matt served as Chief Financial Officer for the Goleta Water District in Santa Barbara, California. He also worked in the airline sector for fourteen years, most recently as Managing Director of Finance and Administration for Northwest Airlines' international division. Matt has managed \$500 million annual operating budgets spanning nine countries, 200 cost centers, and 2,000 employees. He brings private-sector experience to the public utility sector by introducing long-range financial planning, zero-based budgeting, and effective management reporting. Matt started his career with the accounting firm KPMG and maintains his Certified Public Accountant designation. He has an MBA from California Polytechnic State University.

The Wastewater System

The Authority owns and operates a wastewater conveyance, treatment, and effluent disposal system for the shared benefit of the Members. The Members each own and operate their own wastewater collection systems serving their respective service areas. Wastewater is conveyed from each of the Members to the Authority's wastewater treatment plant via the Authority's conveyance system.

The wastewater treatment plant has been in operation since its construction in 1980, and major electrical, mechanical and instrumentation components are nearing the end of their useful lives. In addition, both concrete structures and the miscellaneous metal components of the facilities are in need of rehabilitation to ensure a continued useful life into SVCW's future.

Reliable and efficient operation and maintenance of the plant and conveyance system infrastructure are required to ensure the continued health and protection of the environment and for meeting the effluent quality and discharge requirements set forth in the Authority's National Pollution Discharge Eliminations System ("NPDES") Permit issued by the state (NPDES Permit No. CA0038369). Other regulatory permit requirements are also placed upon SVCW including air quality, odor control, safety, and record-keeping. The various regulatory permits under which SVCW operates require expenditure of capital to prevent fines for violations and to meet possible future, restrictive changes to the permits. It is also necessary to upgrade the facilities to improve operations in an effort to reduce costs as well as improving the facility's operational reliability. Finally, it is necessary to expend capital funds to match the capacity needs of the service area.

In 2008, the Authority began evaluating the operational integrity of existing facilities, and determined extensive improvements were necessary to ensure uninterrupted treatment operations, address future regulatory changes, increase treatment capacity, and strengthen safety. The original 2008 CIP 10-Year plan included 131 projects necessary to achieve this. The CIP has been updated five times since 2008, most recently in October 2017. As of the date of this Official Statement, the 2017 CIP remains the Authority's guiding document. The 2017 CIP now includes 201 projects, half of which are complete, each the result of defining the project scope, estimating necessary budgets, determining the timing of implementation, and identifying specific sources of funds. While the original CIP was a 10-Year Plan, the 2017 update anticipates completion of the CIP in 2025.

Wastewater Conveyance System: Force mains and Pump Stations. The conveyance system consists of approximately 9 miles of influent force main pipeline and four pump stations. The influent force main varies in diameter from 33 to 63 inches as the pipeline approaches the treatment plant. A portion of the influent force main originally served as the outfall for Redwood City's and San Carlos' wastewater systems and was converted into an influent force main when the Authority's treatment plant was constructed in 1980. This portion of the influent force main has been operating at a higher pressure than it was originally designed for.

Four pump stations pump raw wastewater through the influent force main including one pump station for each of the Members and a booster pump station benefiting West Bay Sanitary District and Redwood City, the two agencies whose wastewater travels furthest to the treatment plant. The Authority's pump stations are approximately 40 to 50 years old and need to be rehabilitated and/or replaced in the near future. See "THE AUTHORITY AND THE WASTEWATER SYSTEM – Capital Improvement Program".

Wastewater Treatment Plant. The Authority's wastewater treatment plant was constructed in 1980 and is located in the Redwood Shores area of Redwood City bordering the San Francisco Bay. The treatment plant processes all wastewater conveyed from each of the Members' sewer service areas. The treatment plant is comprised of liquid and solids treatment processes. Most of the treated effluent is disposed via the Authority's effluent disposal pipeline. However, a portion of the Authority's wastewater undergoes a higher level of treatment and disinfection and is used to supply recycled water to Redwood City.

Liquid Processing. Wastewater is delivered directly to the treatment plant's primary sedimentation tanks ("**PST**"). The PST provides the first step of treatment to the raw sewage. By allowing heavy material to settle and light material to float and be sent to the solids processing units. The water from the PST process is then sent to biological treatment that consists of 4 fixed film reactors and aeration in 4 aeration basins to remove biological contaminants. The water in the aeration basins is then directed to the secondary sedimentation tank ("**SST**") for separation of solids from the liquid. The SST process generates fairly clear effluent that flows to the dual media filters for further removal of small solids from the water. Dual media filtration followed by disinfection with sodium hypochloride concludes the treatment of the liquid stream in the treatment plant. The disinfected and dechlorinated advanced secondary treated effluent is then pumped to the bay via a 66-inch diameter outfall.

Solids Processing. The primary functions of the solids handling facilities are to stabilize the organic solids in the wastewater stream, reclaim the heat value of the organic solids for power generation, and reduce the sludge volume to minimize the cost of disposal. The treatment plant processes a solids stream that is predominantly made up of a primary sludge consisting of a slurry of settled solids and primary scum (slurry with floated oil/grease/scum) withdrawn from the primary sedimentation tanks and the waste activated sludge ("**WAS**") derived from the aeration basins. In addition to the primary sludge, the primary scum and the WAS, the anaerobic digesters also receive grease and oily wastewater delivered to the septic receiving station at the treatment plant. With mixing and heating, the two designated primary digesters stabilize the sludge feed and generate sufficient digester gas to fire a co-generation facility that generates electricity to power much of the electrical demand within the treatment plant.

The digested solids are transferred periodically from the designated primary digesters to a third digester that currently functions as a holding tank. The stored sludge is eventually withdrawn and transferred to the dewatering centrifuge to reduce its volume. The centrifuge removes liquid from the stabilized sludge, transforming the liquid sludge into a loose sludge cake. The dewatered sludge cake is disposed off-site in accordance with government regulations.

Treatment Plant Capacity & Flow. The capacity of the Authority's wastewater treatment plant during average dry weather and peak wet weather conditions, as measured in million gallons per day (mgd), is identified below:

- Average Dry Weather Flow, Permit Capacity 29 mgd
- Average Dry Weather Flow, Current Capacity 27 mgd
- Peak Wet Weather Capacity Rating 68 mgd

Average daily wet weather and dry weather flow is shown below for the past ten years.

<u>Year</u>	<u>Average Dry Weather Flow (mgd) Plant Effluent</u>	<u>Average Wet Weather Flow (mgd) Plant Effluent</u>
2017	13.06	17.25
2016	12.86	16.11
2015	12.04	13.18
2014	11.93	14.33
2013	11.36	14.20
2012	13.03	14.17
2011	12.82	17.02
2010	16.30	17.42
2009	13.72	15.88
2008	14.45	16.81

Source: Silicon Valley Clean Water

Wastewater influent flows to the treatment plant in fiscal year 2016-17 are as shown below:

- Fiscal year 2016-17 Average Dry Weather Flow (Jul-Oct & May-June) 12.6 mgd
- Fiscal year 2016-17 Average Wet Weather Flow (November-April) 20.2 mgd
- The peak wet weather event in fiscal year 2016-17 occurred on February 21, 2017 with a peak wet weather flow during that event of 51.6 mgd.

The Authority has never exceeded peak wet weather capacity and has been able to handle all flows with no spills or permit violations. The Authority anticipates that additional treatment processes will be required to provide adequate capacity to handle flows for the next 25-30 years, the improvements for which have been included in the 2017 CIP update.

Wastewater Effluent Outfall. Approximately 1.25 miles of 66-inch diameter pipeline carries treated effluent from the treatment plant for discharge to the San Francisco Bay. The outfall is reinforced concrete pipe and extends approximately one mile into the bay for a deep-water discharge.

Sewer Utility Regulatory Issues

General. Regulatory requirements applicable to the Authority's wastewater conveyance, treatment and effluent disposal system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the San Francisco Bay Regional Water Quality Control Board (the "**Regional Board**"). The Authority is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

Waste Discharge Requirements. The Authority operates pursuant to a National Pollution Discharge Eliminations System ("**NPDES**") Permit issued by the state (NPDES Permit No. CA0038369) which establishes effluent quality and discharge requirements for the Authority's treated wastewater. The NPDES Permit was renewed in 2017 and is set to expire in 2022. The Authority operates in full compliance with its discharge permit.

Capital Improvement Program

The Authority is in the process of rebuilding, rehabilitating, and upgrading its wastewater transmission and treatment facilities, which are approaching the end of their useful operating lives. The Authority initially developed its 10-Year Capital Improvement Program in 2008 to provide a proactive plan for addressing the Authority's near-term and long-term capital needs. The Authority's Engineering Division staff updated the CIP in October 2017, which as of the date of this Official Statement remains the Authority's guiding CIP document.

Since 2008 the Authority has been improving / upgrading / updating its capital facilities and has spent nearly \$244 million on capital infrastructure and upgrades. Following is a table summarizing the expenditures and completed projects as of October 2017.

<u>CIP Program Description</u>	<u>Expenditures</u>
Conveyance System	\$ 85.1
Energy and Automation	77.1
General Plant Facilities	35.2
Solids Handling	17.6
Plant Processes	15.3
Corrosion and Odor Control	12.7
Biological/Secondary Process Optimization	0.6
CIP Support	<u>0.4</u>
TOTAL	\$244.0

Approximately \$596 million of additional capital funding is needed over approximately the next eight years (including funding from the 2018 Bonds and excluding future cost inflation). The Authority anticipates funding its remaining CIP costs via a combination of bonds, SRF Loans issued by the SWRCB, and cash funding.

The updated CIP identifies 101 projects targeted for completion over the next eight years. SVCW believes these projects, when complete, will comprehensively address all known issues with the Authority's wastewater system, including:

- substantial rehabilitation and replacement of aging infrastructure and equipment, particularly the conveyance pipeline, pump stations, and headworks facilities;
- improvements to substantially enhance reliability and increase wet weather hydraulic capacity;
- technological upgrades and system-wide automation projects to improve operational efficiency and reliability, which are anticipated to help reduce future operating and maintenance expenses;
- additional energy production solutions; and
- treatment plant improvements necessary to remove nitrogen and phosphorous compounds in compliance with anticipated regulations by the SWRCB.

Contemplated within the CIP is the Authority's Regional Environmental Sewer Conveyance Upgrade program (the "**RESCU Program**"), which will replace aging conveyance infrastructure that is at the end of its expected useful life and no longer able to provide reliable and safe conveyance of a projected maximum of 108 mgd of untreated wastewater. Elements of the RESCU Program include a 3.2-mile gravity pipeline, a headworks facility, and four pump stations. Total estimated costs of these improvements are approximately \$420 million. The Environmental Impact Report (the "**EIR**") for the RESCU Program was certified in April of 2017, and a resulting Notice of Determination was filed with the County of San Mateo. The EIR assessed that, through proposed mitigation measures, the proposed project presents no significant and unavoidable negative impact to the environment.

Preliminary construction of the RESCU Program has already commenced with soil stabilization and installation of project management facilities. The project is using a progressive design-build delivery method, and agreements with two contractors are in place for the gravity pipeline and receiving headworks components, respectively. Major construction of these components is scheduled to begin by mid-2018 and is scheduled to be completed in 2022.

The following table shows a summary of CIP funding requirements for the various types of capital improvements identified in the CIP with projected 4% cost inflation for large conveyance system projects.

Table 4
SILICON VALLEY CLEAN WATER
Projected CIP Funding Requirements (\$ Millions)

	<u>CIP Funding Requirements</u>
Treatment Plant Improvements ⁽¹⁾	\$ 303.3
Conveyance System Improvements ⁽¹⁾	463.0
Nutrient Removal (Biological Process Optimization) ⁽¹⁾	<u>67.4</u>
Total	\$ 833.7
 Existing Funding to date ⁽²⁾	 \$244.0
Anticipated Funding from 2018 Bonds, WBSD and City of Belmont	 <u>178.9</u>
Remaining CIP Funding Needs	\$410.8

⁽¹⁾ Reflects CIP funding as of January, 2017.

⁽²⁾ Reflects existing funding through October, 2017.

Source: Silicon Valley Clean Water

The Authority has already funded or has received funding commitments for \$244 million in capital improvements including funds from the 2008 Bonds, 2009 Bonds, 2014 Bonds, 2015 Bonds, cash contributions from the City of Belmont, SRF Loans, the Line of Credit and interest earned on project funds. The Authority projects it will need to fund an additional \$596 million of capital improvements over approximately the next eight years. The 2018 Bonds are projected to finance approximately \$149 million of these outstanding capital improvement funding needs. After issuance of the 2018 Bonds and Member Agency contributions, the Authority anticipates it will need to finance approximately an additional \$410.8 million of capital improvements.

Financial Plan

Since 2008, the Authority has provided Members with periodic updates to its Long Range Financial Plan (the “**Financial Plan**”). The Financial Plan provides Members with a strategic roadmap as they plan to fund SVCW’s CIP and operating costs. The Financial Plan describes the annual revenue requirements needed from each Member for its share of SVCW operating, capital, and debt service expenditures. Members can then subsequently determine their respective need to increase wastewater rates. Based on past and current Financial Plan updates, Members have already substantially increased sewer rates in anticipation of future debt service payments. The Financial Plan was most-recently updated and received by the Commission in January, 2017.

The following table summarizes the estimated annual future funding requirements for the Authority’s CIP based on a recent interim CIP update.

Table 5
SILICON VALLEY CLEAN WATER
Estimated CIP Funding Requirements by Type of Improvement
(\$, Millions in 2017 dollars)

Year Ending June 30	2018	2019	2020	2021	2022	2023	2024	2025	Total
Treatment Plant	\$20.0	\$20.0	\$20.0	\$20.0	\$ --	\$ --	\$ --	\$ --	\$80.0
Conveyance System	24.9	113.4	167.2	112.5	26.3	6.0	--	--	450.3
Nutrient Removal	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>6.6</u>	<u>19.8</u>	<u>26.5</u>	<u>11.7</u>	<u>66.0</u>
Total	\$45.2	\$133.7	\$187.5	\$132.8	\$33.0	\$25.9	\$26.5	\$11.7	\$596.3

Source: Silicon Valley Clean Water

The following table shows estimates of the future funding requirements from each of the Authority’s Members assuming all projects are completed as scheduled in the CIP.

Table 6
SILICON VALLEY CLEAN WATER
Estimated SVCW CIP Funding Requirements by Member Agency
(\$, Millions in 2017 dollars)

Year Ending June 30	% Share ⁽¹⁾	2018	2019	2020	2021	2022	2023	2024	2025	Total
Redwood City	48.56%	\$21.95	\$64.93	\$91.08	\$64.50	\$16.01	\$12.57	\$12.85	\$5.70	\$289.59
West Bay SD	26.84	12.13	35.89	50.34	35.65	8.85	6.95	7.10	3.15	160.05
San Carlos	15.14	6.84	20.25	28.40	20.11	4.99	3.92	4.01	1.78	90.30
Belmont	<u>9.45</u>	<u>4.27</u>	<u>12.64</u>	<u>17.73</u>	<u>12.55</u>	<u>3.12</u>	<u>2.45</u>	<u>2.50</u>	<u>1.11</u>	<u>56.37</u>
Total	100.00%	\$45.20	\$133.71	\$187.54	\$132.81	\$32.96	\$25.89	\$26.46	\$11.74	\$596.31

(1) Percentage share represents the funding requirements for the CIP, and does not reflect Member participation in bond issues. See “-Governance and Management”

Source: Silicon Valley Clean Water

The Authority anticipates funding remaining CIP costs with a combination of bonds payable from SVCW Bond Payments and SRF Loans issued by the SWRCB, supplemented by the Line of Credit and potential pay-as-you-go cash funding, pending future approval by the Members.

Table 7
SILICON VALLEY CLEAN WATER
Projected Sources of Funding for the SVCW CIP
(\$, Millions in 2017 dollars)

Year Ending June 30	2018	2019	2020	2021	2022	2023	2024	2025	Total
Member Agency Contributions ⁽¹⁾	\$4.27	\$25.66	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$29.93
Gov't Loan Programs	--	--	--	--	6.62	19.85	26.46	11.74	64.67
Fixed Rate Bonds ⁽²⁾	40.92	108.05	143.06	94.68	--	--	--	--	386.71
Variable Rate Bonds ⁽²⁾	--	--	<u>44.48</u>	<u>38.13</u>	<u>26.35</u>	<u>6.04</u>	--	--	<u>115.00</u>
Total	\$45.20	\$133.71	\$187.54	\$132.81	\$32.96	\$25.89	\$26.46	\$11.74	\$596.31

(1) Member Agency contributions are anticipated to be funded by either available cash, bond financings or available interim financing.

(2) Reflects funding from bond financings issued by SVCW.

Source: Silicon Valley Clean Water

Member Financial Projections

Each of the Members has been proactively raising sewer rates to support its allocable share of funding requirements for the Authority's operations and CIP, as well as its own operating and capital programs. Appendices A, B, and C show long-term financial projections for each Participating Member that incorporates updated CIP cost and financing projections from the Financial Plan. See "APPENDIX A," "APPENDIX B" and "APPENDIX C."

Budget and Billing Process

Each year, the Authority's Commission adopts a budget for the upcoming fiscal year. The budget establishes the funding requirements for each of the Members. Operating and maintenance expenses, as well as capital and reserve contributions, are paid in 12 monthly installments. Payments in respect of debt service on the SRF Loans are paid on an annual basis. After the close of the fiscal year, the annual payments made by each Member are reconciled against the actual expenditures allocated to each Member, and any difference is applied toward fund reserves held by the Authority on behalf of each Member.

Currently, the Authority has adopted two cash reserve policies established to mitigate the negative impact of revenue shortfalls from economic fluctuations, to fund unforeseen expense requirements, to provide stable rates for member entities, and to help fund future long-term capital needs. As of June 30, 2017 the operating reserve was funded at approximately \$3.49 million, which is equal to 10% of the approved operating and pay-go capital budget plus an additional \$1 million. A separate CIP program reserve is at approximately \$16.1 million as of June 30, 2017 which, with annual contributions from Members, will grow to the calculated amount of depreciation of SVCW facilities to meet the long-term needs of replacing capital assets upon reaching the end of their useful life. The Authority also holds an additional "Stage 2" reserve of \$9.2 million in funds that are available to finance projects that add capacity. If the amount of fund reserves held by the Authority on any Member's behalf falls below the target, the Authority includes a line item in its budget to bring the reserves back up to the target level. The Authority has the ability to amend its reserve policy at any time.

The Authority has no taxing power. The Authority receives almost all of its funding, other than interest earnings and other miscellaneous revenues, from payments made by the Members, which include payments for operations, capital repairs, capital reserves, SRF loans and SRF loan reserve requirements. To the best of the knowledge of Authority staff, there have never been any payment delinquencies by any of the Members.

Maximum Capacity Rights Owned by Members

Under the Joint Powers Agreement, each of the Members has rights to capacity in the treatment plant as shown on the following table.

Table 8
SILICON VALLEY CLEAN WATER
Maximum Capacity Rights Per Member

Member	Average Daily Dry Weather Flow (mgd)	Peak Wet Weather Flow (mgd)	BOD (lbs per day)	SS (lbs per day)
Belmont	2.3	8.8	5,204	5,678
Redwood City ⁽¹⁾	11.4	30.5	38,727	36,510
San Carlos	3.7	14.3	6,982	9,554
West Bay SD	<u>6.6</u>	<u>14.4</u>	<u>14,137</u>	<u>13,308</u>
Total	24.0	68.0	65,050	65,050

(1) Peak Wet Weather Flow shown for Redwood City is for capacity rights in treatment plant. Redwood City's Peak Wet Weather Flow capacity in the conveyance system is 25.9 mgd.

Source: SVCW Joint Powers Agreement

Under the Joint Powers Agreement, any of the Members can purchase or lease available capacity from any of the other Members subject to written approval from the Authority.

Wastewater Flow

The following table shows a history of average daily wastewater flow conveyed to the Authority's wastewater treatment plant from each Member for the last five fiscal years.

Table 9
SILICON VALLEY CLEAN WATER
Average Wastewater Flow (mgd)

Member	2012-13	2013-14	2014-15	2015-16	2016-17
Redwood City	6.4	6.6	6.1	6.4	8.0
WBSD	3.5	3.5	3.6	3.8	4.1
San Carlos	1.7	1.9	1.8	1.9	2.7
Belmont	<u>1.7</u>	<u>1.9</u>	<u>1.9</u>	<u>1.7</u>	<u>2.1</u>
Total	13.3	13.9	13.4	13.8	16.9

Source: Silicon Valley Clean Water

Capacity Fees for New Development

Pursuant to the Joint Powers Agreement, the Authority has established a capacity fee to recover costs for future expansion of Authority facilities. The fee is levied on new development within the Authority's service area and is collected by the Members on the Authority's behalf. The current capacity fee is \$7.91 per gallon per day of estimated wastewater flow. For example, for a new single-family residence with an estimated wastewater discharge of 200 gallons per day, the Authority's capacity fee would total approximately \$1,582. The Authority has initiated a discussion of capacity fees with Members and may update its capacity fee schedule in the next fiscal year.

Outstanding Debt

The Authority has not previously issued bonds payable from its Revenues. However, the Authority previously issued: (i) the 2008 Bonds, which were payable from SVCW Bond Payments until they were defeased in October 2015, (ii) the 2009 Bonds, which were partially defeased in October 2015 but remain secured by SVCW Bond Payments until August 1, 2019, and (iii) the 2014 Bonds and 2015 Bonds, both of which are currently payable from SVCW Bond Payments under the Financing Agreements with respect to each of such bond issues.

The obligations of the Participating Members to make SVCW Bond Payments with respect to the 2009 Bonds, SVCW Bond Payments with respect to the 2014 Bonds, SVCW Bond Payments with respect to the 2015 Bonds, and SVCW Bond Payments with respect to the 2018 Bonds are secured by their respective Net Revenues on a parity basis.

The Authority has obtained three SRF Loans for a combined total of \$57 million of capital project funding commitments currently outstanding in the amount of approximately \$55 million as of August 2, 2017. The SRF Loans constitute indebtedness of the Authority, payments of which are made to the Authority by the Participating Members pursuant to the Joint Powers Agreement, and do not constitute indebtedness of the Participating Members pursuant to the Financing Agreements. The Authority anticipates obtaining additional funding through SRF Loans in the future. See "SECURITY FOR THE 2018 Bonds - State Revolving Fund Loans of the Authority."

The Authority has a \$30 million Line of Credit to provide interim funding and facilitate the continued funding of capital projects prior to issuing the 2018 Bonds, payments of which are also made to the Authority by the Participating Members pursuant to the Joint Powers Agreement. As of January 25, 2018, there was \$11.5 million outstanding under the Line of Credit. See "SECURITY FOR THE 2018 Bonds – Line of Credit."

The Authority maintains an internet website for investors and potential investors at www.svcwinvestors.org. *The reference to this internet website is shown for reference and convenience only, the information contained within the website is not incorporated herein by reference.*

Drought and Response

In recent years, the State of California has experienced drought conditions. However, as a result of above-average rainfall and snowfall, in April of 2017 the Governor issued an executive order declaring the drought to officially have ended in all but a few areas of the State. The Authority cannot predict whether drought conditions will return. Should drought conditions return, the financial impacts to each Participating Agency's wastewater system are expected to be minimal. Each of the Participating Members levy fixed residential charges for sewer service that do not vary with changes in water consumption. Additionally, all of the Participating Members have already adopted wastewater rate increases that are projected to provide adequate financial capacity to fund their share of payments for the Authority's operating and capital programs.

See "APPENDIX I" for the Authority's audited financial statements.

CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS

Article XIII B Gann Limit

Article XIII B of the California State Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and population. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year and the limit is to be adjusted annually to reflect changes in population and consumer prices. Adjustments in the appropriations limit of an entity may also be made if (i) the financial responsibility for a service is transferred to another public entity or to a private entity, (ii) the financial source for the provision of services is transferred from taxes to other revenues, or (iii) the voters of the entity approve a change in the limit for a period of time not to exceed four years.

Appropriations subject to Article XIII B generally include the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions and refunds of taxes. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to an entity of government from (i) regulatory licenses, user charges, and user fees (but only to the extent such proceeds exceed the cost of providing the service or regulation), and (ii) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Certain expenditures are excluded from the appropriations limit including payments of indebtedness existing or legally authorized as of January 1, 1979, or of bonded indebtedness thereafter approved by the voters and payments required to comply with court or federal mandates which without discretion require an expenditure for additional services or which unavoidably make the providing of existing services more costly.

Each of the Participating Members is of the opinion that its charges with respect to its wastewater system do not exceed the costs it reasonably bears in providing wastewater service and are not subject to the limits of Article XIII B.

Articles XIII C and XIII D

General. On November 5, 1996, California voters approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the State Constitution, which affect the ability of local governments to levy and collect both existing and future taxes, assessments, and property-related fees and charges. Proposition 218, which generally became effective on November 6, 1996, changed, among other things, the procedure for the imposition of any new or increased property-related "fee" or "charge," which is defined as "any levy other than an ad valorem tax, a special tax or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service" (and referred to in this section as a "property-related fee or charge").

On November 2, 2010, California voters approved Proposition 26, the so-called "Supermajority Vote to Pass New Taxes and Fees Act". Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as

“fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Proposition 26’s amendments to Article XIII C broadly define “tax,” but specifically exclude, among other things:

- “(1) A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- (2) A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- ...
- (6) A charge imposed as a condition of property development.
- (7) Assessments and property-related fees imposed in accordance with the provisions of Article XIII D.”

Property-Related Fees and Charges. Under Article XIID, before a municipality may impose or increase any property-related fee or charge, the entity must give written notice to the record owner of each parcel of land affected by that fee or charge. The municipality must then hold a hearing upon the proposed imposition or increase at least 45 days after the written notice is mailed, and, if a majority of the property owners of the identified parcels present written protests against the proposal, the municipality may not impose or increase the property-related fee or charge.

Further, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the “property-related service” and the entity may not use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

Initiative Power. In addition, Article XIII C states that “the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter shall impose a signature requirement higher than that applicable to statewide statutory initiatives.”

Judicial Interpretation of Articles XIII C and XIID. After Proposition 218 was enacted in 1996, appellate court cases and an Attorney General’s opinion initially indicated that fees and charges levied for water and wastewater services would not be considered property-related fees and charges, and thus not subject to the requirements of Article XIID regarding notice, hearing and protests in connection with any increase in the fees and charges being imposed. However, three subsequent cases have held that certain types of water and wastewater charges could be subject to the requirements of Article XIID under certain circumstances.

In *Richmond v. Shasta Community Services District* (2004) 32 Cal.4th 409, the California Supreme Court addressed the applicability of the notice, hearing and protest provisions of Article

XIIID to certain charges related to water service. In *Richmond*, the Court held that capacity charges are not subject to Proposition 218. The Court also indicated in dictum that a fee for ongoing water service through an existing connection could, under certain circumstances, constitute a property-related fee and charge, with the result that a local government imposing such a fee and charge must comply with the notice, hearing and protest requirements of Article XIIID.

In *Howard Jarvis Taxpayers Association v. City of Fresno* (2005) 127 Cal.App.4th 914, the California Court of Appeal, Fifth District, concluded that water, sewer and trash fees are property-related fees subject to Proposition 218 and a municipality must comply with Article XIIID before imposing or increasing such fees. The California Supreme Court denied the City of Fresno's petition for review of the Court of Appeal's decision on June 15, 2005.

In July 2006 the California Supreme Court, in *Bighorn-Desert View Water Agency v. Verjil* (2006) 39 Cal.4th 205, addressed the validity of a local voter initiative measure that would have (a) reduced a water agency's rates for water consumption (and other water charges), and (b) required the water agency to obtain voter approval before increasing any existing water rate, fee, or charge, or imposing any new water rate, fee, or charge. The court adopted the position indicated by its statement in *Richmond* that a public water agency's charges for ongoing water delivery are "fees and charges" within the meaning of Article XIIID, and went on to hold that charges for ongoing water delivery are also "fees" within the meaning of Article XIIC's mandate that the initiative power of the electorate cannot be prohibited or limited in matters of reducing or repealing any local tax, assessment, fee or charge. Therefore, the court held, Article XIIC authorizes local voters to adopt an initiative measure that would reduce or repeal a public agency's water rates and other water delivery charges. (However, the court ultimately ruled in favor of the water agency and held that the entire initiative measure was invalid on the grounds that the second part of the initiative measure, which would have subjected future water rate increases to prior voter approval, was not supported by Article XIIC and was therefore invalid.)

The court in *Bighorn* specifically noted that it was not holding that the initiative power is free of all limitations; the court stated that it was *not* determining whether the electorate's initiative power is subject to the statutory provision requiring that water service charges be set at a level that will pay for operating expenses, provide for repairs and depreciation of works, provide a reasonable surplus for improvements, extensions, and enlargements, pay the interest on any bonded debt, and provide a sinking or other fund for the payment of the principal of such debt as it may become due.

Articles XIIC and XIIID and the Participating Members' Water Rates and Charges.

The Participating Members' current sewer rates (see Appendices A, B and C) were adopted by the governing boards of the respective Participating Members following notice to property owners and a public hearing held at least 45 days after the notice had been mailed, in compliance with the *Bighorn* decision.

The Participating Members believe their sewer rates and charges do not constitute "taxes" under Article XIIC as revised by Proposition 26 because, as described in subsection 1(e)(7) of Article XIIC, they are "property-related fees imposed in accordance with the provisions of Article XIIID" (and are also charges for a "property-related service" as defined in subsection 2(g) of Article XIIID) and because, as described in subsection 1(e)(2) of Article XIIC, they are charged for sewer service, which is "a specific government service or product provided directly to the payor that is not provided to those not charged."

Conclusion. It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted.

Under the *Bighorn* case, local voters could adopt an initiative measure that reduces or repeals the Participating Members' rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Financing Agreements.

There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges for sewer service, or to call into question previously adopted sewer rate increases.

RISK FACTORS

The following factors, along with other information in this Official Statement, should be considered by potential investors in evaluating the risks in the purchase of the 2018 Bonds.

Demand for the Sewer Service

There can be no assurance that the demand for sewer service provided by the Participating Members' wastewater systems will be maintained at current or historical levels. Reduction in the level of demand could require an increase in rates or charges in order to produce Net Revenues sufficient to comply with each Participating Member's rate covenant in their related Financing Agreement. Such rate increases could increase the likelihood of nonpayment, and could also further decrease demand.

Wastewater System Expenses

There can be no assurance that the wastewater system operating and maintenance expenses of each Participating Member or the Authority will be consistent with the levels described in this Official Statement. Increases in the cost of staffing, energy, or other expenses would reduce Net Revenues, and could require substantial increases in rates or charges in order to comply with the rate covenant. Furthermore, there can be no assurance that any other entity with regulatory authority over the Participating Members' wastewater systems or the Authority's system will not adopt further restrictions on operation of those wastewater systems, leading to increased rates. Such rate increases could increase the likelihood of nonpayment, and could also decrease demand.

If costs of the Project are higher than projected in the CIP, the Authority may have additional financing needs. The CIP projections are based on current engineering and construction cost estimates.

Parity Debt

The Authority will not issue bonds payable from Revenues on a parity basis with the 2018 Bonds. However, the Authority has the right to issue additional bonds, notes or other obligations that are secured by payments made by any or all of the Members, which payments may be secured by a pledge of and lien on Net Revenues of such Members on a parity with the SVCW Bond Payments.

The Participating Members are authorized by the respective Financing Agreements to issue indebtedness with a lien on Net Revenues on a parity basis with the SVCW Bond Payments, if certain financial tests are met. See "SECURITY FOR THE 2018 BONDS – Financing Agreements – Issuance of Parity Debt" above. These financial tests may involve, to some extent, projections of Net Revenues. There can be no assurance that the assumptions which form the basis of such projections, if any, will be actually realized subsequent to the date of such projections. If such assumptions are not realized, the amount of future Net Revenues may be less than projected, and the actual amount of Net Revenues may be insufficient to provide for the payment of the 2018 Bonds and such additional indebtedness.

Natural Disasters

General. The Authority and the Participating Members, like all northern California communities, are subject to unpredictable seismic activity, fires, floods, or other natural disasters. A severe natural disaster, such as an earthquake, fire, or flood, could result in substantial damage to the Authority and/or each of the Participating Members, including their wastewater systems. Such an event—which could increase the costs of operating and maintaining the Participating Members’ wastewater systems and could reduce revenues as a result of widespread damage—could adversely impact the Participating Members’ ability to pay their SVCW Bond Payment with which the Authority will pay principal and interest on the 2018 Bonds.

Seismic Activity. The Authority and/or each of the Participating Members could experience ground shaking, ground failure, landslides or fault creep related to major faults in the area. The San Andreas Fault runs near the western edge of each Participating Member’s respective service areas. Large earthquakes on the San Andreas Fault were recorded in 1838, 1865, 1890, 1906 and 1989.

Flooding. A portion of each of the Participating Members’ service areas is mapped within the 100-year flood plain and could be flooded during heavy rains. The Authority does not maintain insurance covering damage to the Project caused by earthquakes or flooding.

Fire. Wildfires have occurred in recent years in different regions of the State and a number of fires were recently burning in California, damaging and threatening thousands of homes. There can be no assurance fires will not occur in the boundaries of the Authority in the future, leading to decreased usage of the Authority’s or any of the Members’ wastewater system, and a decline in Net Revenues available to pay debt service on the 2018 Bonds. The Authority carries property insurance for fire damage.

Drought. On April 1, 2015, for the first time in California’s history, Governor Edmund G. Brown directed the SWRCB to implement mandatory water reductions in cities and towns across California to reduce water usage by 25%, which in many cases led to declines in wastewater usage as well. Following a wet winter in 2016-17, most of the mandatory water reductions have been lifted. However, there can be no assurance that future drought conditions would not re-appear in the future, leading to decreased usage of the Authority’s and each Member’s wastewater system, and a potential decline in Net Revenues available to each Participating Member with which to pay their respective SVCW Bond Payments.

Limitations on Remedies Available; Bankruptcy

The enforceability of the rights and remedies of the Owners and the obligations of the Authority and/or any of the Participating Members may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercising of powers by the federal or State government, if initiated, could subject the

Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

Limited Obligations

The 2018 Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged in the Indenture. Revenues consist primarily of the SVCW Bond Payments payable under the Financing Agreements and amounts on deposit from time to time in the funds and accounts held by the Trustee. If for any reason, the Authority does not collect sufficient Revenues to pay debt service on the 2018 Bonds, the Authority will not be obligated to utilize any other of its funds, other than certain amounts on deposit in the funds and accounts established under the Indenture, to pay debt service on the 2018 Bonds. The Authority has no taxing power. The obligation of the Authority to pay debt service on the 2018 Bonds does not constitute a debt of the Authority or the State or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The SVCW Bond Payments are limited obligations of the Participating Members payable solely from and secured solely by the Net Revenues of their respective wastewater systems. If for any reason, any Participating Member does not have Net Revenues available in an amount sufficient to make its SVCW Bond Payments, the Participating Member will not be obligated to utilize any other of its funds to make SVCW Bond Payments. See “SECURITY FOR THE 2018 BONDS – Financing Agreements – Rate Covenants.”

The obligation of the Participating Members to pay the SVCW Bond Payments does not constitute an obligation of any Participating Member for which the Participating Member is obligated to levy or pledge any form of taxation or for which the Participating Member has levied or pledged any form of taxation. Each of the Participating Members has covenanted to establish rates and charges for its wastewater system to yield Gross Revenues sufficient to make the SVCW Bond Payments. See “SECURITY FOR THE 2018 BONDS – Financing Agreements – Rate Covenants.”

The obligation of each Participating Member to pay SVCW Bond Payments does not constitute a debt of that Participating Member or the State or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction.

The Net Revenues from one Participating Member’s wastewater system are pledged solely to that Participating Member’s obligations under the Financing Agreement to which it is a party. No Participating Member has any liability or responsibility for the SVCW Bond Payment of another Participating Member.

Change in Law

In addition to the other limitations described herein, the California electorate or Legislature could adopt a constitutional amendment, legislation, or an initiative with the effect of reducing revenues payable to or collected by the Authority and/or the Participating Members. There is no assurance that the California electorate or Legislature will not at some future time approve additional limitations that could have the effect of reducing the Net Revenues of a Participating Member and adversely affecting the security of the 2018 Bonds.

See also “-Loss of Tax Exemption” below

Loss of Tax Exemption

As discussed in this Official Statement under the caption “CONCLUDING INFORMATION – Tax Matters,” interest on the 2018 Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2018 Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Indenture or the Participating Members in violation of their covenants in the Financing Agreements.

In addition, current and future legislative proposals, if enacted into law, may cause interest on the 2018 Bonds to be subject, directly or indirectly, to federal income taxation by, for example, changing the current exclusion or deduction rules to limit the aggregate amount of interest on state and local government bonds that may be treated as tax exempt by individuals.

Should such an event of taxability occur, the 2018 Bonds are not subject to a special redemption and will remain outstanding until maturity.

Secondary Market for Bonds

There can be no guarantee that there will be a secondary market for the 2018 Bonds or, if a secondary market exists, that any 2018 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

Build America Bonds

The 2009 Bonds were issued as taxable Build America Bonds, and as a result, the Authority is eligible for a Refundable Credit equal to 35% of each bond interest payment on the 2009 Bonds. However, as part of the federal budget sequestration, the Internal Revenue Service has announced that direct bond subsidy payments are being reduced by a federal fiscal year 2018 sequestration rate of 6.6%. The 2018 sequestration rate will continue through fiscal year 2024, unless Congress takes additional action to modify the sequestration reduction. Decreased Refundable Credits increases the debt service costs of the Authority and the Participating Members on the 2009 Bonds, which could adversely impact the availability of Revenues to pay debt service on the 2018 Bonds. Certain maturities of the 2009 Bonds were refunded on a crossover basis in October, 2015 from proceeds of the 2015 Bonds. As a result of such crossover refunding, the 2009 Bonds will remain outstanding through August 1, 2019, and will continue to be payable from SVCW Bond Payments and from direct bond subsidy payments. The 2009 Bonds will be redeemed in full on August 1, 2019 from a portion of the proceeds of the 2015 Bonds.

CONCLUDING INFORMATION

Continuing Disclosure

Authority. Under the Indenture, the Authority has covenanted for the benefit of the holders and beneficial owners of the 2018 Bonds to provide certain financial information and operating data relating to the District (an “**Annual Report**”) to the Municipal Securities Rulemaking Board not later than nine months after the end of the District’s fiscal year (which currently would be March 31), commencing March 31, 2018 with the report for the 2016-17 fiscal year, and to provide notices of the occurrence of certain enumerated events, to assist the participating underwriter in complying with SEC Rule 15c2-12(b)(5) (the “**Rule**”). The initial Annual Report for the 2016-17 fiscal year shall be satisfied by filing the Official Statement promptly following the issuance of the Bonds. A form of the Continuing Disclosure Certificate of the Authority is attached in Appendix F.

The Authority has made previous undertakings under the Rule in connection with the delivery of prior bonds. Specific instances of non-compliance with prior undertakings in the previous five years include the (i) failure to timely file the Authority’s financial statements for fiscal years 2011-12 and 2012-13, and operating data for fiscal year 2013-14, (ii) the failure to properly link its fiscal year 2015-16 audited financial statements to the 2009 Bonds, and (iii) the failure to file notice of certain underlying rating changes. In addition, no notices of failure to file with respect to any of the above instance of non-compliance was provided at the time of the failure. Remedial filings have been made with respect to the above instances of non-compliance.

The Authority believes it has established procedures to ensure that it will comply with all material provisions of its continuing disclosure undertakings in the future.

Participating Members. Under the Financing Agreements, each of the Participating Members has covenanted for the benefit of the holders and beneficial owners of the 2018 Bonds to provide Annual Reports to the Municipal Securities Rulemaking Board not later than nine months after the end of the Participating Member’s fiscal year (which currently would be March 31), commencing March 31, 2018 with the report for the 2016-17 fiscal year, and to provide notices of the occurrence of certain enumerated events, to assist the participating underwriter in complying with the Rule. The initial Annual Reports for the 2016-17 fiscal year shall be satisfied by filing the Official Statement promptly following the issuance of the Bonds. A form of the Continuing Disclosure Certificate of each Participating Member is attached in Appendix F.

Redwood City. Redwood City has made previous undertakings under the Rule in connection with the delivery of prior bonds. Specific instances of non-compliance by Redwood City with prior undertakings in the previous five years include: (i) with respect to the City of Redwood City Public Financing Authority Lease Revenue Bonds, Series 2003, the fiscal year 2011-12 Annual Report did not include certain required information, (ii) with respect to Redwood City’s Community Facilities District No. 99-1 Special Tax Refunding Bonds, Series 2012B, and Redwood City’s Community Facilities District No. 2000-1 Special Tax Refunding Bonds, Series 2012, Redwood City’s financial statements were filed almost two months late for fiscal year 2011-12 and 16 days late for fiscal year 2012-13, (iii) with respect to water revenue bonds issued in 2006 and 2007, Redwood City’s dissemination agent omitted operating data reports; and (iv) with respect to the City’s Community Facilities District No. 99-1 Special Tax Bonds, Series 2001 and 2003, and for Redwood City’s Community Facilities District No. 2000-1 Special Tax Bonds, Series 2000, the financial statements were not filed for fiscal year 2010-11 (although they were timely filed for all other City bond issues).

Additionally, with respect to (a) the 2008 Bonds and the 2009 Bonds, the City's financial statements for fiscal year 2010-11 and fiscal year 2011-12 were not filed until April 2015, and (b) the 2015 Bonds, certain required financial information was missing for the reports filed for fiscal year 2011-12 and 2012-13, certain audit and annual report filings were not linked to each CUSIP number associated with the issue. In addition, no notice of failure to file with respect to the above instance of non-compliance was provided at the time of the failure. Remedial filings have been made with respect to the above instances of non-compliance.

San Carlos. San Carlos has made previous undertakings under the Rule in connection with the delivery of prior bonds. Specific instances of non-compliance by San Carlos with prior undertakings in the previous five years include the failure to timely file its fiscal year 2011-12 audited financial statements and required operating information. In addition, no notice of failure to file with respect to the above instance of non-compliance was provided at the time of the failure. Remedial filings have been made with respect to the above instances of non-compliance.

West Bay Sanitary District. The West Bay Sanitary District has made previous undertakings under the Rule in connection with the delivery of prior bonds. Specific instances of non-compliance by the West Bay Sanitary District with prior undertakings in the previous five years include the failure to timely file its fiscal year 2013-14 audited financial statements and required operating information. In addition, no notice of failure to file with respect to the above instance of non-compliance was provided at the time of the failure. Remedial filings have been made with respect to the above instances of non-compliance.

Absence of Litigation

There is no action, suit, or proceeding known to be pending or threatened, restraining or enjoining the execution or delivery of the 2018 Bonds, the Indenture, or the Financing Agreements, or in any way contesting or affecting the validity of the foregoing or any proceedings of the Authority or the Participating Members taken with respect to any of the foregoing.

Legal Matters

Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, will render an opinion with respect to the legality and enforceability of the 2018 Bonds. The form of such legal opinion is attached in Appendix G. Jones Hall is also acting as Disclosure Counsel to the Authority. Certain legal matters will be passed upon by the General Counsels of the Authority and the West Bay Sanitary District, and by the City Attorneys of Redwood City and San Carlos.

Compensation of Bond Counsel and Disclosure Counsel is contingent upon issuance of the 2018 Bonds.

Tax Matters

Federal Tax Law. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the 2018 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax; although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the Participating Members comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**") that must be satisfied subsequent to the issuance of the 2018 Bonds. The Authority and the Participating Members have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the 2018 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a 2018 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a 2018 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the 2018 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such 2018 Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such 2018 Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the 2018 Bonds who purchase the 2018 Bonds after the initial offering of a substantial amount of such maturity. Owners of such 2018 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such 2018 Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the 2018 Bond (said term being the shorter of the 2018 Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the 2018 Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a 2018 Bond is amortized each year over the term to maturity of the 2018 Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such 2018 Bonds.

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2018 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest.

The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2018 Bonds. Prospective purchasers of the 2018 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

California Law. In the further opinion of Bond Counsel, interest on the 2018 Bonds is exempt from California personal income taxes.

Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the 2018 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the 2018 Bonds. Prospective purchasers of the 2018 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Other Consequences. Owners of the 2018 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2018 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2018 Bonds other than as expressly described above.

Form of Bond Counsel Opinion. The form of Bond Counsel's opinion is attached in Appendix G.

Ratings

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("**S&P**") has assigned its municipal bond rating of "AA" to the 2018 Bonds, and Moody's Investors Service ("**Moody's**") and has assigned its municipal bond rating of "Aa2" to the 2018 Bonds.

These ratings reflect only the views of the respective rating agency, and an explanation of the significance of these ratings, and any outlook assigned to or associated with these ratings, should be obtained from the respective rating agency.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The Authority and the Participating Members have provided certain additional information and materials to the rating agencies (some of which does not appear in this Official Statement).

There is no assurance that these ratings will continue for any given period of time or that these ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of any rating on the 2018 Bonds may have an adverse effect on the market price or marketability of the 2018 Bonds.

Competitive Sale of Bonds

The 2018 Bonds were sold following a competitive bidding process, pursuant to the terms set forth in an Official Notice of Sale with respect to the Bonds. The Bonds were awarded to Morgan Stanley & Co., LLC (the “**Purchaser**”).

The Purchaser has agreed to purchase the 2018 Bonds at a price of \$149,433,779.29, which is equal to the initial principal amount of the 2018 Bonds of \$140,955,000.00, plus a net original issue premium of \$9,404,525.50, less a Purchaser’s discount of \$925,746.21. The Purchaser intends to offer the 2018 Bonds to the public at the offering prices set forth on the inside cover page of this Official Statement. The Purchaser may offer and sell to certain dealers and others at a price lower than the offering prices stated on the inside cover page hereof. The offering price may be changed from time to time by the Purchaser.

The Purchaser has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, the Purchaser may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, the Purchaser may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

Municipal Advisor

The Authority has retained Fieldman, Rolapp & Associates, Inc., of Irvine, California, as municipal advisor (the “**Municipal Advisor**”) in connection with the issuance of the 2018 Bonds. The Municipal Advisor is not obligated to undertake, and not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Municipal Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The payment of the fees of the Municipal Advisor is contingent upon the issuance of the 2018 Bonds.

Miscellaneous

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the 2018 Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this official statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the Authority or any of the Participating Members since the date thereof.

Execution of the Official Statement

The Authority has duly authorized the execution and delivery of this Official Statement.

SILICON VALLEY CLEAN WATER

/s/ Daniel T. Child
Manager

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

INFORMATION ABOUT REDWOOD CITY'S WASTEWATER SYSTEM

City of Redwood City

The City of Redwood City (the “City”) is located in the northern part of Silicon Valley, approximately 25 miles south of San Francisco, roughly midway between San Francisco and San Jose. The City is the county seat of San Mateo County. The City’s economy is well diversified, with a strong industrial and commercial base, including many “high-tech” companies such as Oracle Corporation. The City encompasses approximately 19 square miles within its corporate limits and has a population of approximately 85,601.

Form of Government

The City was incorporated in 1867 and became a charter city in 1929, under the charter laws of the State of California. The City is governed by a seven-member City Council whose members are elected at large to staggered terms of four years. The City Council selects a mayor from among its members. The current members of the City Council are:

<u>Council Member</u>	<u>Current Term Expires</u>
Ian Bain, Mayor	November 2020
Diane Howard, Vice-Mayor	November 2018
John D. Seybert	November 2018
Alicia C. Aguirre	November 2020
Janet Borgens	November 2020
Jeffrey Gee	November 2018
Shelly Masur	November 2020

The City operates under a council-manager form of government. The City Council appoints a City Manager who is responsible for the day-to-day administration and management of the City. The City Manager is Melissa Stevenson Diaz, and the Director of the Public Works Services Department is Ramana Chinnakotla.

City Leadership

Melissa Stevenson Diaz, City Manager. Melissa Stevenson Diaz has over 26 years of local government leadership experience in the San Francisco Bay Area. Prior to becoming City Manager of Redwood City, Ms. Diaz served as both Assistant City Manager and Interim City Manager for the City of Mountain View. She previously held various leadership roles in the cities of Fremont and Morgan Hill, and was responsible for a wide range of functions including human resources, finance and budget, policy analysis, redevelopment and economic development, information technology management, community engagement and communications. Ms. Diaz is a member of the International City/County Management Association, the California Public Employers Labor Relations Association, and the Urban Land Institute. She holds a Masters of Public Administration from San Jose State University and a Bachelor of Arts from Mills College.

Ramana Chinnakotla, Director of Public Works Services. Ramana Chinnakotla has more than 22 years of experience in public works, most of which has been in the public sector. He most recently was on assignment in Sri City, India, as Director of Infrastructure and Utilities. In that role, he oversaw the planning, designing, and building of the city's entire infrastructure including roads, recycled water and sewer systems, power, landscaping, and other elements. Mr. Chinnakotla also has extensive experience in multiple public works roles with the City of Grapevine, Texas, where he served as Assistant Director of Public Works, Transportation and Utilities Manager, Transportation Manager, and City Traffic Engineer. Mr. Chinnakotla holds an MBA in Finance and General Management, an MS in Civil Engineering, and a Bachelor of Technology in Civil Engineering.

The Sewer Utility System

The City owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 31 sewer lift stations. The City's wastewater is conveyed to the Authority for treatment and disposal. The City's sewer utility is accounted for as a separate enterprise fund.

The Public Works Services Department oversees management, maintenance and operation of the City's sewer collection system. The City's Engineering and Construction Division of the Community Development Department is responsible for the design and construction of capital improvements to the City's sewer collection system. Financial management of the City's Sewer Utility System is provided by the City's Administrative Services Department under which the Revenue Services Division is responsible for all City utility billing and collections, including processing of connection and facilities fees.

Wastewater Flows

The following table shows the City's recent average daily wastewater flows to the Authority.

Table A1
Redwood City - Annual Wastewater Flow

	2012-13	2013-14	2014-15	2015-16	2016-17
Average Daily Flow (mgd)	6.4	6.6	6.1	6.4	8.0

Source: Silicon Valley Clean Water

Service Area and Customer Base

The City's sewer enterprise provides wastewater service to most of the incorporated area of the City as well as some surrounding adjacent areas. The City also provides wastewater conveyance and treatment services to five sewer districts and a small sewer assessment district as discussed later on in this section.

The following table shows a history of accounts by customer class for the City's sewer customers.

Table A2
Redwood City - Historical Sewer Accounts

	<u>2013-14</u>		<u>2014-15</u>		<u>2015-16*</u>		<u>2016-17</u>	
	Accounts	% of Total	Accounts	% of Total	Accounts	% of Total	Accounts	% of Total
City Sewer Accounts								
Residential	18,308	93.6%	18,344	93.7%	18,362	93.8%	18,380	93.8%
Class A - Standard Strength, Low Flow	12	0.1%	12	0.1%	12	0.1%	11	0.1%
Class B - Low Strength	98	0.5%	101	0.5%	108	0.6%	102	0.5%
Class C - Standard Strength	1,048	5.4%	1,038	5.3%	1,002	5.1%	996	5.1%
Class D - Mod-High Strength	N/A		N/A		N/A		3	0.0%
Class E - High Strength	98	0.5%	96	0.5%	95	0.5%	93	0.5%
Flat Rate	4	0.0%	4	0.0%	4	0.0%	4	0.0%
Total	19,568	100.0%	19,595	100.0%	19,583	100.0%	19,589	100.0%

* New sewer classes were established in August 2016.
Source: City of Redwood City

The following table shows a history of service charge revenues.

Table A3
Redwood City - Historical Sewer Service Charge Revenues⁽¹⁾

User Group	<u>2013-14</u>		<u>2014-15</u>		<u>2015-16</u>		<u>2016-17</u>	
	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total
City Sewer Accounts								
Residential	\$19,493,403	69.26%	\$21,758,111	69.75%	\$24,017,780	71.93%	24,570,932	66.82%
Class A - Standard Strength, Low Flow	54,048	0.19%	44,040	0.14%	24,681	0.07%	12,919	0.04%
Class B - Low Strength	458,349	1.63%	437,717	1.40%	462,642	1.39%	508,402	1.38%
Class C - Standard Strength	3,045,950	10.82%	3,054,358	9.79%	3,251,198	9.74%	3,447,050	9.37%
Class D - Mod-High Strength	N/A		N/A		N/A		10,560	0.03%
Class E - High Strength	523,510	1.86%	566,027	1.81%	600,807	1.80%	722,903	1.97%
Flat Rate	2,709	0.01%	2,709	0.01%	2,709	0.01%	6,400	0.02%
Other	137,395	0.49%	16,802	0.05%	1,312	0.00%	13,516	0.04%
Subtotal	\$23,715,364	84.26%	\$25,879,764	82.97%	\$28,361,129	84.94%	\$29,292,681	79.66%
Outside Agencies Served								
Fair Oaks SMD	\$3,372,627	11.98%	\$3,837,926	12.30%	3,726,185	11.16%	4,996,266	13.59%
Emerald Lake Heights SMD	876,047	3.11	1,259,022	4.04	1,024,204	3.07	2,104,367	5.72%
Oak Knoll SMD	74,567	0.26	99,447	0.32	110,094	0.33	177,739	0.48%
Woodside Town Ctr SAD	101,704	0.36	50,233	0.16	93,554	0.28	89,385	0.24%
Kensington Square SMD	--	0	58,546	0.19	63,812	0.19	99,964	0.27%
Edgewood SMD	6,251	0.02	6,767	0.02	11,553	0.03	13,491	0.04%
Subtotal	\$4,431,196	15.74%	\$5,311,940	17.03%	\$5,029,402	15.06%	7,481,212	20.34%
Total	\$28,146,560	100.00%	\$31,192,704	100.00%	\$33,390,531	100.00%	36,773,892	100.00%

(1) Revenues do not include facilities and connections fees, interest income, miscellaneous income or transfers from other funds.

Source: City of Redwood City and County of San Mateo.

The following table lists the City's largest sewer customers by service charge revenues for fiscal year 2016-17.

Table A4
Redwood City - Largest Customers, Fiscal Year 2016-17

	Description	2016-17 Sewer Service Charges	% of Total
<u>10 Largest City Sewer Accounts</u>			
County of San Mateo	Institutional / Public	\$253,092	0.69%
Redwood Shores Apt.	Residential	251,074	0.68
The Irvine Company LLC	Residential	240,156	0.65
TGA 299 Franklin LLC	Residential	234,205	0.64
Essex Property Trust Inc.	Residential	218,038	0.59
AIMCO INDIGO LC	Residential	177,629	0.48
Ventana Del Mar HOA	Residential	176,743	0.48
Boardwalk	Residential	170,135	0.46
Shorebird H/O Assoc.	Residential	166,083	0.45
Oracle USA Inc.	Retail / Commercial	161,338	0.44
Subtotal		\$2,048,493	5.57%
<u>Outside Sewer Districts</u>			
Fair Oaks SMD	Predominantly Residential	\$4,996,266	13.59%
Emerald Lake Heights SMD	Predominantly Residential	2,104,367	5.72
Oak Knoll SMD	Predominantly Residential	177,739	0.48
Woodside Town Center SMD	Predominantly Residential	89,385	0.24
Kensington Square SMD	Predominantly Residential	99,964	0.27
Edgewood SMD	Predominantly Residential	13,491	0.04
Subtotal		\$7,481,212	20.34%
All Other Customers		\$27,244,188	74.09%
Total ⁽¹⁾		\$36,773,892	100.00%

(1) Totals may not add due to rounding.
Source: City of Redwood City.

Sewer Districts Served by Redwood City

The City provides sewer service to five San Mateo County sewer maintenance districts and a small sewer assessment district that is part of the Town of Woodside. Together, these districts accounted for approximately 20.3% of the City's sewer charge revenues in fiscal year 2016-17, and are projected to account for approximately 17.7% of sewer service charge revenues in fiscal year 2017-18. The City provides these services pursuant to separate legal agreements with San Mateo County for each district, and the Town of Woodside. These districts provide their own local wastewater collection services and pay Redwood City for conveyance and wastewater treatment. The Authority bills Redwood City based on the City's share of wastewater flows and loading, which includes the wastewater conveyed from the six districts. Each of the districts pays Redwood City for wastewater service pursuant to each district's legal agreement with Redwood City. The sewer districts served by Redwood City are listed below along with a brief description of each district and the basis of its payments to Redwood City.

Fair Oaks Sewer Maintenance District – This is the largest sewer district served by the City and accounts for approximately 13.5% of the City's total sewer service charge revenues. Under the agreement, the district is obligated to pay the City for a pro rata share of Redwood City's payments to the Authority based on the sewer district's share of total wastewater flow sent to the Authority by Redwood City. The sewer district's annual flows are estimated by mutual consensus between the City and San Mateo County at 27.99% of the City's total wastewater flow to the Authority. In fiscal year 2016-17, the sewer district billed 7,054 accounts, of which 6,446, or approximately 91%, were residential. For fiscal year 2016-17, the sewer district's annual sewer rate was \$620 per residential unit or equivalent. San Mateo County collects these charges on its property tax rolls. See Table A6 for further discussion of San Mateo County's sewer charges.

Emerald Lake Heights Sewer Maintenance District (Zone 2) – This district includes approximately 1,468 sewer accounts, of which all but 4 are residential. The district pays the City for sewer service based on the number of accounts multiplied by the City's existing sewer rates.

Oak Knoll Sewer Maintenance District – This district includes approximately 132 accounts, of which all but 1 are residential. The district pays the City based on the number of accounts multiplied by the City's existing sewer rates.

Kensington Square Sewer Maintenance District – This district includes approximately 74 residential accounts and pays the City based on the number of accounts multiplied by the City's existing sewer rates.

Woodside Town Center Sewer Assessment District – This district includes approximately 158 accounts, of which all but 16 are residential. Under an agreement between the Town of Woodside on behalf of the district and Redwood City, the district is obligated to pay the City for a pro rata share of Redwood City's payments to the Authority based on the district's share of total wastewater flow sent to the Authority by Redwood City. The agreement also requires the district to pay a small sewer transmission fee and capacity rental fee.

Edgewood Sewer Maintenance District - This district includes approximately 15 residential accounts and pays the City based on the number of accounts multiplied by the City's existing sewer rates.

Sewer Utility Regulatory Issues

General. Regulatory requirements applicable to the City's sanitary sewer collection system and conveyance system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the Regional Board. The City is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

Waste Discharge Requirements. The City is not subject to independent waste discharge requirements in connection with operation of its sanitary sewer collection system because it sends its wastewater to the Authority for treatment and discharge.

Wastewater Rates

The City's wastewater rates are independently established by the City Council pursuant to a rate ordinance, and do not require approval by any other legal entity. Single family residential customers are billed a flat rate for sewer service. Non-residential customers pay volumetric charges based on customer class and metered water use, subject to a minimum monthly charge.

The City has increased its sewer rates each year for the past 10 years. Rate increases have accounted for the anticipation of increased funding needs for the City's collection system capital improvement program, the City's pro rata share of the Authority's capital improvement program, and the City's sewer enterprise operating cost inflation. The following table shows the City's historical and adopted sewer rates. These rates were adopted pursuant to Article XIID of the California Constitution. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS – Articles XIIC and XIID".

Table A5
Redwood City - Adopted Monthly Sewer Rates

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Rate Increase %	9%	9%	9%	2%	2%	2%
Residential						
with 1-9 Dwelling Units	\$63.09	\$68.77	\$74.95	\$75.11	\$76.68	\$78.24
Multi-Family Residential						
with 10+ Dwelling Units	\$63.09	\$68.77	\$74.95	\$67.60	\$69.01	\$70.42
Non-Residential/Commercial (charge per hcf of metered water use)						
Class A - Standard Strength, Low Flow	\$4.14	\$4.51	\$4.91	\$5.75	\$5.87	\$5.99
Class B - Low Strength	4.64	5.06	5.52	6.69	6.83	6.97
Class C - Standard Strength	5.18	5.65	6.15	7.08	7.23	7.37
Class D - Mod-High Strength	N/A	N/A	N/A	11.27	11.51	11.76
Class E - High Strength	12.57	13.70	14.93	16.95	17.31	17.66
Minimum Monthly Charge	63.09	68.77	74.95	67.60	69.01	70.42

Source: City of Redwood City.

The following table shows sewer rates adopted by San Mateo County for the sewer districts served by Redwood City, which charges are collected on San Mateo County's property tax rolls. These rates were adopted pursuant to XIID of the California Constitution.

Table A6
San Mateo County Adopted Annual Sewer Service Charges

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Sewer Districts Served by Redwood City	<u>Annual Charge per Residential Unit or Equivalent</u>						
Fair Oaks SMD	\$530	\$560	\$590	\$620	\$680	\$ --*	\$ --*
Emerald Lake Heights SMD (Zone 2)	890	930	970	1,010	1,280	1,415	1,490
Oak Knoll SMD	960	990	1,020	1,050	1,155	1,270	1,395
Kensington Square SMD	1,055	1,095	1,135	1,175	1,230	1,290	1,350
Edgewood SMD	1,100	1,175	1,250	1,325	1,405	1,490	1,580

* Rates to be evaluated during fiscal year 2017-18.

Source: San Mateo County

Billing and Collection

The City issues a combined utility bill to each of its customers for water, sewer, and solid waste collection services (the City acts as the billing and collection agent for Recology of San Mateo County, a private company that performs solid waste collection services under a franchise agreement with the City). The City bills its utility customers on a bi-monthly basis for residential customers and a monthly basis for commercial customers. Sewer service charges for Kensington Square SMD and Oak Knoll SMD are paid to the City bi-annually. Sewer service charges for Edgewood SMD are paid annually to the City. The utility bills are due and payable within 30 days of the bill date. If not paid within 30 days, the utility bill is delinquent, a 10-day reminder notice is mailed to the customer and assessed a 1.5% interest charge, and if still unpaid 40 days after the initial bill has been issued, a 7-day notice is mailed indicating that water will be shut off if the bill remains unpaid and another 5% interest charge is assessed. If the utility bill continues to be unpaid after the 5% interest charge, utility services will be disconnected until payment is made. The reconnection fee ranges from \$20 to \$100 if paid during business hours, \$320 if paid after business hours.

The following table shows a five-year history of reserve amounts available for sewer utility bill payment delinquencies.

Table A7
Redwood City - Sewer Bill Allowance for Bad Debt*

	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Amount	\$44,624	\$30,528	\$60,688	\$24,953	\$24,953
% of Revenue	0.16%	0.11%	0.19%	0.07%	0.07%

* A reserve for delinquent payments, estimated and adjusted annually based on previous and outstanding delinquent payments.

Source: City of Redwood City

Sewer Facilities Fee for New Development

The City levies a sewer facilities fee on applicants for new (or expanded) wastewater service as a condition of obtaining a permit to connect to the sewer system. This fee is used to help fund the cost of sewer facilities that provide benefit to the new or expanded connection. The City's sewer facilities fees are established by the City Council of the City. The current sewer facilities fee for a new residential connection is \$960. New non-residential connections pay a fee equal to \$960 per each 2,000 square feet of building area.

In addition, pursuant to the Joint Powers Agreement, the City also collects the Authority's treatment capacity charges and periodically remits payment of these fees to the Authority.

Future Capital Needs

The City budgets funds annually for capital improvements to its sewer collection system including repairs, replacements, upgrades, and expansions. The City budgeted \$6.7 million for sewer system capital funding in fiscal year 2017-18 and projects to budget approximately \$6 million to \$7 million annually through fiscal year 2024-25. The City anticipates fully funding its sewer system capital improvements on a pay-as-you-go basis.

The City's 2013 update to its Sanitary Sewer Master Plan identified approximately \$45,300,000 of recommended capital improvements to the City's wastewater collection system. The City conducts closed-circuit television inspections of the wastewater collection system to identify sources of infiltration and inflow and in general assess the condition of the system. Recommended capital improvements are adjusted periodically in light of real estate development and the physical condition of the collection system.

The City currently anticipates funding its collection system capital needs on a pay-as-you-go, cash basis, and has increased its sewer rates accordingly. However, the City might consider the future use of debt financing if such financing were either needed to fund high-priority projects or if it made economic sense to construct a number of improvements in a given year rather than spread the capital improvement expenditures over a longer timeframe. Any such debt, if issued, would likely be issued on a parity with the Bonds.

Additionally, the City could be liable for funding some additional expenditures related to the monitoring or clean-up of soil with perchloroethylene ("**PCE**") contamination located under Sequoia Station, a retail shopping center located next to a Caltrain station. Through mediation, the City has received approximately \$650,000 from the prior owner of a dry-cleaning business that used to be located near the site and was the source of the PCE. These funds are designated towards remedying the situation. The San Francisco Bay Area Regional Water Quality Control Board ("**RWQCB**") has jurisdiction over determining what actions need to be taken to remedy or monitor the situation. The RWQCB has determined that the City was partially responsible for the PCE contamination due to overflow/leaks from the City's sewer pipelines. In October 2014, the City contracted with an outside consultant to create a work plan that would propose steps to monitor the groundwater pollutant plume and develop a remedial action plan. In November 2016, the RWQCB approved the remedial action plan and required the City to submit quarterly groundwater monitoring reports. As of November 2017, the City has submitted 10 groundwater monitoring reports and is preparing to initiate a small-scale remediation study at the shopping center site in 2018. The full-scale remedial action plan contains 3 strategies and is anticipated to cost close to \$2 million.

The City anticipates financing most of its remaining allocable share of costs for the Authority's capital improvement plan, equal to approximately \$289.6 million from Fiscal Year 2017-2018 through Fiscal Year 2024-25. The City anticipates financing these costs through long-term debt issued by the Authority.

Sewer Utility System Finances

The City's water and sewer utilities are accounted for as separate enterprise funds. Sewer enterprise operations and capital improvements are funded predominantly by sewer service charges supplemented by interest earnings, capacity fees, and other miscellaneous revenues.

Outstanding Sewer Utility Debt

The City incurred obligations in connection with the issuance by the Authority of the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, SRF Loans, and the Line of Credit, as described in "THE AUTHORITY AND THE WASTEWATER SYSTEM – Outstanding Debt". The City's payment obligations to the Authority with respect to the SRF Loans and the Line of Credit are payable from Net Revenues on an unsecured basis.

Table A8
Redwood City – Sewer Utility System Outstanding Debt

Fiscal Year Ending June 30	<u>Parity Debt</u>				<u>Subordinate Debt</u>		Total
	2009 SVCW Bond Payment ⁽¹⁾	2014 SVCW Bond Payment	2015 SVCW Bond Payment ⁽²⁾	2018 SVCW Bond Payment	Existing SRF Loan Payment	Conveyance Planning SRF Loan Payment ⁽³⁾	
2018	\$2,908,052.00	\$2,070,514.16	\$1,016,300.00	\$ --	\$1,315,326.55	\$ --	\$7,310,192.70
2019	2,889,827.75	2,071,586.94	1,005,050.00	4,559,729.12	1,315,326.55	--	11,841,520.35
2020	1,831,150.00	2,071,801.49	1,567,650.00	4,561,893.76	1,315,326.55	\$741,242.39	12,089,064.17
2021	--	2,072,874.27	2,795,250.00	4,559,768.76	1,315,326.55	741,242.39	11,484,461.95
2022	--	2,072,337.88	2,789,000.00	4,559,268.76	1,315,326.55	741,242.39	11,477,175.56
2023	--	2,072,874.27	2,790,000.00	4,560,143.76	1,315,326.55	741,242.39	11,479,586.95
2024	--	2,071,667.40	2,783,125.00	4,562,143.76	1,315,326.55	741,242.39	11,473,505.08
2025	--	2,071,399.20	2,783,250.00	4,560,143.76	1,315,326.55	741,242.39	11,471,361.88
2026	--	2,071,935.59	2,780,125.00	4,559,018.76	1,315,326.55	741,242.39	11,467,648.27
2027	--	2,073,142.46	2,778,625.00	4,558,518.76	1,315,326.55	741,242.39	11,466,855.14
2028	--	2,072,203.78	2,778,500.00	4,558,393.76	1,315,326.55	741,242.39	11,465,666.46
2029	--	2,071,801.49	2,774,625.00	4,558,393.76	1,315,326.55	741,242.39	11,461,389.17
2030	--	2,071,801.49	2,762,125.00	4,558,268.76	1,315,326.55	--	10,707,521.79
2031	--	2,072,069.68	2,400,000.00	4,562,643.76	1,315,326.55	--	10,350,039.98
2032	--	2,072,471.98	2,393,375.00	4,561,268.76	1,315,326.55	--	10,342,442.28
2033	--	2,072,874.27	2,388,375.00	4,559,443.76	1,315,326.55	--	10,336,019.57
2034	--	2,073,142.47	2,384,750.00	4,560,843.76	917,048.66	--	9,935,784.89
2035	--	2,070,460.52	2,377,375.00	4,562,803.13	917,048.66	--	9,927,687.31
2036	--	2,072,391.52	2,371,125.00	4,560,962.50	917,048.66	--	9,921,527.68
2037	--	2,072,123.32	2,370,625.00	4,558,362.50	917,048.66	--	9,918,159.48
2038	--	2,071,184.65	2,360,750.00	4,562,537.50	--	--	8,994,472.15
2039	--	2,072,123.32	2,361,250.00	4,559,143.75	--	--	8,992,517.07
2040	--	2,071,989.23	2,351,875.00	4,562,500.00	--	--	8,986,364.23
2041	--	2,070,326.42	631,500.00	4,559,925.00	--	--	7,261,751.42
2042	--	2,070,996.91	631,875.00	4,560,425.00	--	--	7,263,296.91
2043	--	2,072,740.17	631,000.00	4,560,425.00	--	--	7,264,165.17
2044	--	2,072,606.07	628,875.00	4,559,187.50	--	--	7,260,668.57
2045	--	--	630,375.00	4,562,350.00	--	--	5,192,725.00
2046	--	--	630,375.00	4,560,250.00	--	--	5,190,625.00
2047	--	--	--	4,561,750.00	--	--	4,561,750.00
2048	--	--	--	4,562,575.00	--	--	4,562,575.00
2049	--	--	--	4,558,400.00	--	--	4,558,400.00
Total:	\$7,629,029.75	\$55,943,440.95	\$58,947,125.00	141,371,482.40	\$24,713,419.44	\$7,412,423.85	\$296,016,921.22

(1) Represents approximate allocated share of gross debt service on the Series 2009 Bonds; does not include any Refundable Credits.

(2) Excludes debt service payments made from escrow funds.

(3) Preliminary debt service estimate and amortization shown; final amount and amortization, which the Authority is attempting to extend, will be determined after the SRF-Loan project is completed. The related project is expected to be completed during calendar year 2018.

Source: Silicon Valley Clean Water.

Pension and Other Employee Benefit Costs

The City allocates a portion of its employee expenses to its sewer utility based on employees allocated to operation of the sewer utility. In fiscal year 2016-17, the City allocated 3.1% of its total employee costs to the sewer utility.

Pension. Substantially all City employees are eligible to participate in pension plans offered by California Public Employees' Retirement System ("**PERS**"), an agent multiple-employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members who must be public employees and beneficiaries. The City's employees participate in the separate safety (police and fire) and miscellaneous (all other) employee plans. Benefit provisions under both plans are established by state statute and City resolution.

Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both plans are determined annually on an actuarial basis as of June 30 by PERS; the City must contribute these amounts. See Note 9 of the City's June 30, 2017 audited financial report, which is attached to this Official Statement as Appendix J, for information as of June 30, 2017 related to the City's pension and post-retirement medical benefit costs.

The City's total PERS plan contributions are determined through PERS' 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 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 ended June 30, 2016 (the measurement date), the average active employee contribution rate is 7.83% of annual pay for the Miscellaneous Plan and 9.04% of annual pay for the Safety Plan; and the employer contribution rate is 9.27% of annual payroll for the Miscellaneous Plan and 22.03% of annual payroll for the Safety Plan.

For the year ended June 30, 2017, the City recognized pension expense of \$8,864,628 for the Miscellaneous Plan and \$13,755,299 for the Safety Plan. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension Contributions Subsequent to Measurement Date	\$17,721,552	\$ --
Changes of Assumptions	--	\$3,937,518
Differences between Expected & Actual Experiences	\$3,328,061	\$141,618
Net Differences between Projected & Actual Earnings on Plan Investments	\$21,940,552	--
Total	\$42,990,165	\$4,079,136

\$17,721,552 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expenses as follows:

<u>Fiscal Year Ending June 30:</u>	
2018	1,649,511
2019	3,020,849
2020	10,663,904
2021	5,855,213

Source: City of Redwood City 2017 Comprehensive Annual Financial Report

Three-year trend information for the City's pension plan for both miscellaneous and safety plans for fiscal years ending June 30 is set forth below:

Three-year Trend of Annual Pension Cost

Miscellaneous

Fiscal year ended June 30	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligations
2015	\$6,799,358	100%	\$ --
2016	6,923,087	100	--
2017	7,428,605	100	--

Source: City of Redwood City

Public Safety

Fiscal year ended June 30	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligations
2015	\$9,667,759	100%	\$ --
2016	10,439,692	100	--
2017	10,292,946	100	--

Source: City of Redwood City

Three-Year Trend of Funded Status of the Plan

Miscellaneous

Measurement Period (June 30)	Plan Fiduciary Net Position	Total Pension Liability	Plan Fiduciary Net Position Liability	Funded Ratio	Annual Covered Payroll	Plan Net Pension Liability as a Percentage of Payroll
2014	\$197,591,985	\$267,985,557	\$70,393,572	73.7%	\$28,592,551	246.2%
2015	198,433,873	274,601,243	76,167,370	72.3	28,944,841	263.2
2016	195,859	290,062,332	94,202,638	67.5	31,484,407	299.2

Public Safety

Measurement Period (June 30)	Plan Fiduciary Net Position	Total Pension Liability	Plan Fiduciary Net Position Liability	Funded Ratio	Annual Covered Payroll	Plan Net Pension Liability as a Percentage of Payroll
2014	\$215,992,153	\$309,747,565	\$93,755,412	69.7%	\$21,679,799	432.5%
2015	218,060,352	319,829,844	101,769,492	68.2	25,330,626	401.8
2016	216,012,863	337,012,416	120,999,553	64.1	25,867,584	467.8

Source: California Public Employee Retirement System ("PERS") GASB 68 Accounting Valuation Report July 2017.

The tables below show PERS' projected employer contribution rates (before employee cost sharing) for the next five fiscal years. Projected results reflect PERS' adopted changes to the discount rate. The projections also assume a 7.375% return for fiscal year 2016-17, that all actuarial assumptions will be realized, and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. The projected normal cost percentages in the projections below do not reflect that the normal cost will decline over time as new employees are hired under the California Public Employees' Pension Reform Act (PEPRA) or other lower cost benefit tiers.

Miscellaneous

	<u>New Rate</u>	<u>Projected Future Employer Contribution Rates</u>				
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Contribution Rates:	8.961%	9.5%	10.4%	10.4%	10.4%	10.4%

Source: PERS Actuarial Report July 2017

Public Safety

	<u>New Rate</u>	<u>Projected Future Employer Contribution Rates</u>				
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Contribution Rates:	21.925%	22.8%	24.6%	24.6%	24.6%	24.6%

Source: PERS Actuarial Report July 2017

Recent Changes by PERS. At its April 17, 2013, meeting, PERS' Board of Administration (the "**Board of Administration**") approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy that spread investment returns over a 15-year period with experienced gains and losses paid for over a rolling 30-year period. After this change, PERS will employ an amortization and smoothing policy that will pay for all gains and losses over a 20-year period with a five-year ramp-up, and five-year ramp-down, period. The new amortization and smoothing policy was used for the first time in the June 30, 2013, actuarial valuations in setting employer contribution rates for fiscal year 2015-16.

On February 18, 2014, the PERS Board approved new demographic actuarial assumptions based on a 2013 study of recent experience. The largest impact, applying to all benefit groups, is a new 20-year mortality projection reflecting longer life expectancies and that longevity will continue to increase. Because retirement benefits will be paid out for more years, the cost of those benefits will increase as a result. The Board of Administration also assumed earlier retirements for Police 3%@50, Fire 3%@55, and Miscellaneous 2.7%@55 and 3%@60, which will increase costs for those groups. As a result of these changes, rates will increase beginning in fiscal year 2016-17 (based on the June 30, 2014 valuation) with full impact in fiscal year 2020-21.

On November 18, 2015, the PERS Board adopted a funding risk mitigation policy intended to incrementally lower its discount rate – its assumed rate of investment return – in years of good investment returns, help pay down the pension fund's unfunded liability, and provide greater predictability and less volatility in contribution rates for employers. The policy establishes a mechanism to reduce the discount rate by a minimum of 0.05 percentage points to a maximum of 0.25 percentage points in years when investment returns outperform the existing discount rate, currently 7.5%, by at least four percentage points. PERS staff modeling anticipates the policy will result in a lowering of the discount rate to 6.5% in about 21 years, improve funding levels gradually over time and cut risk in the pension system by lowering the volatility of investment returns. More information about the funding risk mitigation policy can be accessed through PERS' web site at the following website address:

<https://www.calpers.ca.gov/page/newsroom/calpers-news/2015/adopts-funding-risk-mitigation-policy>

The reference to this Internet website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the City and is not incorporated in this Official Statement by reference.

On December 21, 2016, the PERS Board voted to lower its discount rate from 7.5% to 7.0% over the next three years according to the following schedule.

Valuation <u>Date</u>	Fiscal Year Required <u>Contribution</u>	Discount <u>Rate</u>
June 30, 2016	2018-19	7.375%
June 20, 2017	2019-20	7.250
June 30, 2018	2020-21	7.000

For public agencies like the City, the new discount rate will increase contribution costs beginning in fiscal year 2018-19. Lowering the discount rate means employers that contract with PERS to administer their pension plans will see increases in their normal costs and unfunded

actuarial liabilities. Active members hired after January 1, 2013, under the Public Employees' Pension Reform Act will also see their contribution rates rise. The three-year reduction of the discount rate will result in average employer rate increases of about 1 percent to 3 percent of normal cost as a percent of payroll for most miscellaneous retirement plans, and a 2 percent to 5 percent increase for most safety plans. Additionally, many PERS employers will see a 30 to 40 percent increase in their current unfunded accrued liability payments. These payments are made to amortize unfunded liabilities over 20 years to bring the pension fund to a fully funded status over the long-term.

Other Post-Employment Benefits (OPEB). The City's annual other post-employment benefit cost (expense) is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2017 and the two preceding fiscal years were as follows:

**Three-Year Trend of Annual OPEB Cost
(Excluding the Port of Redwood City)**

Fiscal year ended <u>June 30</u>	Annual OPEB cost (AOC)	Percentage of AOC contributed	OPEB obligations (Asset)
2015	\$5,037,000	100%	\$6,962,477
2016	5,982,000	100	6,962,477
2017	6,163,000	100	6,962,477

Source: City of Redwood City 2017 Comprehensive Annual Financial Report

**Three-year Trend of
Funded Status of the Plan
(Excluding the Port of Redwood City)***

Actuarial Valuation Date (<u>June 30</u>)	Actuarial Value of Assets	Actuarial accrued liability for benefits	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2013	\$11,001,000	\$56,177,000	\$45,176,000	19.6%	\$48,399,901	93.3%
2015	18,382,000	70,852,000	52,470,000	25.9	51,466,341	102.0
2017	26,570,000	84,172,000	57,602,000	31.6	57,404,000	100.3

*Annual payroll of active employees covered by the plan

Source: City of Redwood City 2017 Comprehensive Annual Financial Report

As of June 30, 2017, the most recent actuarial valuation date, the plan was 31.6% funded. The actuarial accrued liability for benefits was \$84,172,000, and the actuarial value of plan assets was \$26,570,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$57,602,000. The covered payroll (annual payroll of active employees covered by the plan) was \$57,404,000 and the ratio of UAAL to the covered payroll was 100.3%.

Historical Revenues and Expenses

The following table shows a five-year history of revenues, expenses, and net revenues based on information provided in the City's audited financial statements and by the City.

Table A9
Sewer Enterprise – Historical Revenues, Operating Expenses, and Net Revenues
Fiscal Year Ended June 30

Fiscal Year Ending June 30	2013 (Audited)	2014 (Audited)	2015 (Audited)	2016 (Audited)	2017 (Audited)
Adopted Rate Increase (rounded)	9%	9%	9%	9%	2%
REVENUES					
Sewer Service Charges	\$26,569,508	\$28,218,306	\$31,232,763	\$33,479,149	\$36,702,114
Connection Fees	1,057,492	877,109	1,329,542	1,272,329	366,664
Investment Earnings & Other Revenues	14,735	127,201	177,602	250,884	225,234
Total Revenues	27,641,735	29,222,616	32,739,907	35,002,362	37,294,012
EXPENSES					
<u>Operating & Maintenance</u>					
Operating Expenses from Audit	19,287,430	19,989,758	22,081,105	34,345,565	26,675,533
Less Depreciation	(525,718)	(523,563)	(581,078)	(627,173)	(670,287)
Less SVCW Bond Debt Service ⁽¹⁾	(2,598,152)	(2,869,674)	(4,819,301)	(4,669,331)	(5,701,084)
Less SVCW Non-Operating Payments	(753,070)	(974,433)	-	(13,013,064)	(1,611,375)
Plus Transfers Out	--	23,047	--	516,286	517,835
Net Operating Expenses	15,410,490	15,622,088	16,680,726	16,035,997	18,692,787
Net Revenues	12,231,245	13,600,528	16,059,181	18,966,365	18,601,225
<u>Debt Service</u>⁽¹⁾					
City Share of SVCW 2008 Bonds	452,043	360,802	450,194	345,206	0
City Share of SVCW 2009 Bonds	2,146,109	2,110,594	2,180,607	1,731,416	2,193,074
City Share of SVCW 2014 Bonds	-	-	1,790,222	2,072,928	2,070,782
City Share of SVCW 2015 Bonds	-	-	-	121,503	1,038,950
Total Senior Debt Service	2,598,152	2,471,396	4,421,023	4,271,053	5,302,806
Senior Debt Service Coverage	4.71	5.50	3.63	4.44	3.51
City Share of SVCW SRF Loans	-	398,278	398,278	398,278	398,278
Total Debt Service	2,598,152	2,869,674	4,819,301	4,669,331	5,701,084
Total Debt Service Coverage	4.71	4.74	3.33	4.06	3.26
Net Revenues After Debt Service	9,633,093	10,730,854	11,239,880	14,297,034	12,900,141
Cash & Equivalents June 30⁽²⁾	\$14,771,134	\$21,643,469	\$27,497,483	\$25,342,608	\$31,507,971
Days Operating Cash June 30	350	506	602	577	615

(1) Net of reserve and interest credits received by the City.

(2) Unrestricted cash and investments of the Sewer Enterprise Fund as reported in the City's Comprehensive Annual Financial Reports.

Source: City of Redwood City and City of Redwood City Comprehensive Annual Financial Reports for years 2013 - 2017.

Projected Revenues, Expenses, and Debt Service Coverage

Assumptions Related to Revenue

1. The City's sewer service charges are based on actual revenues received in fiscal year 2016-17 and increase due to adopted and projected rate increases and growth.
2. Contract agencies charges are based on payments calculated for each agency according to their individual contracts with the City, and assume a 6 - month lag in payments.
3. Interest earnings are based on the City's 2017-18 budget and are subsequently projected based on the annual beginning fund balance multiplied by projected interest rate shown for each year, with interest rates projected to increase from 1% to 2% over the next three years. (LAIF currently yields approximately 1.14% as of October 2017).
4. Revenues from the City's sewer facilities fees and connection fees are estimated at \$100,000 per year, although they have been substantially higher during the prior 3 years.
5. Other Revenues are projected at \$50,000 per year based on the City's 2017-18 budget.

Assumptions Related to Expenses

1. Operating and maintenance expenses are mostly based on the City's 2017-18 budget and escalate at the annual rate of 4% to account for future operating cost inflation.
2. SVCW wastewater treatment operations are based the City's share of allocated costs according to SVCW's 2017-18 budget with future costs escalating at the annual rate of 3%.
3. The City's share of debt service for SVCW's capital program are based on updated projections provided by SVCW as shown in Table A8.
4. City sewer system capital improvements are projected \$7 million most years, with funding temporarily reduced to \$6 million and will be funded on a pay - as - you - go basis without the need for debt financing.
5. SVCW pay - go capital funding is based on SVCW's 2017-18 budget and assume a constant level of funding in future years, in line with SVCW projections.
6. SVCW SRF reserve contributions are based on SVCW projections shown on Table A8 and are based on the assumption that each of the SVCW member agencies make annual contributions toward their respective share of the reserve requirement for SVCW's SRF loans. Actual SRF reserve requirements are required to be met approximately 90 days prior to the project completion date for SRF loan.

Table A10
Redwood City Sewer Enterprise Cash Flow Projections
Fiscal Year Ending June 30

	2017-18	2018-19	2019-20	2020-21	2021-22
	Adopted	Adopted	Projected	Projected	Projected
Rate Increase	2%	2%	5%	5%	5%
Beginning Fund Reserves	\$31,507,971	\$34,230,770	\$32,832,567	\$31,831,365	\$31,151,919
REVENUES					
Sewer Service Charges	29,767,000	30,408,000	31,976,000	33,625,000	35,359,000
Contract Agency Charges	6,506,000	7,216,000	8,202,000	9,279,000	10,012,000
Connection Fees	100,000	100,000	100,000	100,000	100,000
Investment Earnings	270,000	276,000	422,000	560,000	542,000
Other Revenues	50,000	50,000	50,000	50,000	50,000
Total	36,693,000	38,050,000	40,750,000	43,614,000	46,063,000
EXPENSES					
<u>Operating & Maintenance</u>					
City Operating Expenses	8,570,000	8,827,000	9,095,000	9,373,000	9,663,000
SVCW Operating Expenses	10,830,466	11,232,486	11,644,530	12,095,049	12,145,653
Subtotal	19,400,466	20,059,486	20,739,530	21,468,049	21,808,653
Net Revenues	17,292,534	17,990,514	20,010,470	22,145,951	24,254,347
<u>Debt Service</u>					
<u>Senior Debt Service</u>					
City Share of SVCW 2009 Bonds (Net)	2,189,509	2,185,415	1,482,626	--	-
City Share of SVCW 2014 Bonds	2,070,514	2,071,587	2,071,801	2,072,874	2,072,338
City Share of SVCW 2015 Bonds	1,016,300	1,005,050	1,567,650	2,795,250	2,789,000
City Share of SVCW 2018 Bonds	--	4,559,729	4,561,894	4,559,769	4,559,269
City Share of Future SVCW Bonds	--	-	1,004,204	3,815,533	6,830,960
Total Senior Debt Service	5,276,323	9,821,781	10,688,175	13,243,426	16,251,567
Senior Debt Service Coverage	3.28	1.83	1.87	1.67	1.49
<u>Subordinate Debt Service</u>					
City Share of Outstanding SVCW SRF Loans	1,315,327	1,315,327	2,056,569	2,056,569	2,056,569
City Share of SVCW Line of Credit	41,493	--	--	--	--
Total Subordinate Debt Service	1,356,819	1,315,327	2,056,569	2,056,569	2,056,569
Total Combined Debt Service	6,633,142	11,137,107	12,744,744	15,299,995	18,308,136
Total Debt Service Coverage	2.61	1.62	1.57	1.45	1.32
<u>Capital & Other Non-Operating</u>					
City Capital Improvements	6,700,000	7,000,000	7,000,000	6,000,000	7,000,000
SVCW Pay-Go Capital Funding	750,892	765,910	781,228	796,853	812,790
SVCW SRF Reserve Contributions	485,700	485,700	485,700	728,550	971,400
Subtotal	7,936,592	8,251,610	8,266,928	7,525,403	8,784,190
Total Expenses	33,970,201	39,448,203	41,751,202	44,293,446	48,900,979
Revenues Less Expenses	2,722,799	(1,398,203)	(1,001,202)	(679,446)	(2,837,979)
Ending fund Reserve	34,230,770	32,832,567	31,831,365	31,151,919	28,313,940
Days Cash on Hand	644	597	560	530	474

Source: Bartle Wells Associates and the City of Redwood City

Absence of Litigation

The City is not aware of any action, suit, or proceeding known to be pending or threatened, that would affect the execution of the City's Financing Agreement with the Authority, or materially impact the finances of the City's wastewater system.

Financial Statements

The City's audited financial statements for the fiscal year ending June 30, 2017 are attached as Appendix J. The City's financial statements were audited by Badawi & Associates, Certified Public Accountants, independent auditors. The auditor has not been asked to consent to the inclusion of the City's audited financial statements in this Official Statement and has not reviewed this Official Statement.

APPENDIX B
INFORMATION ABOUT THE CITY OF SAN CARLOS'
WASTEWATER SYSTEM

City of San Carlos

The City of San Carlos (the “City”) is located in the northern part of Silicon Valley, approximately 22 miles south of San Francisco, roughly midway between San Francisco and San Jose. The City encompasses approximately six square miles within its corporate limits and has a population of approximately 29,311.

Form of Government

The City was incorporated in 1925 and is a general law city pursuant to the California Government Code. The City is governed by a five-member City Council whose members are elected at large to staggered terms of four years. The City Council selects a mayor from among its members. The City Treasurer is also an elected position. The current members of the City Council are:

<u>Member</u>	<u>Current Term Expires</u>
Robert Grassilli*, <i>Mayor</i>	November 2018
Cameron Johnson, <i>Vice Mayor</i>	November 2018
Ron Collins	November 2020
Matthew B. Grocott	November 2018
Mark Olbert	November 2020

*Secretary of the Silicon Valley Clean Water Commission.

The City operates under a council-manager form of government. The City Council appoints a City Manager who is responsible for the day-to-day administration and management of the City. The current City Manager is Jeff Maltbie, and the City's Wastewater System is managed by the Public Works Director.

City Leadership

- Jeff D. Maltbie began serving as the City's Interim City Manager in September of 2010 and, after a national recruitment, was selected by the Council to serve as City Manager in March 2011. During his 16 years with the City, he has served as Deputy City Manager, including five years serving as the City's Administrative Services Director. As the Administrative Services Director he was responsible for all of the City's business operations including Finance, Human Resources, Information Technology and Risk Management. Jeff joined the City of San Carlos in 2001 as a Senior Analyst. Prior to coming to San Carlos Jeff worked for the City of Daly City, Santa Clara County, and the City of Milpitas. Jeff attended San Diego State University and San Jose State University earning a Bachelor's of Art degree in Political Science/Public Administration.
- Tara Peterson began serving as the City's temporary Interim Public Works Director in January 2018, after having served four years as the Assistant City Manager. Previously, she was the Administrative Services Manager in the Engineering and Transportation Department with the City of San Leandro for 15 years. Tara attended the University of

California Berkeley, earning a Bachelor's Degree in Political Science and attended the University of Phoenix for a Masters in Business Administration.

The Wastewater System

The City owns and operates a sanitary sewer collection system consisting of approximately 105 miles of sewer pipelines ranging in size from 5 to 27 inches in diameter, and 6 sewer lift stations. The City's wastewater is conveyed to the Authority for treatment and disposal. The City accounts for its sewer utility as a separate enterprise fund.

Wastewater Flow to Authority

The following table shows the City's recent average daily wastewater flows to the Authority.

Table B1
City of San Carlos - Average Daily Wastewater Flow (mgd)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Average Daily Flow (mgd)	1.7	1.7	1.9	1.8	1.9	2.7

Source: Silicon Valley Clean Water

Service Area & Customer Base

The City's sewer enterprise provides wastewater service to all of the incorporated area of the City as well as some surrounding adjacent County areas. The City provides wastewater conveyance services and subsequent treatment by SVCW to four San Mateo County sewer districts as discussed later in this section.

The following table shows a three-year history of the City's sewer customers.

Table B2
City of San Carlos - Sewer Accounts

	2014-15		2015-16		2016-17	
	Accounts	% of Total	Accounts	% of Total	Accounts	% of Total
Residential	9,942	84.81	9,957	84.96%	9,957	85.02%
Non-Residential	1,281	10.93	1,258	10.73	1,249	10.67
Outside Agencies Served	499	4.26	505	4.31	505	4.31
Total	11,722	100.00%	11,720	100.00%	11,711	100.00%

Note: Utility billing database changes may have resulted in variations in number of customer accounts.

Source: City of San Carlos

The following table shows a three-year history of service charge revenues.

Table B3
City of San Carlos - Historical Sewer Service Charge Revenues

	2014-15		2015-16		2016-17	
	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total
City Sewer Accounts						
Residential	\$11,121,537	73.01%	\$12,234,954	75.04%	\$12,205,731	76.04%
Non-Residential	<u>3,697,163</u>	<u>24.27</u>	<u>3,633,552</u>	<u>22.28</u>	<u>3,368,544</u>	<u>20.99</u>
Subtotal	\$14,818,700	97.28%	\$15,868,506	97.32%	\$15,574,275	97.02%
Outside Agencies Served	414,592	2.72%	\$436,900	2.68%	\$477,766	2.98%
Total	\$15,233,292	100.00%	\$16,305,406	100.00%	\$16,052,041	100.00%

Source: City of San Carlos

The following table lists the City's largest sewer customers by service charge revenues for fiscal year 2016-17.

Table B4
City of San Carlos - Largest Customers, Fiscal Year 2016-17

	Description	FY 2016-17	% of Total
		Sewer Service Charges	
10 Largest City Sewer Accounts			
Vica Capital LLC	Industrial	\$140,374	0.87%
San Carlos School District	Public	136,534	0.85
Sutter Bay Medical Foundation	Industrial	113,770	0.71
Equity One San Carlos LLC	Industrial	76,188	0.47
L-3 Communications Corp C/O Ted Kennel	Industrial	71,107	0.44
G W Williams Co.	Industrial	66,093	0.41
Cordilleras Center	Commercial	65,913	0.41
Grm Fisc LLC Lessee & City of San Carlos	Commercial	60,973	0.38
Black Mountain Holdings LLC	Industrial	55,152	0.34
County Road Associates c/o Boris Wolper	Commercial	53,436	0.33
Subtotal		\$839,541	5.23%
Outside Sewer Districts			
Devonshire County Sanitation District		\$267,182	1.66%
Emerald Lake Heights Sewer Maintenance District		102,375	0.64
Scenic Heights County Sanitation District		48,923	0.30
Harbor Industrial Sewer Maintenance District		59,286	0.37
Subtotal		\$477,766	2.98%
All Other Customers		\$14,734,734	91.79%
Total		\$16,052,041	100.00%

Source: City of San Carlos utility billing data

Sewer Districts Served by San Carlos

The City provides sewer service to four San Mateo County sewer maintenance districts pursuant to separate legal agreements with San Mateo County for each district. These districts provide their own local wastewater collection services and pay the City for conveyance and wastewater treatment. The Authority bills San Carlos based on the City's share of wastewater flows and loading, which includes the wastewater conveyed from the four County sewer districts. Each of the districts pays San Carlos for wastewater service pursuant to each district's legal agreement with the City. The sewer districts served by San Carlos are listed below along with a brief description of each district and the basis of its payments to the City.

Devonshire County Sanitation District – This District includes approximately 274 residential accounts, and pays the City based on the number of accounts multiplied by 85% of the City's existing sewer rate. The District also includes an institution, which is charged based on water consumption multiplied by 85% of the applicable sewer rate.

Emerald Lake Heights Sewer Maintenance District (Zone 1) – This District includes approximately 113 residential accounts and pays the City based on the number of accounts multiplied by 85% of the City's existing sewer rate.

Scenic Heights County Sanitation District – This District includes approximately 55 residential accounts and pays the City based on the number of accounts multiplied by 85% of the City's existing sewer rate.

Harbor Industrial Sewer Maintenance District – This District serves approximately 68 commercial and industrial customer accounts. The charges billed to this District are calculated based on district-wide loading data, City loading data and SVCW revenue.

Sewer Utility Regulatory Issues

General. Regulatory requirements applicable to the City's sanitary sewer collection system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the San Francisco Bay Regional Water Quality Control Board (the "**Regional Board**"). The City is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

Waste Discharge Requirements. The City is not subject to independent waste discharge requirements in connection with operation of its sanitary sewer collection system because it sends its wastewater to the Authority for treatment and discharge.

Recent Enforcement Actions. On February 16, 2010, the City entered into a consent decree with San Francisco Baykeeper to reduce the number of sanitary sewer overflows (SSOs) from the City's wastewater collection system. The agreement sets forth a timeline for reducing SSOs from the 2010 level of 64 per 100 miles of sewer line per year to a level of 4 per 100 miles of sewer line per year in 2017. The agreement required payments of \$200,000 for an environmental mitigation project, \$95,000 for litigation fees and costs, and \$55,000 for compliance monitoring and these obligations have been met. The agreement also commits the City to certain actions regarding SSO investigation, response and reporting; sewer condition assessment rehabilitation replacement; implementation of a fats, oil and grease program; sewer cleaning, hot spots, and lateral programs; regulation of private laterals; and a chemical root control program.

An annual report is required commencing on March 1, 2011 and each year thereafter. The agreement set forth stipulated payments for failure to file required reports. On April 19, 2017, San Francisco Baykeeper notified the City that the Consent Decree had automatically terminated and that there would be no extension pursued, indicating their satisfaction with the City's efforts and progress to meeting the overall SSO reduction targets.

Wastewater Rates

The City's wastewater rates are independently established by the City Council pursuant to a rate ordinance, and do not require approval by any other legal entity. Residential customers are billed annually on their property tax statements. Non-residential customers pay volumetric charges based on customer class and metered water use from April 1 to March 31 preceding each new fiscal year, subject to a minimum monthly charge.

In 2016, the City adopted a series of three annual rate increases effective for fiscal years 2016-17 through 2018-19. These rate increases were adopted to support the City's allocable share of debt service for SVCW's CIP as well as SVCW operations and the City's operating and capital programs. These rates were adopted in compliance with Article XIID of the California Constitution. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS – Articles XIIC and XIID. The following table shows the City's historical and adopted sewer rates.

Table B5
City of San Carlos – Historical and Adopted Sewer Rates

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Effective Rate Increase %	6%	25%	20%	10%	0%	5%	5%
Residential (annual charge)	\$637.24	\$807.46	\$968.95	\$1,065.85	\$1,065.85	\$1,119.14	\$1,175.10
Monthly Equivalent	53.10	67.29	80.75	88.82	88.82	93.26	97.93
Commercial* (per hcf of metered water use)							
High Strength/Restaurants ⁽¹⁾	10.13	13.05	15.66	17.23	17.23	18.09	18.99
Moderate Strength (includes hotels) ⁽²⁾	9.94	11.14	13.37	14.71	14.71	15.45	16.22
Standard Strength/All Others	6.47	8.25	9.90	10.89	10.89	11.43	12.00
*Subject to Minimum Annual Charge per Parcel or Account ⁽³⁾ :	637.24	605.60	726.71	799.39	799.39	839.36	881.33
Institutional* (per hcf of metered water use)							
Hospital	6.47	8.47	10.16	11.18	11.18	11.74	12.33
All Others	6.12	7.90	9.48	10.43	10.43	10.95	11.50
*Subject to Minimum Annual Charge per Parcel or Account ⁽³⁾ :	637.24	605.60	726.71	799.39	799.39	839.36	881.33
Industrial*							
Volumetric Charge (\$ per hcf of water use)	5.53	6.79	8.15	8.97	8.97	9.42	9.89
BOD (\$ per pound)	0.3869	0.7543	0.9052	0.9957	0.9957	1.0455	1.0978
SS (\$ per pound)	0.4064	0.7981	0.9577	1.0535	1.0535	1.1062	1.1615
*Subject to Minimum Annual Charge per Parcel or Account ⁽³⁾ :	637.24	605.60	726.71	799.39	799.39	839.36	881.33

(1) Includes restaurants, bakeries, mortuaries, markets with garbage disposals, and mixed-use accounts whose wastewater is comprised of 75% or higher flow from high strength users.

(2) Includes hotels with food service and/or laundry facilities, and mixed-use accounts whose wastewater is comprised of greater than 25% but less than 75% of flow from high-strength users.

(3) The City determines which customer class best reflects the wastewater characteristics of each account.

Source: City of San Carlos

The following table shows sewer rates adopted by San Mateo County for the sewer districts served by the City. These rate increases were adopted to help support each district's share of costs for the Authority's CIP. These rates were adopted pursuant to Article XIID of the California Constitution.

Table B6
San Mateo County Adopted Annual Sewer Service Charges

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Sewer Districts Served by San Carlos	Annual Charge per Residential Unit or Equivalent						
Emerald Lake Heights SMD (Zone 1)	\$1,190	\$1,220	\$1,250	\$1,280	\$1,345	\$1,415	\$1,490
Devonshire CSD	1,050	1075	1,100	1,125	1,240	1,365	1,500
Harbor Industrial SMD	340	350	360	370	410	--*	--*
Scenic Heights CSD	1,110	1,140	1,170	1,200	1,440	1,650	1,895

* Rates to be evaluated in fiscal year 2017-18.

Source: San Mateo County

Billing and Collection

Each year, the City calculates the wastewater charge for the upcoming fiscal year for each parcel in the City's service area. Beginning in 2009, San Carlos began contracting with a financial services firm to prepare the wastewater bills and to monitor trends. These charges are submitted to San Mateo County for collection on the County's property tax bills (except for governmental agencies which are billed directly). The City's wastewater charges are listed as a separate item on the tax bill and are collected at the same time and in the same manner as the County's ad valorem property taxes. The City's charges are subject to the same penalties and payment enforcement as the County's taxes, which include the potential to foreclose on properties with payment delinquencies.

San Mateo County's property tax bills are due in equal installments on November 1 and February 1 of each fiscal year and become delinquent if not paid by December 10 and April 10 respectively. San Mateo County is on the Teeter Plan under which the County pays the City the full amount of all charges assessed on the County's tax rolls, and also retains any penalties due to payment delinquency. The County pays the City for 100% of its annual wastewater billings, regardless of payment delinquencies. The County has the option to discontinue an agency's participation in the Teeter Plan.

Capacity Fees for New Development

The City levies a sewer capacity fee on applicants for new (or expanded) wastewater service as a condition of obtaining a permit to connect to the sewer system. This fee is used to help fund the cost of sewer facilities that provide benefit to the new or expanded connection. The City's sewer capacity fees are established by the City Council, and were last updated in 2016. The current sewer capacity fee is \$10,811 for a new single family residential connection and \$5,000 for each dwelling unit of a new multi-family development. New non-residential connections pay a fee equal to \$5,690 for the first 100 gallons of estimated daily average quantity of sewage, plus \$56.90 per subsequent 1 gallon of daily estimated average quantity of sewage discharge, as determined by the City Engineer. The City also passes through the current amount of the SVCW connection fee for each new connection.

Future Capital Needs

The City commissioned RMC Water and Environment to prepare a Sewer Collection System Master Plan, dated January 2013 (the "**Master Plan**"). The Master Plan reported that the City has \$8,802,000 of high priority capacity improvement projects that the City submitted to Baykeeper in compliance with the consent decree (see "-Sewer Utility Regulatory Issues" above). These projects were prioritized based on relative severity of existing capacity deficiencies and the location of historical wet weather overflows. The projects that were determined to have the maximum benefit on the existing collection system capacity have been completed as of June, 2017. An additional rate increase was passed in 2013 to fund projects for lateral and main line replacement starting in 2014. The Master Plan created a priority plan for addressing the system deficiencies as outlined below.

In 2014 the City Council approved the Master Plan approach for a recommended 20-year collection system capital improvement program in the amount of \$20,802,000 (including the \$8,802,000 described in the previous paragraph and additional \$12 million of sewer rehabilitation) over the next 6 years.

In addition, the City anticipates financing its 15.14% allocable share of costs for the Authority's CIP, equal to an estimated \$90 million (including 3% cost inflation), after taking into account proceeds from the 2015 Bonds, the 2014 Bonds and outstanding SRF Loans, over approximately the next five years, through long-term debt issued by the Authority or the City.

In 2016, the City adopted three years of rate increases to fund its allocable share of debt service for the Authority's CIP and to help fund the City's capital improvement needs on a pay-as-you-go, cash basis.

Wastewater System Finances

The City's sewer utility is accounted for as a separate enterprise fund. Sewer enterprise operations and capital improvements are funded predominantly by sewer service charges supplemented by interest earnings, capacity fees, and other miscellaneous revenues.

Outstanding Wastewater System Debt

The City incurred obligations in connection with the issuance by the Authority of the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, SRF Loans, and the Line of Credit, and, as described in "THE AUTHORITY AND THE WASTEWATER SYSTEM – Outstanding Debt". The City's payment obligations to the Authority with respect to the SRF Loans and the Line of Credit are payable from Net Revenues on an unsecured basis.

Table B7
City of San Carlos - Wastewater System Outstanding Debt

Fiscal Year Ending June 30	Parity Debt				Subordinate Debt		Total
	2009 SVCW Bond Payment ⁽¹⁾	2014 SVCW Bond Payment	2015 SVCW Bond Payment ⁽²⁾	2018 SVCW Bond Payment	Existing SFR Loan Payments	Conveyance Planning SRF Loan Payments ⁽³⁾	
2018	\$749,907.25	\$645,410.43	\$465,550.00	\$ --	\$410,004.14	\$ --	\$2,270,871.82
2019	743,691.00	645,744.83	471,000.00	1,419,458.65	410,004.14	--	3,689,898.62
2020	473,933.75	645,811.71	613,075.00	1,424,137.50	410,004.14	231,056.41	3,798,018.51
2021	--	646,146.10	924,750.00	1,423,137.50	410,004.14	231,056.41	3,635,094.15
2022	--	645,978.91	922,375.00	1,421,137.50	410,004.14	231,056.41	3,630,551.96
2023	--	646,146.11	924,125.00	1,423,012.50	410,004.14	231,056.41	3,634,344.16
2024	--	645,769.90	929,750.00	1,423,637.50	410,004.14	231,056.41	3,640,217.95
2025	--	645,686.31	929,250.00	1,423,012.50	410,004.14	231,056.41	3,639,009.36
2026	--	645,853.51	918,000.00	1,421,137.50	410,004.14	231,056.41	3,626,051.56
2027	--	646,229.70	916,000.00	1,422,887.50	410,004.14	231,056.41	3,626,177.75
2028	--	645,937.10	917,875.00	1,423,137.50	410,004.14	231,056.41	3,628,010.15
2029	--	645,811.71	918,500.00	1,421,887.50	410,004.14	231,056.41	3,627,259.76
2030	--	645,811.71	917,875.00	1,419,137.50	410,004.14	--	3,392,828.35
2031	--	645,895.30	818,500.00	1,419,762.50	410,004.14	--	3,294,161.94
2032	--	646,020.70	825,250.00	1,423,512.50	410,004.14	--	3,304,787.34
2033	--	646,146.11	820,750.00	1,423,262.50	410,004.14	--	3,300,162.75
2034	--	646,229.71	820,125.00	1,420,637.50	285,857.87	--	3,172,850.08
2035	--	645,393.70	818,250.00	1,421,668.75	285,857.87	--	3,171,170.32
2036	--	645,995.63	820,000.00	1,421,500.00	285,857.87	--	3,173,353.50
2037	--	645,912.03	815,375.00	1,421,400.00	285,857.87	--	3,168,544.90
2038	--	645,619.42	814,375.00	1,423,387.50	--	--	2,883,381.92
2039	--	645,912.02	811,875.00	1,422,675.00	--	--	2,880,462.02
2040	--	645,870.23	807,875.00	1,420,987.50	--	--	2,874,732.73
2041	--	645,351.90	368,500.00	1,419,400.00	--	--	2,433,251.90
2042	--	645,560.91	369,125.00	1,422,500.00	--	--	2,437,185.91
2043	--	646,104.31	369,000.00	1,423,800.00	--	--	2,438,904.31
2044	--	646,062.51	368,125.00	1,421,287.50	--	--	2,435,475.01
2045	--	--	366,500.00	1,422,075.00	--	--	1,788,575.00
2046	--	--	369,000.00	1,423,075.00	--	--	1,792,075.00
2047	--	--	--	1,422,075.00	--	--	1,422,075.00
2048	--	--	--	1,422,450.00	--	--	1,422,450.00
2049	--	--	--	1,419,412.50	--	--	1,419,412.50
Total:	\$1,967,532.00	\$17,438,412.51	\$21,150,750.00	\$44,080,589.90	\$7,703,497.72	\$2,310,564.08	\$94,651,346.26

(1) Represents approximate allocated share of gross debt service on the Series 2009 Bonds; does not include any Refundable Credits.

(2) Excludes debt service payments made from escrow funds as a result of the crossover refunding of the 2009 Bonds.

(3) Preliminary debt service estimate and amortization shown; final amount and amortization, which the Authority is attempting to extend, will be determined after the SRF-Loan project is completed. The related project is expected to be completed during calendar year 2018.

Source: Silicon Valley Clean Water

Pension and Other Employee Benefit Costs

The City allocates a portion of its employee expenses to its sewer utility based on employees allocated to operation of the sewer utility. In fiscal year 2016-17, the City allocated approximately 10% of its total employee costs to the sewer utility.

Pension. A significant portion of the City's employment costs are pension and post-retirement medical benefit costs. See Notes 10 and 11 of the City's June 30, 2017 audited financial report, which is attached to this Official Statement as Appendix K, for information as of June 30, 2017 related to the City's pension and post-retirement medical benefit costs.

The City Miscellaneous Plans Tier 1, Tier 2, Tier 3 and Public Employees' Pension Reform Act of 2013 ("**PEPRA**"), and all Safety Plans (Safety Police and Safety Fire, which were merged together into the Safety Fire Plan effective the beginning of Fiscal Year 2015-16) are all cost-sharing multiple-employer defined benefit pension plans (each a "**Plan**" and together, the "**Plans**") administered by the California Public Employees' Retirement System ("**PERS**"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

Three-year trend information for the City's Plans is set forth below:

Three-year Trend of Annual Pension Cost

	Contribution Amount	Contribution Rate				
		Miscellaneous Plan			PEPRA	Safety Fire
		1 st Tier	2 nd Tier	3 rd Tier		1 st Tier
2015	\$2,359,606	22.167%	15.133%	10.773%	6.500%	19.900%
2016	\$2,610,942	11.478	10.132	8.479	6.460	13.813
2017	\$1,783,534	11.973	10.408	8.721	6.647	14.785

Source: City of San Carlos

Three-year Trend of Funded Status of the Miscellaneous Plans

Statewide Miscellaneous Plan Tier 1 (2.7% at 55 years)

Valuation Date	Entry Age Accrued Liability	Share of Pool's Market Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll
2014	\$58,833,653	\$43,775,180	\$15,058,473	74.4%	\$3,642,548
2015	61,190,816	43,515,489	17,675,327	71.1	3,534,886
2016	63,983,099	42,444,815	21,538,284	66.3	3,399,615

Source: PERS Actuarial Report August 2017

Statewide Miscellaneous Plan Tier 2 (2.5% at 55 years)

Valuation Date	Entry Age Accrued Liability	Share of Pool's Market Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll
2014	\$442,889	\$394,869	\$48,030	89.2%	\$301,855
2015	504,999	460,215	44,784	91.1	177,647
2016	636,002	542,616	93,386	85.3	223,593

Source: PERS Actuarial Report August 2017

Statewide Miscellaneous Plan Tier 3 (2.0% at 55 years)

Valuation Date	Entry Age Accrued Liability	Share of Pool's Market Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll
2014	\$351,972	\$378,307	(\$26,335)	107.5%	\$1,164,667
2015	596,121	621,810	(25,689)	104.3	1,380,906
2016	958,264	907,272	50,992	94.7	1,585,486

Source: PERS Actuarial Report August 2017

PEPRA Miscellaneous Plan (2.0% at 62 years)

Valuation Date	Entry Age Accrued Liability	Share of Pool's Market Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll
2014	\$95,526	\$100,496	(\$4,970)	105.2%	\$754,437
2015	217,980	208,831	9,149	95.8	1,110,831
2016	413,084	369,546	43,538	89.5	1,751,167

Source: PERS Actuarial Report August 2017

Safety Plan (Fire - 2% @ 50 years; Police - 3% @ 55 years)

Valuation Date	Accrued Liability	Share of Pool's Market Value of Assets	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll
2014	\$50,420,361	\$36,261,877	\$14,158,484	71.9%	\$104,279
2015	51,152,779	35,320,829	15,831,950	69.0	109,807
2016	51,217,026	32,564,017	18,653,009	63.6	114,753

Source: PERS Actuarial Report August 2017

In addition to the Plans, the City is required to make annual contributions to the Belmont-San Carlos Fire Department (“**BSCFD**”), a dissolved joint powers authority between the City of Belmont and the City of San Carlos, which pay for other post-employment benefits for retirees who earned lifetime medical coverage, unfunded liabilities of the safety and miscellaneous retirement plans with PERS, outstanding workers’ compensation claims from former employees, and liability claims or other obligations of the former BSCFD. The City’s contribution during the year ended June 30, 2017 was \$1,814,363.

See “APPENDIX A – Pension and Other Employee Benefit Costs – Recent Changes by PERS” for more information about PERS.

Other Post-Employment Benefits (OPEB). Three-year trend information for the City’s OPEB plan is set forth below:

Three-year Trend of Annual OPEB Cost

Fiscal year ended June 30	Annual OPEB cost (AOC)	Actual Contribution	Percentage of AOC contributed	Net OPEB obligations (Asset)
<u>Healthcare</u>				
2015	\$287,127	\$287,000	100%	\$(106,873)
2016	381,320	284,200	75	(9,759)
2017	383,000	398,000	104	(24,759)

Source: City of San Carlos

Historical Revenues and Expenses

The following table shows a history of revenues, expenses, and net revenues based on information provided in the City's audited financial statements and by the City.

Table B8
Sewer Enterprise - Historical Revenues, Expenses, and Fund Balances
Fiscal Year Ended June 30

	2013 (Audited)	2014 (Audited)	2015 (Audited)	2016 (Audited)	2017 (Audited)
Adopted Rate Increase (rounded)	6%	25%	20%	10%	0%
REVENUES					
Charges for Service	\$9,963,605	\$12,621,331	\$15,233,292	\$16,305,406	\$16,052,041
Connection Fees	47,970	63,921	102,050	492,893	741,572
Intra-Agency Transfers	211,041	243,477	192,256	190,043	187,502
Investment Earnings & Other Revenues	45,509	93,671	104,249	109,244	91,733
Total Revenues	\$10,268,125	\$13,022,400	\$15,631,847	\$17,097,586	\$17,072,848
EXPENSES					
<u>Operating & Maintenance</u>					
Operating Expenses from Audit	7,072,683	8,428,989	10,426,290	11,821,102	11,543,508
Less Depreciation	(315,341)	(352,480)	(465,684)	(472,774)	(694,679)
Less SVCW Debt Service Payments ⁽¹⁾	(671,637)	(780,607)	(1,455,974)	(1,363,661)	(1,795,651)
Less SVCW Non-Operating Payments	0	0	0	0	0
Plus Transfer Out	510,000	520,200	591,000	562,600	573,900
Net Operating Expenses	\$6,595,705	\$7,816,102	\$9,095,632	\$10,547,267	\$9,627,078
Net Revenues	\$3,672,420	\$5,206,298	\$6,536,215	\$6,550,319	\$7,445,770
<u>Debt Service</u> ⁽¹⁾					
City Share of SVCW 2008 Bonds	118,208	116,008	118,708	88,754	0
City Share of SVCW 2009 Bonds (Net)	553,430	540,453	655,081	444,149	562,611
City Share of SVCW 2014 Bonds	0	0	558,039	646,163	645,494
City Share of SVCW 2015 Bonds	0	0	0	60,449	463,400
Total Senior Debt Service	\$671,637	\$656,461	\$1,331,828	\$1,239,515	\$1,671,505
Senior Debt Service Coverage	5.47	7.93	4.91	5.28	4.45
City Share of SVCW SRF Loans	0	124,146	124,146	124,146	124,146
City Share of SVCW Line of Credit	0	0	0	0	0
Total Debt Service	\$671,637	\$780,607	\$1,455,974	\$1,363,661	\$1,795,651
Total Debt Service Coverage	5.47	6.67	4.49	4.80	4.15
Net Revenues After Debt Service	3,000,783	4,425,691	5,080,241	5,186,658	5,650,119
Cash & Equivalents June 30⁽²⁾	7,769,570	10,485,167	14,772,639	15,755,190	12,298,405
Days Operating Cash June 30	430	490	593	545	466

(1) Net of reserve and interest credits received by the City.

(2) Unrestricted cash and investments of the Sewer Enterprise Fund as reported in the City's Comprehensive Annual Financial Reports.
Source: City of San Carlos and City of San Carlos Comprehensive Annual Financial Reports.

Projected Revenues, Expenses, and Debt Service Coverage

The following table shows cash flow assumptions and projections of the City's sewer enterprise revenues, expenses, and net revenues. The projections include the City's estimated allocable share of debt service for the Authority's CIP. The projections were developed by the City and Bartle Wells Associates based on information provided by the City and SVCW, and a number of assumptions including those listed on the following table. Debt service projections are based on the latest estimates provided by SVCW. While the City believes the estimates and projections shown are reasonable, no assurance can be given that the results shown will be achieved.

Assumptions Regarding Revenues

1. Sewer Service Charges are projected based on fiscal year 2016-17 actual revenues adjusted for adopted and projected rate increases and growth.
2. Connection Fees are projected at \$250,000 in the current fiscal year 2017-18 based on year-to-date revenues, and are conservatively projected at \$100,000 per year in future years.
3. Investment Earnings are conservatively projected at \$150,000 per year in future years.
4. Other revenues are projected as shown on the table, with a conservative estimate of a 2% increase per year.

Assumptions Regarding Expenses

1. City Operating and Maintenance Expenses are based on the City's Budget for fiscal year 2017-18 and are projected to escalate at the annual rate of 3%.
2. SVCW Operating Expenses are based on SVCW's fiscal year 2017-18 budget with operating and maintenance costs broken out separately from debt service, capital and other non-operating expenses. Future SVCW operating expenses are based on projections provided by SVCW and assumes the FY 2017-18 Budget and increases of 3-4% per year thereafter, except in fiscal year 2021-22.
3. Senior Debt Service includes the City's allocable share of payments due for outstanding and projected SVCW bonds issued to help fund SVCW's CIP. Debt service due on the 2009 Bonds, which were issued as Build America Bonds, is offset by a direct federal subsidy payment.
4. City Capital Improvements are projected based on the City's proposed 5-year sewer system capital improvement program budget with some minor modifications and additional contingency funding. The City anticipates funding all of these projects on a pay-as-you-go, cash basis.
5. SVCW Capital & Reserve Contribution Payments include the City's share of projected SVCW cash-funded capital repairs and the City's allocable share of payments for the Authority's operating reserve requirements.
6. Days Cash on Hand is based on Ending Fund Reserves divided by Operating & Maintenance Expenses, multiplied by 365 days.
7. Payments for the City's allocated share of SVCW's 2009 Bonds and the Refundable Credits, 2014 Bonds, 2015 Bonds, 2018 Bonds, Future Bonds and SRF Loans are rounded to the nearest \$1,000 dollars.

Table B9
City of San Carlos - Sewer Enterprise Cash Flow Projections

	2017-18	2018-19	2019-20	2020-21	2021-22
	Adopted 5%	Adopted 5%	Projected 6%	Projected 6%	Projected 6%
Rate Increase					
Beginning Fund Reserves	\$12,298,000	\$12,679,000	\$12,878,000	\$13,308,000	\$13,381,000
REVENUES					
Sewer Service Charges	16,400,000	17,295,000	18,333,000	19,433,000	20,599,000
Contract Agency Charges	502,000	527,000	559,000	593,000	629,000
Connection Fees	250,000	100,000	100,000	100,000	100,000
Investment Earnings	154,000	150,000	150,000	150,000	150,000
Other Revenues	508,000	518,000	528,000	539,000	550,000
Total Revenues	17,814,000	18,590,000	19,670,000	20,815,000	22,028,000
EXPENSES					
<u>Operating & Maintenance</u>					
City Operating Expenses	6,432,000	6,625,000	6,824,000	7,029,000	7,240,000
SVCW Operating Expenses	2,977,000	3,087,000	3,200,000	3,324,000	3,338,000
Total O&M with Transfers	9,409,000	9,712,000	10,024,000	10,353,000	10,578,000
Net Revenues	8,405,000	8,878,000	9,646,000	10,462,000	11,450,000
<u>Debt Service</u>					
<u>Senior Debt Service</u>					
City Share of SVCW 2009 Bonds (Net)	565,000	563,000	384,000	--	--
City Share of SVCW 2014 Bonds	645,000	646,000	646,000	646,000	646,000
City Share of SVCW 2015 Bonds	466,000	471,000	613,000	925,000	922,000
City Share of SVCW 2018 Bonds	--	1,419,000	1,424,000	1,423,000	1,421,000
City's Share of Future SVCW Bonds	--	--	313,000	1,189,000	2,129,000
Total Senior Debt Service	1,676,000	3,099,000	3,380,000	4,183,000	5,118,000
Senior Debt Service Coverage	5.01	2.86	2.85	2.50	2.24
<u>Subordinate Debt Service</u>					
City Share of Existing SVCW SRF Loans	410,000	410,000	641,000	641,000	641,000
City Share of SVCW Line of Credit	13,000				
Subtotal Subordinate Debt Service	423,000	410,000	641,000	641,000	641,000
Total Combined Debt Service	2,099,000	3,509,000	4,021,000	4,824,000	5,759,000
Total Debt Service Coverage	4.00	2.53	2.40	2.17	1.99
<u>Capital & Other Non-Operating</u>					
City Sewer System Improvements	4,000,000	3,500,000	4,000,000	4,000,000	4,000,000
Other City Capital Improvements	1,540,000	1,280,000	800,000	1,090,000	1,000,000
SVCW Pay-Go Capital Funding	234,000	239,000	244,000	248,000	253,000
SVCW Reserve Contributions	151,000	151,000	151,000	227,000	303,000
Subtotal	5,925,000	5,170,000	5,195,000	5,565,000	5,556,000
Total Expenses	17,433,000	18,391,000	19,240,000	20,742,000	21,893,000
Revenues Less Expenses	381,000	199,000	430,000	73,000	135,000
Ending Fund Reserves	\$12,679,000	\$12,878,000	\$13,308,000	\$13,381,000	\$13,516,000
Days Cash on Hand	492	484	485	472	466

Source: City of San Carlos

Absence of Litigation

The City is not aware of any action, suit, or proceeding known to be pending or threatened, that would affect the execution of the City's Financing Agreement with the Authority, or materially impact the finances of the City's wastewater system.

Financial Statements

The City's most recent audited financial statements for the fiscal year ending June 30, 2017 are attached as Appendix K. The City's financial statements were audited by Maze & Associates, independent auditors. The auditor has not been asked to consent to the inclusion of the City's audited financial statements in this Official Statement and has not reviewed this Official Statement.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

INFORMATION ABOUT WEST BAY SANITARY DISTRICT

West Bay Sanitary District

The West Bay Sanitary District is an independent special district that provides wastewater service to the City of Menlo Park, Atherton, Portola Valley and areas of East Palo Alto, Woodside and unincorporated San Mateo and Santa Clara counties. The District is located in the northern part of Silicon Valley approximately 26 miles south of San Francisco, between San Francisco and San Jose. The District was originally formed in December 1902 as the Menlo Park Sanitary District under the Sanitary Sewer Act of 1891. The District operated as the Menlo Park Sanitary District from 1902 until 1981 when its name was changed to the West Bay Sanitary District to more accurately reflect the service area. The powers of the District are established by the State of California Health and Safety Code. The District serves a population of approximately 55,000 via approximately 19,195 predominantly residential sewer service connections.

Form of Government

The District is governed by a five-member Board of Directors whose members are elected at large from the District's service area to staggered terms of four years. The current members of the Board of Directors are:

<u>Director</u>	<u>Current Term Expires</u>
Edward P. Moritz, <i>President</i>	November 2018
Fran Dehn, <i>Secretary</i>	November 2020
Roy Thiele-Sardiña, <i>Treasurer</i>	November 2018
George Otte*	November 2018
David Walker	November 2020

* Appointed representative to Silicon Valley Clean Water.

Day to day activities of the District are managed by a District Manager, who is appointed by the Board of Directors and oversees a staff of approximately 28 employees.

District Leadership

- Phil Scott is the District Manager and reports directly to the Board of Directors. Mr. Scott manages day to day operations of the District including more than 25 employees. Mr. Scott also serves as Chief Fiscal Officer and is responsible for budgeting, forecasting revenue requirements, long range and strategic planning, facilitating Board meetings, and negotiations. Mr. Scott has 36 years of experience in the wastewater industry and has been District Manager of the District for 8 years.
- Bill Kitajima is the Projects & IT Manager: With over 20 years at the District, Mr. Kitajima manages all capital improvement projects and Collection System Master Planning, prioritizes CIP projects, and oversees engineering, bidding and construction of all CIP projects. Mr. Kitajima also manages all databases and computer/server operations and replacements and day to day technical operations.
- John Simonetti is the Regulatory and Compliance Coordinator: Mr. Simonetti has 28 years of experience at the District and manages all commercial and industrial pretreatment and discharge inspections and permitting. Mr. Simonetti ensures NPDES compliance with all

commercial customers, monitors flows and loadings of the system, and also acts as District Liaison to the Treatment Plant and serves as Safety Officer for the District.

- Liz Bahrami is the District Accountant and has over 15 years of service with the District. Ms. Bahrami manages all accounting operations, is responsible for deposits, AP, AR, cash flow forecasting, production of Withdrawal Orders, quarterly financial statements, annual audits, final financial statements and payroll. Ms. Bahrami also produces the annual budget and provides monthly expense reports for internal controls.
- Sergio Ramirez is the Operations Superintendent, with 7 years of experience at the District and over 23 years in the wastewater industry. Mr. Ramirez manages and oversees 17 employees and the collection system maintenance operations, including cleaning and repairing of sewer pipelines and CCTV inspection of sewer pipelines and pump station maintenance. Mr. Ramirez ensures that the system runs efficiently, safely and with minimal interruptions to convey wastewater (4.1 MGD) to the treatment plant in Redwood City, and helped the District to achieve the Collection System of the Year award for the Santa Clara Valley Section of the California Water Environment Association for 2012.

The Wastewater System

The District owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines ranging in size from 3 to 54 inches in diameter, and 13 sewer pump stations. The District's wastewater collection system is in good operating condition and has an average age of approximately 50 years, with an estimated life of 90 years. The District also owns a flow equalization facility, which has the capacity to hold approximately 10 million gallons of untreated wastewater. The District's wastewater is conveyed to the Authority for treatment and disposal.

Wastewater Flow to Authority

The following table shows the District's recent average daily wastewater flows to the Authority.

Table C1
West Bay Sanitary District - Average Daily Wastewater Flow (mgd)

	2012-13	2013-14	2014-15	2015-16	2016-17
Average Daily Flow (mgd)	3.5	3.5	3.6	3.8	4.1

Source: Silicon Valley Clean Water

Service Area & Customer Base

The District's sewer service area is approximately 14 square miles and includes the City of Menlo Park, portions of the Cities of East Palo Alto, Redwood City, and Atherton, portions of the Towns of Woodside and Portola Valley, and portions of unincorporated San Mateo and Santa Clara Counties.

The following table shows a history of residential and non-residential sewer accounts. Residential accounts comprised approximately 97% of the District's customer base in fiscal year 2016-17.

Table C2
West Bay Sanitary District - Historical Sewer Accounts

	<u>2014-15</u>		<u>2015-16</u>		<u>2016-17</u>	
	Accounts	% of Total	Accounts	% of Total	Accounts	% of Total
Residential	18,546	97%	18,858	97%	18,867	97%
Commercial	<u>622</u>	<u>3</u>	<u>610</u>	<u>3</u>	<u>622</u>	<u>3</u>
Total	19,168	100%	19,468	100%	19,489	100%

Source: West Bay Sanitary District

The following table shows a history of sewer service charge revenues broken down by residential and non-residential sewer accounts. In fiscal year 2016-17, residential customers accounted for 80% of the District's total sewer service charge revenues.

Table C3
West Bay Sanitary District - Historical Sewer Service Charge Revenues

	<u>2014-15</u>		<u>2015-16</u>		<u>2016-17</u>	
	Revenues	% of Total	Revenues	% of Total	Revenues	% of Total
Residential	\$16,537,777	78%	\$18,177,405	78%	\$19,616,295	80%
Commercial	<u>4,529,455</u>	<u>22</u>	<u>5,030,737</u>	<u>22</u>	<u>4,866,919</u>	<u>20%</u>
Total	\$21,067,232	100%	\$23,208,142	100%	\$24,483,214	100%

Source: West Bay Sanitary District

The following table lists the District's 10 largest accounts by revenue for fiscal year 2016-17.

Table C4
West Bay Sanitary District - Largest Customers, 2016-17 Sewer Service Charges

Customer	2016-17 Sewer Service Charges	% of Total
Hibiscus Properties LLC	\$1,058,148	4%
Anton Menlo LLC	423,660	2
Stanford Research Institute	329,631	1
Facebook Inc.	311,082	1
United States of America	251,253	1
Maximus Sg New Gf Owner LLC	228,336	1
Bayfront Investments LLC	209,040	1
Leland Stanford Jr University	197,453	1
Giant Properties LLC	176,041	1
Leland Stanford Jr University (SLAC)	<u>169,067</u>	<u>1</u>
Subtotal:	\$3,353,711	14%
 All Other Customers	 <u>\$21,129,503</u>	 86%
Total	\$24,483,214	100%

Source: West Bay Sanitary District

Sewer Utility Regulatory Issues

General. Regulatory requirements applicable to the District's sanitary sewer collection system are contained in or imposed by regulation pursuant to the Federal Water Pollution Control Act, as amended, and the State of California Porter Cologne Water Quality Control Act of 1969, as amended. Both federal and State regulations are administered through the San Francisco Bay Regional Water Quality Control Board (the "**Regional Board**"). The District is not aware of any environmental or regulatory issues that would adversely impact its ability to provide sewer collection service.

Waste Discharge Requirements. The District is not subject to independent waste discharge requirements in connection with operation of its sanitary sewer collection system because it sends its sewage to the Authority for treatment and discharge.

Wastewater Rates & Billing

The District's wastewater rates and charges are independently established by the Board of Directors and do not require approval by any other legal entity. Single family residential customers are billed a flat annual charge for sewer service which is collected on property tax bills. Non-residential customers pay volumetric charges based on customer class and metered water use.

A five-year rate history is shown in the following table. The District adopted its rates in compliance with Article XIID of the California Constitution. See "CONSTITUTIONAL LIMITATIONS ON APPROPRIATIONS – Articles XIIC and XIID.

Table C5
West Bay Sanitary District - Adopted Sewer Rates

	2013-14	2014-15	2015-16	2016-17	2017-18
Residential (annual charge)	\$820	\$893	\$973	\$1,031	\$1,072
<i>Monthly Equivalent</i>	\$68.33	\$74.42	\$81.08	\$85.92	\$89.33
Non-Residential/Commercial					
Flow - \$ per hcf	\$7.10	\$7.74	\$8.97	\$9.51	\$8.38
BOD - \$ per pound	\$0.21	\$0.23	\$0.25	\$0.26	\$0.59
SS - \$ per pound	\$0.27	\$0.29	\$0.32	\$0.34	\$0.67

Source: West Bay Sanitary District

Each year, the District calculates the wastewater charge for the upcoming fiscal year for each parcel in the District's service area. These charges are submitted to San Mateo County for collection on the County's property tax bills (except for approximately six customers located in Santa Clara County and governmental agencies, which are billed directly). The District's wastewater charges are listed as a separate item on the tax bill and are collected at the same time and in the same manner as the County's ad valorem property taxes. The District's charges are subject to the same penalties and payment enforcement as the County's taxes, which includes the potential to foreclose on properties with payment delinquencies.

San Mateo County's property tax bills are due in equal installments on November 1 and February 1 of each fiscal year and become delinquent if not paid by December 10 and April 10 respectively. San Mateo County is on the Teeter Plan under which the County pays the District the full amount of all charges assessed on the County's tax rolls, and also retains any penalties due to payment delinquency. The County pays the District for 100% of its annual wastewater billings, regardless of

payment delinquencies. The County has the option to discontinue an agency's participation in the Teeter Plan.

Connection Fees for New Development

The District levies a sewer connection charge on new applicants for wastewater service and applicants for expanded service. The purpose of the charge is to recover a proportionate share of costs of District facilities benefiting new connections to the wastewater system. The District's connection fees are established by the Board of Directors. The District's current residential connection charge is a fixed, one-time charge of \$6,919 per residential unit. The fee for non-residential connections is based on the estimated wastewater discharge for each new account, as determined by the District.

In addition, pursuant to the Joint Powers Agreement, the District also collects the Authority's connection fees and periodically remits payment of these fees to the Authority. The total connection charges collected by the District from new non-residential accounts, including both the District's and Authority's connection fees, are subject to a minimum charge of \$8,501 per connection or \$42.50 per gallon per day of estimated wastewater discharge.

Future Capital Needs

The District anticipates spending approximately \$9.8 million in 2017-18 and an average of approximately \$7.9 million per year for capital improvements to the District's wastewater system in upcoming years. This level of expenditures represents an increase from the amounts spent annually in recent history. These improvements primarily include repairs, replacements, and other upgrades to the District's collection system pipelines, but also include some pump station improvements. The District anticipates funding these improvements on a pay-as-you-go, cash basis.

In addition, the District anticipates financing its allocable share of costs for the Authority's CIP, equal to approximately \$160 million through 2024-25, after taking into account proceeds from the 2015 Bonds, the 2014 Bonds and outstanding SRF Loans. The District anticipates financing these costs through long-term debt issued by the Authority and/or the District.

Outstanding District Debt

The District incurred obligations in connection with the issuance by the Authority of the 2008 Bonds, the 2009 Bonds, the 2014 Bonds, the 2015 Bonds, SRF Loans, and the Line of Credit, as described in "THE AUTHORITY AND THE WASTEWATER SYSTEM – Outstanding Debt". The District's payment obligations to the Authority with respect to the SRF Loans and the Line of Credit are payable from Net Revenues on an unsecured basis.

Table C6
West Bay Sanitary District - Outstanding Debt

Fiscal Year Ending June 30	<u>Parity Debt</u>				<u>Subordinate Debt</u>		Total
	2009 SVCW Bond Payment ⁽¹⁾	2014 SVCW Bond Payment	2015 SVCW Bond Payment ⁽²⁾	2018 SVCW Bond Payment	Existing SRF Loan Payments	Conveyance Planning SRF Loan Payments ⁽³⁾	
2018	\$1,285,429.75	\$1,144,175.41	\$826,950.00	\$ --	\$726,842.69	\$ --	\$3,983,397.85
2019	1,276,286.25	1,144,768.23	824,050.00	1,838,480.31	726,842.69	--	5,810,427.48
2020	810,662.50	1,144,886.80	1,069,500.00	1,834,712.50	726,842.69	\$409,613.87	5,996,218.36
2021	--	1,145,479.63	1,610,500.00	1,837,712.50	726,842.69	409,613.87	5,730,148.69
2022	--	1,145,183.21	1,615,125.00	1,839,212.50	726,842.69	409,613.87	5,735,977.27
2023	--	1,145,479.62	1,608,250.00	1,834,337.50	726,842.69	409,613.87	5,724,523.68
2024	--	1,144,812.70	1,605,000.00	1,837,962.50	726,842.69	409,613.87	5,724,231.76
2025	--	1,144,664.49	1,614,875.00	1,834,962.50	726,842.69	409,613.87	5,730,958.55
2026	--	1,144,960.90	1,607,875.00	1,835,337.50	726,842.69	409,613.87	5,724,629.96
2027	--	1,145,627.84	1,599,375.00	1,838,837.50	726,842.69	409,613.87	5,720,296.90
2028	--	1,145,109.12	1,604,000.00	1,835,462.50	726,842.69	409,613.87	5,721,028.18
2029	--	1,144,886.80	1,601,500.00	1,835,212.50	726,842.69	409,613.87	5,718,055.86
2030	--	1,144,886.80	1,601,875.00	1,837,837.50	726,842.69	--	5,311,441.99
2031	--	1,145,035.02	1,439,125.00	1,838,212.50	726,842.69	--	5,149,215.21
2032	--	1,145,257.32	1,433,500.00	1,836,337.50	726,842.69	--	5,141,937.51
2033	--	1,145,479.62	1,431,000.00	1,837,337.50	726,842.69	--	5,140,659.81
2034	--	1,145,627.82	1,431,375.00	1,836,637.50	506,765.20	--	4,920,405.53
2035	--	1,144,145.78	1,424,625.00	1,834,218.75	506,765.20	--	4,909,754.74
2036	--	1,145,212.85	1,425,625.00	1,835,300.00	506,765.20	--	4,912,903.06
2037	--	1,145,064.65	1,424,125.00	1,835,000.00	506,765.20	--	4,910,954.86
2038	--	1,144,545.93	1,420,125.00	1,837,400.00	--	--	4,402,070.93
2039	--	1,145,064.66	1,413,625.00	1,837,750.00	--	--	4,396,439.66
2040	--	1,144,990.54	1,409,500.00	1,836,800.00	--	--	4,391,290.54
2041	--	1,144,071.68	656,750.00	1,834,500.00	--	--	3,635,321.68
2042	--	1,144,442.18	651,250.00	1,835,400.00	--	--	3,631,092.18
2043	--	1,145,405.52	654,500.00	1,839,000.00	--	--	3,638,905.52
2044	--	1,145,331.42	651,375.00	1,834,125.00	--	--	3,630,831.42
2045	--	--	651,875.00	1,837,050.00	--	--	2,488,925.00
2046	--	--	650,875.00	1,838,750.00	--	--	2,489,625.00
2047	--	--	--	1,837,850.00	--	--	1,837,850.00
2048	--	--	--	1,838,712.50	--	--	1,838,712.50
2049	--	--	--	1,836,587.50	--	--	1,836,587.50
Total:	\$3,372,378.50	\$30,914,596.54	\$36,958,125.00	\$56,937,036.56	\$13,656,543.78	\$4,096,138.69	\$145,934,819.17

(1) Represents approximate allocated share of gross debt service on the Series 2009 Bonds; does not include any Refundable Credits.

(2) Excludes debt service payments made from escrow funds as a result of the crossover refunding of the 2009 Bonds.

(3) Preliminary debt service estimate and amortization shown; final amount and amortization, which the Authority is attempting to extend, will be determined after the SRF-Loan project is completed. The related project is expected to be completed during calendar year 2018.

Source: Silicon Valley Clean Water

Pension and Other Employee Benefit Costs

A significant portion of the District's operation costs are employee costs, including pension and post-retirement medical benefit costs. See Notes 10 and 11 of the District's June 30, 2017 audited financial report, which is attached to this Official Statement as Appendix L, for information as of June 30, 2017 related to the District's pension and post-retirement medical benefit costs.

The District contributes to the California Public Employees' Retirement System ("**PERS**"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California.

Pension. Three-year trend information for the District's pension plan is set forth below:

Three-Year Trend of Annual Pension Cost (Employer Portion)

Fiscal year ended <u>June 30</u>	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligations
2015	\$542,448	65%	\$353,860
2016	558,925	65	365,293
2017	583,950	68	399,280

Source: West Bay Sanitary District

Three-Year Trend of Funded Status of the Plan

Miscellaneous Plan Tier 1 (2.5% at 55 years)

Valuation Date (June 30)	Accrued Liability	Share of Pool's Market Value of Assets	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
2014	\$15,632,782	\$12,557,621	\$3,075,161	80.3%	\$2,348,871	156.2%
2015	16,156,045	12,387,076	3,768,969	76.7	2,413,220	156.2
2016	17,009,823	12,109,690	4,900,133	71.2	2,285,057	214.5

Source: PERS Actuarial Report August 2017

Miscellaneous Plan Tier 2 (2% at 60 years)

Valuation Date (June 30)	Accrued Liability	Share of Pool's Market Value of Assets	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
2015	\$545	\$519	\$26	95.2%	\$67,687	0.04%
2016	0	(28)	28	0.0	0	0.00

Source: PERS Actuarial Report August 2017

Miscellaneous Plan PEPRA (2% at 62 years)

Valuation Date (June 30)	Accrued Liability	Share of Pool's Market Value of Assets	Plan's Share of Pool's Unfunded Liability	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Payroll
2014	\$8,925	\$9,322	(\$397)	104.5%	\$62,472	N/A
2015	19,605	18,757	848	95.7	63,721	1.3%
2016	57,120	51,725	5,395	90.6	319,166	1.7

Source: PERS Actuarial Report August 2017

As of June 30, 2016, the most recent actuarial valuation date, the market value of the Plan's assets was \$12,103,690, resulting in a funded ratio of 71.2%.

See "APPENDIX A – Pension and Other Employee Benefit Costs – Recent Changes by PERS" and for information about PERS.

Other Post-Employment Benefits (OPEB). Trend information for the District's OPEB plan is set forth below:

Three-year Trend of Annual OPEB Cost

Fiscal year ended June 30	Annual OPEB cost (AOC)	Percentage of AOC contributed	Net OPEB obligations (Asset)
2014	\$26,200	23.33%	\$77,659
2015	25,900	16.75	99,221
2016	25,313	21.67	119,049

Source: West Bay Sanitary District 2016 Audit Report

**Three-year Trend of
Funded Status of the Plan**

Valuation Date (March 1)	Actuarial Value of Assets	Entry age normal accrued liability	Unfunded/ (overfunded) liability (UAAL)	Funded ratio	Annual covered payroll	UAAL as a percentage of payroll
2010	\$0	\$137,900	\$137,900	0%	\$1,952,200	7.06%
2013	0	186,100	186,000	0	2,391,800	7.78
2015	0	217,440	217,440	0	2,846,000	7.64

Source: West Bay Sanitary District 2016 Audit Report

As of July 1, 2015, the most recent available actuarial valuation date, the market value of the OPEB assets was \$0, resulting in a funded ratio of 0%.

Historical Revenues and Expenses

The table on the following page shows a history of revenues, expenses, and net revenues based on information provided in the District's audited financial statements and by the District.

Table C7
Historical Revenues, Expenses, and Fund Balances
Fiscal Year Ending June 30

	2013 (Audited)	2014 (Audited)	2015 (Audited)	2016 (Audited)	2017 (Audited)
Adopted Rate Increase (rounded)	9%	9%	9%	6%	6%
REVENUES					
Sewer Service Charges	\$17,790,248	\$19,297,689	\$21,067,232	\$23,208,142	\$24,483,213
Connection Fees	241,096	167,770	5,696,108	1,281,475	1,912,132
Investment Earnings & Other Revenues	436,599	401,311	1,324,000	1,555,251	1,790,634
Total Revenues	\$18,467,943	19,866,770	28,087,340	26,044,868	28,185,979
EXPENSES					
<u>Operating & Maintenance</u>					
Operating Expenses from Audit	13,119,092	13,794,828	14,820,036	18,467,856	18,906,942
Less Depreciation	(1,132,035)	(1,275,444)	(1,300,476)	(1,514,901)	(1,652,638)
Less SVCW Bond Debt Service ⁽¹⁾	(1,158,582)	(1,349,137)	(2,399,892)	(2,647,096)	(3,162,085)
Less SVCW Non-Operating Payments	(456,986)	(589,116)	-	(153,494)	(410,664)
Total O&M with Transfers	10,371,490	10,581,131	11,119,668	14,152,365	13,681,555
Net Revenues	8,096,454	9,285,639	16,967,672	11,892,503	14,504,424
<u>Debt Service</u> ⁽¹⁾					
District Share of SVCW 2008 Bonds	198,978	200,278	201,378	154,689	0
District Share of SVCW 2009 Bonds (Net)	959,604	928,782	989,153	1,019,928	985,734
District Share of SVCW 2014 Bonds	-	-	989,284	1,145,509	1,144,324
District Share of SVCW 2015 Bonds	-	-	-	106,893	811,950
Total Senior Debt Service	1,158,582	1,129,060	2,179,815	2,427,019	2,942,008
Senior Debt Service Coverage	6.99	8.22	7.78	4.90	4.93
District Share of SRF Loans	-	220,077	220,077	220,077	220,077
District Share of SVCW Line of Credit	-	-	-	-	-
Total Debt Service	1,158,582	1,349,137	2,399,892	2,647,096	3,162,085
Total Debt Service Coverage	6.99	6.88	7.07	4.49	4.59
Net Revenues Remaining After Debt Service	6,937,872	7,936,502	14,567,780	9,245,407	11,342,339
Cash & Investments June 30	\$18,287,782	\$24,513,975	\$34,996,470	\$38,676,749	\$46,212,284
Days Operating Cash June 30	644	846	1,149	998	1,233

(1) Net of reserve and interest credits received by the District.

(2) Unrestricted cash and investments of the Sewer Enterprise Fund as reported in the District's Annual Financial Reports.

Source: West Bay Sanitary District

Projected Revenues, Expenses, and Debt Service Coverage

Assumptions Related to Revenue

1. The District's sewer service charges are based on actual revenues received in fiscal year 2016-17 and increase due to adopted and projected rate increases and growth.
2. Interest earnings are projected to remain constant for the foreseeable future.
3. Revenues from the District's connection fees are estimated at \$50,000 per year after 2017-18, although they have been substantially higher during the prior 3 years.
4. Other Revenues are projected at \$850,000 per year based on the District's 2017-18 budget, with slight increases until 2020-21, at which time they are projected to increase in the amount of \$680,000 for the payment of debt service on the recycled water project SRF Loan from the Sharon Heights Golf Course.

Assumptions Related to Expenses

1. Operating and maintenance expenses are mostly based on the District's 2017-18 budget and escalate at the annual rate of 4.0% to account for future operating cost inflation.
2. SVCW wastewater treatment operations are based on the District's share of allocated costs according to SVCW's 2017-18 budget with future costs escalating at the annual rate of 3.7%.
3. The District's share of debt service for SVCW's capital program are based on updated projections provided by SVCW as shown in Table C8.
4. District sewer system capital improvements are projected at approximately \$6.5 million to \$9 million most years, and will be funded on a pay-as-you-go basis without the need for debt financing.
5. SVCW pay-go capital funding is based on SVCW's 2017-18 budget and assume a constant level of funding in future years, in line with SVCW projections.
6. SVCW CIP reserve contributions are based on SVCW projections shown on Table C8 and are based on the assumption that each of the SVCW member agencies make annual contributions toward their respective share of the SVCW reserve requirement.

Table C8
West Bay Sanitary District – Cash Flow Projections

	2017-18	2018-19	2019-20	2020-21	2021-22
	Projected 4%	Projected 5%	Projected 5%	Projected 5%	Projected 5%
Rate Increase					
Beginning Fund Reserves	\$46,212,284	\$45,784,093	\$43,857,009	\$42,611,797	\$41,920,462
REVENUES					
Sewer Service Charges	25,395,641	26,665,423	27,998,694	29,398,629	30,868,560
Connection Fees	500,000	50,000	50,000	50,000	50,000
Investment Earnings	125,000	125,000	125,000	125,000	125,000
Other Revenues ⁽¹⁾	850,000	860,000	870,000	1,560,000	1,570,000
Total Revenues	26,870,641	27,700,423	29,043,694	31,133,629	32,613,560
EXPENSES					
<u>Operating & Maintenance</u>					
District Operating Expenses	7,128,473	7,413,607	7,710,151	8,018,557	8,339,299
SVCW Operating Expenses	6,505,267	6,746,738	6,994,231	7,264,832	7,295,228
Total O&M	13,633,740	14,160,345	14,704,382	15,283,389	15,634,527
Net Revenues	13,236,901	13,540,078	14,339,312	15,850,240	16,979,033
<u>Debt Service</u>					
<u>Senior Debt Service</u>					
District Share of SVCW 2009 Bonds (Net)	968,196	965,311	656,803	0	0
District Share of SVCW 2014 Bonds	1,144,175	1,144,768	1,144,887	1,145,480	1,145,183
District Share of SVCW 2015 Bonds	826,950	824,050	1,069,500	1,610,500	1,615,125
District Share of SVCW 2018 Bonds	-	1,838,480	1,834,713	1,837,713	1,839,213
Projected Recycled Water SRF Loan ⁽²⁾	-	-	-	680,000	680,000
District Share of Future SVCW Bonds ⁽³⁾	-	-	1,234,928	2,788,481	4,454,819
Total Senior Debt Service	2,939,322	4,772,609	5,940,830	8,062,173	9,734,340
Senior Debt Service Coverage	4.50	2.84	2.41	1.97	1.74
<u>Subordinate Debt Service</u>					
District Share of Existing SRF Loans	726,843	726,843	1,136,457	1,136,457	1,136,457
District Share of SVCW Line of Credit ⁽⁴⁾	22,929	66,064	132,128	-	-
Total Subordinate Debt Service	749,772	792,907	1,268,585	1,136,457	1,136,457
Total Combined Debt Service	3,689,094	5,565,516	7,209,415	9,198,629	10,870,796
Total Debt Service Coverage	3.59	2.43	1.99	1.72	1.56
<u>Capital & Other Non-Operating</u>					
District Capital Improvements	9,292,652	9,210,000	7,675,000	6,500,000	6,600,000
SVCW Pay-Go Capital Funding	414,946	423,245	431,710	440,344	449,151
SVCW Reserve Contributions	268,400	268,400	268,400	402,600	536,800
Subtotal	9,975,998	9,901,645	8,375,110	7,342,944	7,585,951
Total Expenses	27,298,832	29,627,507	30,288,907	31,824,963	34,091,275
Revenues Less Expenses	(428,191)	(1,927,084)	(1,245,213)	(691,334)	(1,477,715)
Ending Fund Reserve	\$45,784,093	\$43,857,009	\$42,611,797	\$41,920,462	\$40,442,748
Days Cash on Hand	1,226	1,130	1,058	1,001	944

(1) Fiscal Year 2021 and 2021 include projected reimbursements from Sharon Heights Golf Course in the amount of \$680,000 for the payment of debt service on the recycled water project SRF Loan.

(2) Reflects projected debt service amounts on an SRF Loan for the District's recycled water project expected to be completed in July, 2019.

(3) Includes the District's share of ~\$13 million CIP funding that is anticipated to be drawn on the line of credit and subsequently taken out with fixed rate bonds.

(4) Reflects the District's estimated share of the interest expense on the line of credit draw in FY 2018 and full interest expense on the anticipated ~\$13 million draw on the line of credit in FY 2019 and 2020.

Source: West Bay Sanitary District

Absence of Litigation

The District is not aware of any action, suit, or proceeding known to be pending or threatened, that would affect the execution of the District's Financing Agreement with the Authority, or materially impact the District's finances.

Financial Statements

The District's financial statements for the fiscal year ending June 30, 2017 are attached as Appendix L. The District's financial statements were audited by Chavan & Associates, LLP. The auditor has not been asked to consent to the inclusion of the District's audited financial statements in this Official Statement and has not reviewed this Official Statement.

APPENDIX D

GENERAL DEMOGRAPHIC AND STATISTICAL INFORMATION ABOUT THE COUNTY OF SAN MATEO

General Information

City of Redwood City. The City of Redwood City ("**Redwood City**"), the County seat, is located in the San Francisco Bay Area 25 miles south of San Francisco. It is the oldest bayside city in the County of San Mateo (the "**County**"), incorporated in 1867. Redwood City combines residential, industrial, and commercial elements in a largely urban environment. Its waterfront provides a yacht harbor and the only deep-water port in the South Bay. A wide variety of housing types are available. Services and trade, the County's two largest industry divisions, are expected to provide close to two-thirds of anticipated growth in the next two years. Today the Redwood City is known as the home of several technology companies such as Oracle and Electronic Arts.

City of San Carlos. The City of San Carlos ("**San Carlos**") is located in the County, approximately 25 miles south of San Francisco, and encompasses an area of approximately 4.5 square miles. San Carlos was incorporated in 1925 and is a general law city pursuant to the California Government Code. San Carlos has a Council-Manager form of government, with five elected Council members served by a full-time City Manager and staff. The City Council consists of a Mayor and four other Councilmembers. The Mayor is selected from among the sitting Councilmembers and serves a one-year term. Councilmembers are elected at-large for staggered four-year terms. The City Treasurer is also an elected position. The City Clerk is appointed by the City Manager.

San Mateo County. The City of Belmont, Redwood City, San Carlos, and the West Bay Sanitary District (the "**Members**") are all located within the County. The County was established April 19, 1856 and encompasses roughly 741 square miles including most of the San Francisco Peninsula south of the City and County of San Francisco. The County shares its southern borders with Santa Clara County and Santa Cruz County. San Francisco International Airport is located at the northern end of the County, and Silicon Valley stretches into the southeastern end. San Mateo County ranks as the 14th most populous county in California with a January 1, 2017 population of approximately 770,203 as estimated by the California State Department of Finance. The County includes 20 incorporated cities and 17 unincorporated communities.

Population

The largest cities in the County are the cities of Daly City, Redwood City, and South San Francisco. The following table sets forth annual population figures, as of January 1, for the County and the State of California (the “**State**”), for each of the years listed.

SAN MATEO COUNTY AND STATE OF CALIFORNIA Population Estimates Calendar Years 2013 through 2017

	2013	2014	2015	2016	2017
SAN MATEO COUNTY					
Atherton	7,056	7,064	7,085	7,107	7,148
Belmont	27,047	27,243	27,459	27,608	27,594
Brisbane	4,452	4,491	4,599	4,690	4,722
Burlingame	29,479	29,588	29,724	29,916	30,148
Colma	1,482	1,490	1,499	1,505	1,506
Daly City	105,730	107,225	107,983	108,538	109,287
East Palo Alto	29,602	29,824	30,072	30,225	30,340
Foster City	31,751	32,726	32,947	33,068	33,225
Half Moon Bay	11,729	11,826	12,146	12,530	12,591
Hillsborough	11,300	11,409	11,565	11,663	11,753
Menlo Park	33,200	33,309	33,671	33,807	35,670
Millbrae	22,674	22,786	23,056	23,148	23,168
Pacifica	37,781	37,901	38,036	38,192	38,124
Portola Valley	4,587	4,613	4,667	4,703	4,707
Redwood City	81,076	82,629	83,757	85,402	85,601
San Bruno	43,606	43,872	45,059	45,230	45,295
San Carlos	28,876	29,002	29,145	29,262	29,311
San Mateo	99,807	100,420	101,568	102,977	103,426
South San Francisco	64,612	64,781	65,022	65,378	65,451
Woodside	5,531	5,570	5,610	5,652	5,666
Balance of County	64,261	64,586	64,939	65,294	65,470
Incorporated	681,378	687,769	694,670	700,601	704,733
San Mateo County Total	745,639	752,355	759,609	765,895	770,203
STATE OF CALIFORNIA	38,238,492	38,572,211	38,915,880	39,189,035	39,523,613

Source: California State Department of Finance.

[Remainder of page intentionally left blank]

Employment and Industry

The Authority is in the San Francisco-Redwood City-South San Francisco Metropolitan Division ("MD") which is composed of San Francisco and San Mateo counties. The unemployment rate in the MD was 2.6 percent in October 2017, down from a revised 2.8 percent in September 2017, and below the year- ago estimate of 3.2 percent. This compares with an unadjusted unemployment rate of 4.3 percent for the State and 3.9 percent for the nation during the same period. The unemployment rate was 2.7 percent in San Francisco County, and 2.5 percent in the County.

The following table summarizes the civilian labor force, employment and unemployment for the MD for the years 2012 through 2016. These figures are county-wide statistics and may not necessarily accurately reflect employment trends in the Counties. Annual figures are not yet available for the calendar year 2017.

SAN FRANCISCO-REDWOOD CITY-SOUTH SAN FRANCISCO MD
(San Francisco And San Mateo Counties)
Annual Average Civilian Labor Force, Employment and Unemployment, and
Unemployment by Industry
Calendar Years 2012 through 2016
(March 2016 Benchmark)

	2012	2013	2014	2015	2016
Civilian Labor Force ⁽¹⁾	921,500	934,400	957,300	983,400	1,008,400
Employment	860,600	884,300	916,200	948,900	976,700
Unemployment	60,900	50,100	41,200	34,500	31,600
Unemployment Rate	6.6%	5.4%	4.3%	3.5%	3.1%
Wage and Salary Employment: ⁽²⁾					
Agriculture	1,700	1,800	1,900	1,900	1,900
Manufacturing	34,000	34,700	35,600	36,100	37,600
Wholesale Trade	23,500	24,700	25,600	26,900	27,700
Retail Trade	75,700	77,500	79,600	80,700	80,900
Trans., Warehousing, Utilities	36,500	38,700	39,700	42,100	46,700
Information	46,400	49,600	55,000	63,100	70,600
Financial and Insurance	49,600	50,700	52,300	54,800	57,600
Real Estate, Rental & Leasing	18,300	19,300	19,600	20,400	21,100
Professional and Business Services	214,200	228,000	243,900	259,600	272,300
Educational and Health Services	120,000	123,400	126,000	129,900	132,800
Leisure and Hospitality	121,500	125,700	131,100	136,100	139,900
Other Services	35,800	37,600	39,600	40,000	40,800
Federal Government	17,900	17,600	17,500	17,700	17,800
State Government	33,200	32,900	33,000	34,100	35,300
Local Government	68,400	68,400	70,200	72,600	74,600
Total All Industries ⁽³⁾	896,700	930,600	970,600	1,016,000	1,057,600

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Largest Employers

The following table lists the largest employers within the County as of November 2017, in alphabetical order.

SAN MATEO COUNTY Major Employers As of November 2017

Employer Name	Location	Industry
Customcare	Daly City	Nonclassified Establishments
Electric Charging Station	Menlo Park	Research Service
Electronic Arts Inc	Redwood City	Game Designers (Mfrs)
Fisher Investments	San Mateo	Investment Management
Fisher Investments	Woodside	Investment Management
Forced Dump Debris Box Svc	Burlingame	Garbage Collection
Franklin Templeton Investments	San Mateo	Investments
Genentech Inc	S San Francisco	Biotechnology Products & Services
Gilead Sciences Inc	Foster City	Biological Products (Mfrs)
Guckenheimer Inc	Foster City	Marketing Programs & Services
Kaiser Permanente Redwood City	Redwood City	Physicians & Surgeons
Kaiser Permanente South Sn	S San Francisco	Hospitals
Loften North America	Burlingame	Mining Companies
Lpch	Menlo Park	Health Care Facilities
Mills-Peninsula Health Svc	Burlingame	Health Care Management
Oracle Corp	Redwood City	Computer Software-Manufacturers
San Francisco Intl Airport-Sfo	San Francisco	Airports
San Mateo County Behavior	San Mateo	Government Offices-County
San Mateo Medical Ctr	San Mateo	Hospitals
Sri International Inc	Menlo Park	Engineers-Research
Tectura Corp	Belmont	Computers-System Designers & Consultants
US Interior Dept	Menlo Park	Government Offices-Us
Visa Inc	Foster City	Credit Card & Other Credit Plans
Visa International Svc Assn	Foster City	Associations
Visa USA Inc	Foster City	Credit Card & Other Credit Plans

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2018 1st Edition.

[Remainder of page intentionally left blank]

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and non-tax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), non-tax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table summarizes the total effective buying income for Redwood City, San Carlos, the County, the State and the United States for the period 2012 through 2016. Effective Buying Income data is not yet available for the calendar year 2017.

CITY OF REDWOOD CITY, CITY OF SAN CARLOS AND SAN MATEO COUNTY Effective Buying Income - As of January 1, 2012 through 2016

Year	Area	Total Effective Buying Income (000s Omitted)	Median Household Effective Buying Income
2012	City of Redwood City	\$2,693,878	\$62,528
	City of San Carlos	1,510,000	85,698
	San Mateo County	26,570,648	68,429
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Redwood City	\$2,802,145	\$65,351
	City of San Carlos	1,549,938	91,864
	San Mateo County	26,846,688	70,427
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Redwood City	\$2,893,518	\$66,809
	City of San Carlos	1,631,885	92,952
	San Mateo County	28,257,708	72,165
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Redwood City	\$3,175,728	\$72,095
	City of San Carlos	1,630,065	95,776
	San Mateo County	30,989,833	77,717
	California	981,231,666	53,589
	United States	7,757,960,399	46,738
2016	City of Redwood City	3,484,968	75,359
	City of San Carlos	1,844,215	102,803
	San Mateo County	33,690,067	81,795
	California	1,036,142,723	55,681
	United States	8,132,748,136	48,043

Source: The Nielsen Company (US), Inc.

Commercial Activity

Summaries of historic taxable sales within Redwood City, San Carlos and the County during the past five years in which data is available are shown in the following tables. Figures are not yet available for 2016 or 2017.

Total taxable sales during the first three quarters of calendar year 2016 in Redwood City were reported to be \$1.40 billion, a 5.65% decrease over the total taxable sales of \$1.49 billion reported during the first three quarters of calendar year 2015.

CITY OF REDWOOD CITY **Number of Permits and Valuation of Taxable Transactions** **(Dollars in Thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	1,236	\$1,170,101	2,023	\$1,551,074
2012	1,287	1,278,605	2,084	1,696,509
2013	1,315	1,363,758	2,098	1,828,715
2014	1,291	1,447,923	2,039	1,958,291
2015 ⁽¹⁾	1,294	1,449,195	2,207	2,035,129

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales during the first three quarters of calendar year 2016 in San Carlos were reported to be \$648 million, an 11.56% increase over the total taxable sales of \$581 million reported during the first three quarters of calendar year 2015.

CITY OF SAN CARLOS **Number of Permits and Valuation of Taxable Transactions** **(Dollars in Thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	721	\$452,473	1,377	\$628,819
2012	763	482,933	1,402	667,790
2013	801	516,465	1,456	744,025
2014	839	568,963	1,502	799,248
2015 ⁽¹⁾	838	530,592	1,601	798,498

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Total taxable sales during the first three quarters of calendar year 2016 in the County were reported to be \$11.43 billion, a 1.06% increase over the total taxable sales of \$11.31 billion reported during the first quarter of calendar year 2015.

SAN MATEO COUNTY
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail and Food Services Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2011	11,470	\$8,536,043	18,995	\$13,020,643
2012	11,748	9,277,144	19,189	13,906,978
2013	12,438	9,935,641	19,808	14,611,618
2014	12,673	10,278,717	19,999	15,298,434
2015 ⁽¹⁾	12,744	10,301,197	21,581	15,478,010

(1) Permit figures for calendar year 2015 are not comparable to that of prior years due to outlet counts in these reports including the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers.

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

[Remainder of page intentionally left blank]

Construction and Building Activity

Provided below are the building permits and valuations for Redwood City, San Carlos and the County for calendar years 2012 through 2016. Annual figures are not yet available for calendar year 2017.

CITY OF REDWOOD CITY Total Building Permit Valuations (Valuations in thousands)

	2012	2013	2014	2015	2016
<u>Permit Valuation</u>					
New Single-Family	\$35,516.6	\$3,399.2	\$6,400.3	\$13,130.4	\$10,361.1
New Multi-Family	103,125.6	57,869.2	83,820.0	16,463.2	76,854.5
Res. Alterations/Additions	<u>10,362.8</u>	<u>28,261.4</u>	<u>26,301.6</u>	<u>27,133.5</u>	<u>35,949.0</u>
Total Residential	149,005.0	89,529.8	116,521.9	56,727.1	123,164.6
New Commercial	3,351.5	26,843.9	9,107.1	21,836.4	109,558.0
New Industrial	382.0	619.2	7,000.0	0.0	0.0
New Other	17.6	905.5	18,994.3	10,949.0	6,807.2
Com. Alterations/Additions	<u>16,037.5</u>	<u>47,256.7</u>	<u>63,598.1</u>	<u>87,473.2</u>	<u>117,348.5</u>
Total Nonresidential	19,788.6	75,625.3	98,699.5	120,258.6	233,713.7
<u>New Dwelling Units</u>					
Single-Family	60	8	15	17	19
Multiple Family	<u>267</u>	<u>395</u>	<u>749</u>	<u>135</u>	<u>587</u>
Total	327	403	764	152	606

Source: Construction Industry Research Board, Building Permit Summary.

CITY OF SAN CARLOS Total Building Permit Valuations (Valuations in thousands)

	2012	2013	2014	2015	2016
<u>Permit Valuation</u>					
New Single-Family	\$2,006.7	\$14,222.9	\$4,856.9	\$17,837.6	\$19,015.2
New Multi-Family	585.0	2,620.2	0.0	2,935.3	59,445.0
Res. Alterations/Additions	<u>21,177.2</u>	<u>25,237.4</u>	<u>25,289.6</u>	<u>32,146.8</u>	<u>28,948.4</u>
Total Residential	23,768.9	42,080.5	30,146.5	52,919.7	107,408.6
New Commercial	964.3	1,860.3	1,398.0	2,239.5	59,255.2
New Industrial	45.0	15,100.0	0.0	0.0	0.0
New Other	0.0	797.0	1,352.6	3,047.5	4,854.6
Com. Alterations/Additions	<u>7,873.9</u>	<u>41,144.5</u>	<u>26,317.1</u>	<u>29,395.2</u>	<u>4,625.9</u>
Total Nonresidential	8,883.2	58,901.8	29,067.7	34,682.2	68,735.7
<u>New Dwelling Units</u>					
Single-Family	3	22	9	24	24
Multiple Family	<u>2</u>	<u>8</u>	<u>0</u>	<u>11</u>	<u>256</u>
Total	5	30	9	35	380

Source: Construction Industry Research Board, Building Permit Summary.

SAN MATEO COUNTY
Total Building Permit Valuations
(Valuations in Thousands)

	2012	2013	2014	2015	2016
<u>Permit Valuation</u>					
New Single-family	\$245,163.9	\$292,893.4	\$289,903.2	\$374,275.5	\$367,334.0
New Multi-family	171,390.4	151,019.5	162,925.6	259,181.0	252,560.4
Res. Alterations/Additions	<u>201,543.1</u>	<u>299,830.5</u>	<u>348,231.2</u>	<u>408,011.2</u>	<u>395,240.9</u>
Total Residential	\$618,097.4	\$743,743.4	\$801,060.0	\$1,041,467.7	\$1,015,135.3
 New Commercial	 \$83,374.0	 \$165,578.7	 \$413,462.8	 \$328,133.6	 \$716,150.7
New Industrial	2,021.6	15,724.2	9,600.0	0.0	4,954.8
New Other	1,975.6	58,726.5	103,363.4	192,961.9	196,145.2
Com. Alterations/Additions	<u>167,438.8</u>	<u>263,460.8</u>	<u>490,364.6</u>	<u>489,389.7</u>	<u>728,965.3</u>
Total Nonresidential	\$254,810.0	\$503,490.2	\$1,016,790.8	\$1,010,485.2	\$1,646,216.0
 <u>New Dwelling Units</u>					
Single Family	264	350	315	521	458
Multiple Family	<u>671</u>	<u>840</u>	<u>17</u>	<u>1,386</u>	<u>1,319</u>
TOTAL	935	1,190	332	1,907	1,777

Source: Construction Industry Research Board, Building Permit Summary.

Transportation

San Francisco International Airport (“**SFO**”), the “gateway to the Pacific,” is a world class airport serving tens of millions of domestic and international passengers annually. It is the largest airport in the San Francisco Bay Area and the second busiest airport in the State, after Los Angeles International Airport. In 2016, SFO was the seventh busiest in the United States and the 23rd largest airport in the world, by passenger count, with 53,106,505 passengers traveling to and from SFO, 450,388 flights arriving and departing from SFO, and 483,223 metric tons of cargo passing through SFO.

The Port of Redwood City is also located in the County. The Port has a deep-water channel and handles bulk cargo including lumber and scrap metal.

The County is traversed with major highways including U.S. Highway 101 and Interstate 280 (California), as well as Highway 1 along the Pacific Coast. The County is also served by two bridges spanning the San Francisco Bay including the San Mateo Bridge, part of State Route 92, and the Dumbarton Bridge, part of State Route 84.

The County is connected to downtown San Francisco, SFO, and the East Bay by the San Francisco Bay Area Rapid Transit (“**BART**”) District. The County’s public bus service is SamTrans. The County is also served by Caltrain, a commuter rail service between San Jose and San Francisco, running along the Southern Pacific right-of-way.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a brief summary of the provisions of the Indenture of Trust under which the Bonds are issued, and a summary of the Financing Agreements between the Authority and each of the Participating Members. Such summaries are not intended to be definitive. Reference is made to the actual documents (copies of which are available from the Authority) for the complete terms thereof.

DEFINITIONS

The following terms have the following meanings, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

“Authority” means Silicon Valley Clean Water, a joint powers authority duly organized and existing under the Joint Exercise of Powers Agreement dated as of November 13, 1975, as amended, among the cities of Belmont, Redwood City and San Carlos and the West Bay Sanitary District, and under the laws of the State of California.

“Bond Counsel” means (a) Jones Hall, A Professional Law Corporation, or (b) any other attorney or firm of attorneys appointed by or acceptable to the Authority of nationally-recognized experience in the issuance of obligations the interest on which is excludable from gross income for federal income tax purposes under the Tax Code.

“Bond Year” means each twelve-month period extending from August 2 in one calendar year to August 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year begins on the Closing Date and ends on August 1, 2018.

“Business Day” means a day of the year, other than a Saturday or Sunday, on which banks are not closed in the city in which the Trust Office of the Trustee is located.

“Closing Date” means the date of original delivery of the Bonds to the original purchaser thereof.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority relating to the authorization, issuance, sale and delivery of the Bonds, including but not limited to: printing expenses; rating agency fees; filing and recording fees; initial fees, expenses and charges of the Trustee and its counsel, including the Trustee’s first annual administrative fee; fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals; fees and charges for preparation, execution and safekeeping of the Bonds; and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Event of Default” means an event of default under and as defined in the Indenture, which events are summarized below.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department

of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“Financing Agreements” means, collectively, the following, in each case as originally executed and delivered together with all duly authorized and executed amendments or supplements thereto:

- (a) Financing Agreement dated as of December 1, 2008, between the Authority and the City of Redwood City, as amended by that certain First Amendment to Financing Agreement dated as of March 20, 2014, between the Authority and the City of Redwood City;
- (b) Financing Agreement dated as of February 1, 2018, between the Authority and the City of San Carlos; and
- (c) Financing Agreement dated as of December 1, 2008, between the Authority and the West Bay Sanitary District, as amended by that certain First Amendment to Financing Agreement dated as of March 20, 2014, between the Authority and the West Bay Sanitary District.

“Owner”, when used with respect to any Bond, means the person in whose name the ownership of such Bond will be registered on the Registration Books.

“Participating Members” means the City of Redwood City, the City of San Carlos and the West Bay Sanitary District, and any successors thereto.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein (provided that the Trustee shall be entitled to rely upon any investment directions from the Authority as conclusive certification to the Trustee that the investments described therein are so authorized under the laws of the State of California):

- (a) Federal Securities;
- (b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities only as stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; (iii) mortgaged-backed securities and senior debt obligations of the Federal National Mortgage Association; and (iv) consolidated system-wide bonds and notes of the Farm Credit System.
- (c) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of

1933, and having a rating by S&P of at least AAm-G or AAm, including such funds for which the Trustee, its affiliates or subsidiaries provide investment advisory or other management services or for which the Trustee or an affiliate of the Trustee serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Trustee or an affiliate of the Trustee receives fees from funds for services rendered, (ii) the Trustee collects fees for services rendered pursuant to the Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Indenture may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.

- (e) Certificates of deposit (including those of the Trustee, its parent and its affiliates) which have a maturity not greater than one year from the date of investment and which are issued by commercial banks, savings and loan associations or mutual savings banks whose short-term obligations are rated "A-1+" or better by S&P.
- (f) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation, issued by banks having reported capital and surplus of at least \$15 million.
- (h) Commercial paper having original maturities of not more than 270 days, rated "A-1+" or better by S&P at the time of purchase.
- (i) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at least "A-" by S&P, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured obligation debt is so rated.
- (j) Direct general short-term obligations of any state or state agency or subdivision or agency thereof described in paragraph (i) above and rated at least "A-1+" by S&P.
- (k) Federal funds or bankers acceptances with a maximum term of one year of any bank which an unsecured, uninsured and unguaranteed obligation rating of at least "A-1+" by S&P.
- (l) Any investment agreement (including guaranteed investment contracts, forward delivery agreements, repurchase agreements or similar obligations) with, or guaranteed by, an entity the long-term unsecured obligations or the claims paying ability of which are rated A or better by a nationally recognized rating agency (without regard to gradations or modifiers within such category) at the time of initial investment.
- (m) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California which invests exclusively in investments permitted by Section 53601 of Title 5,

Division 2, Chapter 4 of the Government Code of California, as it may be amended.

- (n) The Local Agency Investment Fund which is administered by the California Treasurer for the investment of funds belonging to local agencies within the State of California, provided for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee.

“Project” means the improvements to the wastewater collection, treatment and disposal system of the Authority which are acquired and constructed from amounts held in the Project Fund.

“Project Costs” means, with respect to the Project, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Project Fund, including but not limited to:

- (a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Project;
- (b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Project;
- (c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Project;
- (d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Project;
- (e) any sums required to reimburse the Authority for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Project;
- (f) all Costs of Issuance and other financing costs incurred in connection with the acquisition, construction and installation of the Project; and
- (g) interest on the Bonds coming due during the period of acquisition, construction and installation of the Project.

“Registration Books” means the records maintained by the Trustee under the Indenture for the registration and transfer of ownership of the Bonds.

“Revenues” means: (a) all amounts payable by the Participating Members under the respective Financing Agreements, representing the portion of debt service on the Bonds which is allocable to each Participating Member; (b) any proceeds of the Bonds originally deposited with

the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture; and (c) income and gains with respect to the investment of amounts on deposit in the funds and accounts established under the Indenture . The term "Revenues" does not include amounts payable by the Participating Members under the Financing Agreements with respect to any bonds, notes or other obligations of the Authority other than the Bonds.

"S&P" means Standard & Poor's Ratings Services, its successors and assigns.

"Tax Code" means the Internal Revenue Code of 1986, as amended. Any reference to a provision of the Tax Code will include the applicable temporary and permanent regulations promulgated under or with respect to Section 103 and Sections 141 through 150, inclusive, of the Tax Code.

"Written Certificate", "Written Request" or "Written Requisition" mean, respectively, a certificate, request or requisition in writing signed by the General Manager of the Authority, or by any other officer of the Authority duly authorized by the Commission of the Authority for that purpose, written notice of which authorization is given to the Trustee.

Application of Bond Proceeds

Deposit of Proceeds on Closing Date. Upon the receipt of payment for the Bonds on the Closing Date, the Trustee shall apply the proceeds of sale thereof as follows:

- (a) The Trustee will deposit an amount in the Costs of Issuance Fund which is sufficient to pay the Costs of Issuance of the Bonds.
- (b) The Trustee will deposit the remainder of such proceeds in the Project Fund.

Costs of Issuance Fund. The Trustee will establish and hold in trust a separate fund designated as the "Costs of Issuance Fund" into which the Trustee. The Trustee will disburse amounts in the Costs of Issuance Fund from time to time to pay the Costs of Issuance upon submission of a Written Requisition of the Authority. On April 1, 2018, or upon the earlier Written Request of the Authority, the Trustee shall transfer all amounts remaining in the Costs of Issuance Fund to the Project Fund, and shall thereupon close the Costs of Issuance Fund.

Project Fund. The Trustee will establish and maintain a separate fund to be known as the "Project Fund". Amounts on deposit in the Project Fund shall be applied to pay Project Costs for Projects which are of benefit to all of the members of the Authority. The Trustee will disburse moneys in the Project Fund from time to time to pay Project Costs (or to reimburse the Authority for payment of Project Costs) in accordance with Written Requisitions filed by the Authority with the Trustee.

Each such Written Requisition must state, with respect to each payment to be made thereby, (i) the name and address of the firm or corporation to whom payment is to be made, (ii) the amount and purpose of the payment, (iii) that each payment constitutes a Project Cost, and (iv) that each payment from a particular account is for a Project the Project Costs of which are of benefit to all of the members of the Authority. Each such Written Requisition shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts and has no responsibility for payments made in accordance with the

foregoing provisions. The Authority shall maintain accurate records showing all disbursements from the Project Fund.

Upon the filing with the Trustee of a Written Certificate of the Authority stating that no further amounts are intended to be requisitioned from the Project Fund, the Trustee shall thereupon close the Project Fund and shall transfer all remaining amounts therein to the Interest Account or, at the election of the Authority, be applied to redeem or defease Outstanding Bonds.

Security for the Bonds

The Bonds are secured by a first lien on, pledge of and security interest in all of the Revenues, including all of the moneys in the Revenue Fund, the Interest Account and the Principal Account, and including all amounts derived from the investment of such moneys, without priority for number, date of Bonds, date of execution or date of delivery. The Authority transfers in trust and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Financing Agreements.

For the security of the Bonds, the Authority grants a first pledge of and lien on, and a security interest in, all of the Revenues and all of the right, title and interest of the Authority in the Financing Agreements. Such pledge, lien and security interest are for the equal security of the Bonds without preference or priority for number, date of execution or date of delivery.

The Trustee is entitled to receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee. The Trustee will also be entitled to and, subject to the provisions of the Indenture, will take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Participating Members under the Financing Agreements.

Deposit and Application of Revenues

All Revenues described in clause (a) of the definition thereof will be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee will establish, maintain and hold in trust.

The Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee will establish and maintain within the Revenue Fund), the following amounts at the following times in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

- (a) Interest Account. On or before each date on which the interest on the Bonds is payable, the Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on such date on all outstanding Bonds. The Trustee will apply amounts in the Interest Account solely for the purpose of paying the interest on the Bonds when due, including accrued interest on any Bonds redeemed prior to maturity. Any amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent

not required to pay any interest then having come due and payable on the outstanding Bonds, will be transferred to the Revenue Fund.

- (b) Principal Account. On or before each date on which the principal of the Bonds is payable, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit therein to equal the aggregate amount of principal coming due and payable on such date on the Bonds, or the redemption price of the Bonds (consisting of the principal amount thereof and any applicable redemption premiums) required to be redeemed on such date. The Trustee will apply amounts in the Principal Account for the purpose of (i) paying the principal of the Bonds at the maturity thereof, (ii) paying the principal of the Bonds upon the redemption thereof, including the principal amount of the Term Bonds coming due upon the mandatory sinking fund redemption thereof. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any outstanding Bonds then having come due and payable, will be transferred to the Revenue Fund.

Investment of Moneys in Funds

The Trustee will invest moneys in the funds and accounts established and held by it under the Indenture in Permitted Investments as directed by the Authority in writing. For the purpose of determining the amount in any fund, the Trustee will value Permitted Investments credited to such fund at least annually at the fair market value thereof, determined in any manner deemed reasonable by the Trustee. For purposes of acquiring any investments, the Trustee may commingle funds held by it under the Indenture. The Trustee may (but is not obligated to) act as principal or agent in the acquisition or disposition of any investment. The Trustee has no liability for losses arising from any investments made under the Indenture.

Financial Covenants

Punctual Payment. The Authority will punctually pay or cause to be paid the principal, interest and premium (if any) to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Trustee Accounting Records. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries will be made of all transactions made by the Trustee relating to the proceeds of Bonds, the Revenues and all funds and accounts established under the Indenture. Such books of record and account will be available for inspection by the Authority during regular business hours with reasonable prior notice.

Authority Financial Statements. The Authority shall cause to be prepared annually, within 210 days after the close of each Fiscal Year so long as any of the Bonds are Outstanding, complete audited financial statements with respect to such Fiscal Year showing the Revenues and all disbursements thereof as of the end of such Fiscal Year. The Authority shall furnish a copy of such statements, upon reasonable request, to the Trustee and any Bond Owner.

Issuance of Parity Debt. Except for the Bonds, the Authority covenants that no additional bonds, notes or other indebtedness will be issued or incurred which are payable out of the

Revenues in whole or in part. Nothing in this covenant limits the authority of any Participating Member to issue parity obligations in accordance with the related Financing Agreement, including parity obligations which secure additional bonds of the Authority.

Financing Agreements. The Trustee, as assignee of the Authority's rights, covenants to collect all amounts due from the Participating Members under the Financing Agreements and, subject to the provisions of the Indenture, will enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the rights of the Authority under the Indenture and for the enforcement of all of the obligations of the Participating Members.

Amendment of Indenture

Amendment With Bond Owner Consent. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended by the Authority and the Trustee at any time, with the written consent of the Owners of a majority in aggregate principal amount of the Bonds then outstanding.

Amendment Without Bond Owner Consent. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may also be modified or amended at any time, without the consent of any Owners of the Bonds, for any one or more of the following purposes:

- (a) to add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements required to be observed under the Indenture, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority;
- (b) to cure any ambiguity, inconsistency or omission, or correct any defective provision, contained in the Indenture, or in any other respect whatsoever, as the Authority may deem necessary or desirable, provided that such amendment does not materially adversely affect the interests of the Bond Owners in the opinion of Bond Counsel filed with the Authority and the Trustee;
- (c) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute at any time in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute; or
- (d) to amend any provision relating to the Tax Code, to any extent whatsoever but only if and to the extent such amendment does not adversely affect the exclusion from gross income of interest on any of the Bonds under the Tax Code, in the opinion of Bond Counsel filed with the Authority and the Trustee

Events of Default

Events of Default Defined. Each of the following events constitutes an Event of Default under the Indenture:

- (a) Default in the due and punctual payment of the principal of any Bond when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.
- (b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment comes due and payable.
- (c) Failure by the Authority to observe and perform any of the covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, other than as referred to in the preceding clauses, for a period of 30 days after written notice, specifying such failure and requesting that it be remedied has been given to the Authority by the Trustee; *provided, however*, that if in the reasonable opinion of the Authority the failure stated in such notice can be corrected, but not within such 30-day period, such failure will not constitute an Event of Default if corrective action is instituted by the Authority within such 30-day period and diligently pursued until such failure is corrected.
- (d) Certain events relating to the insolvency or bankruptcy of the Authority.
- (e) The failure by a Participating Member to make any payment of its pro rata share of debt service on the Bonds in full when due under the related Financing Agreement.

Remedies Upon Default

Remedies of Trustee. Whenever any Event of Default has happened and is continuing, the Trustee has the right, at its option and without any further demand upon or notice to the Authority, to take any one or more of the following actions:

- (a) *Actions at Law or in Equity.* The Trustee may take whatever action at law or in equity may appear necessary or desirable to enforce performance and observance of any obligation, agreement or covenant of the Authority under the Indenture.
- (b) *Appointment of Receiver.* As a matter of right, in connection with the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bond Owners, the Trustee may cause the appointment of a receiver or receivers of the Revenues and other pledged amounts, with such powers as the court making such appointment shall confer.

Power of Trustee to Control Proceedings. If the Trustee, upon the happening of an Event of Default, takes any action, by judicial proceedings or otherwise, in the performance of its duties under the Indenture, whether upon its own discretion, upon the request of the Owners of a majority in aggregate principal amount of the Bonds then outstanding, it has full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action.

Limitation on Owners' Right to Sue. No Owner of a Bond has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless:

- (a) said Owner has previously given to the Trustee written notice of the occurrence of an Event of Default;
- (b) the Owners of a majority in aggregate principal amount of all the Bonds then outstanding have requested the Trustee in writing to exercise the powers granted under the Indenture or to institute such action, suit or proceeding in its own name;
- (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;
- (d) the Trustee has failed to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee; and
- (e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding.

Application of Funds Upon Event of Default

All of the Revenues and all sums in the funds and accounts established and held by the Trustee under the Indenture upon the occurrence of an Event of Default, and all sums thereafter received by the Trustee thereunder, will be applied by the Trustee as follows and in the following order:

First, to the payment of any fees, costs and expenses incurred by the Trustee to protect the interests of the Owners of the Bonds; payment of the fees, costs and expenses of the Trustee (including fees and expenses of its counsel, including any allocated costs of internal counsel) incurred in and about the performance of its powers and duties under the Indenture and the payment of all fees, costs and expenses owing to the Trustee, together with interest on all such amounts advanced by the Trustee at the maximum rate permitted by law;

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts at the respective rates of interest borne by those Bonds, and in case such moneys will be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably to the aggregate of such interest, principal and interest on overdue amounts.

Defeasance of Bonds

If the Authority pays and discharges the entire indebtedness on any Bonds in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, and the interest and premium (if any) on, such Bonds when due and payable;
- (b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established with the Trustee under the Indenture and the Financing Agreements, is fully sufficient to pay such Bonds, including all principal, interest and premiums (if any); or
- (c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, non-callable Federal Securities in such amount as an independent accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established with the Trustee under the Indenture and the Financing Agreements, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption has been duly given or provision satisfactory to the Trustee has been made for the giving of such notice, then, at the election of the Authority, and notwithstanding that any such Bonds have not been surrendered for payment, the pledge of the Revenues and other funds provided for in the Indenture and all other obligations of the Trustee and the Authority under the Indenture with respect to such Bonds will terminate.

FINANCING AGREEMENTS

Definitions

The following terms have the following meanings when used in this Summary of the Financing Agreements between the Authority and each of the Participating Members, notwithstanding that any such terms may be elsewhere defined in this Official Statement. Any terms not expressly defined in this Summary but previously defined in this Official Statement have the respective meanings previously given.

“Allocable Share” means the portion of the debt service payments on the Bonds which is allocated to the Participating Member as determined in accordance with the Joint Powers Agreement.

“Federal Securities” means: (a) any direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), the payment of principal of and interest on which are unconditionally and fully guaranteed by the United States of America; and (b) any obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other 12-month period selected and designated by the Participating Member as its official fiscal year period.

“Gross Revenues” means all gross charges received for, and all other gross income and receipts derived by the Participating Member from, the ownership and operation of the Wastewater System or otherwise arising from the Wastewater System, including but not limited to investment earnings thereon and including connection or capacity charges; but excluding (a) the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the Participating Member relating to the Wastewater System, (b) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the Participating Member relating to the Wastewater System; and (c) customers’ deposits or any other deposits subject to refund until such deposits have become the property of the Participating Member, or contributions in aid of construction.

“Maximum Annual Debt Service” means, as of the date of any calculation, the maximum sum obtained for the current or any future Fiscal Year by totaling the following amounts for such Fiscal Year: (a) the aggregate amount of the Member Payments coming due and payable in such Fiscal Year; and (b) the amount of principal of and interest on all outstanding Parity Debt coming due and payable by their terms in such Fiscal Year.

“Member Payments” means the amounts paid by the Participating Member under the related Financing Agreement representing payments of principal of and interest and redemption premium (if any) on an Allocable Share of the Bonds.

“Net Revenues” means, for any period, an amount equal to all of the Gross Revenues received during such period minus the amount required to pay all Operation and Maintenance Costs coming payable during such period.

“Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the Participating Member for maintaining and operating the Wastewater System, determined in accordance with generally accepted accounting principles, including but not limited to (a) all reasonable expenses of management and repair and other expenses necessary to maintain and preserve the Wastewater System in good repair and working order, (b) amounts payable for operation and maintenance under the Joint Powers Agreement, and (c) all administrative costs of the Participating Member that are charged directly or apportioned to the operation of the Wastewater System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums. “Operating and Maintenance Costs” does not include (i) payments of debt service on bonds, notes or other obligations issued by the Participating Member with respect to the Wastewater System, (ii) payments made by the Participating Member under the Joint Powers Agreement in respect of debt service on notes, bonds or other obligations issued by the Authority to finance the project, (iii) depreciation, replacement and obsolescence charges or reserves therefor, and (iv) amortization of intangibles or other bookkeeping entries of a similar nature.

“Parity Debt” means any bonds, notes, leases, installment sale agreements or other obligations of the Participating Member which are payable from and secured by a pledge of and lien upon any of the Net Revenues on a parity with the Member Payments, entered into or issued under and in accordance with the related Financing Agreement.

“Parity Debt Documents” means, collectively, the indenture of trust, trust agreement, loan agreement, installment sale agreement or other document authorizing the issuance of any Parity Debt.

“Payment Schedule” means the schedule prepared by the Authority and filed with the Participating Member showing the amount and date of each Member Payment relating to the Bonds, and setting forth the provisions relating to prepayment of the Member Payments.

“Unencumbered Fund Balance” means, for any Fiscal Year, the balance of Net Revenues remaining on deposit in any of the funds and accounts of the Participating Member (including but not limited to the Wastewater Fund and any rate stabilization fund established by the Participating Member) as of the last day of such Fiscal Year, as shown on the books of the Participating Member, which may lawfully be used to pay the Member Payments. The amount of the Unencumbered Fund Balance as of the last day of any Fiscal Year does not include any funds which the Participating Member determines will be required for payment of the Member Payments or the principal of and interest on any Parity Debt during the next six months.

“Wastewater Fund” means the fund or funds established and held by the Participating Member with respect to the Wastewater System for the receipt and deposit of Gross Revenues.

“Wastewater System” means the entire system of the Participating Member for the collection and transmission of wastewater, including but not limited to all facilities, properties and improvements at any time owned, controlled or operated by the Participating Member for the collection and transmission of wastewater within the service area of the Participating Member, and any necessary lands, rights, entitlements and other property useful in connection therewith, together with all extensions thereof and improvements thereto at any time acquired, constructed or installed by the Participating Member.

Debt Service Payments

The Participating Member is solely responsible for payment of its Allocable Share of principal of and interest on the Bonds. Payment of Member Payments by the Participating Member will be made as follows:

- (a) Payment Dates and Amounts. The Participating Member will pay the Member Payments in semiannual installments in the amounts and at the times set forth in the Payment Schedule.
- (b) Payment Schedule. Upon the sale of the Bonds, the Authority will determine the Member Payments for the Participating Member. Prior to the issuance of the Bonds, the Authority will file with the Participating Member a Payment Schedule showing the amount and date of each Member Payment and setting forth the provisions relating to prepayment of such Member Payments.
- (c) Credit for Debt Service Fund Earnings. In determining the amount of the Member Payment which the Participating Member is required to pay on any semiannual payment date or prepayment date, the Participating Member will be credited for an Allocable Share of any earnings which are received from the investment of the Principal Account and Interest Account which are established for the Bonds.
- (d) Payments to Trustee. At the written direction of the Authority, the Participating Member will pay the Member Payments to the Trustee or other assignee of the Authority. Upon the closing of the Bonds, the Authority will file such written direction with the Participating Member.

Pledge of Net Revenues

The Participating Member establishes a pledge of, lien on and security interest in all of the Net Revenues to secure the Member Payments.

The Participating Member agrees to deposit all of the Gross Revenues in the Wastewater Fund immediately upon receipt. Amounts on deposit in the Wastewater Fund will be applied by the Participating Member to pay when due the following amounts in the following order of priority:

- (a) all Operation and Maintenance Costs;
- (b) the Member Payments and all payments of principal of and interest and premium (if any) on outstanding Parity Debt;
- (c) any other payments required to comply with the provisions of the Joint Powers Agreement and any Parity Debt Documents; and
- (d) any other lawful purposes of the Wastewater System.

The Participating Member will manage, conserve and apply amounts on deposit in the Wastewater Fund in such a manner that all deposits required to be made under the Financing Agreement will be made at the times and in the amounts so required. So long as the Participating

Member is not in default in the payment of the Member Payments or the payment of principal of and interest and premium (if any) on outstanding Parity Debt, the Participating Member may use and apply amounts in the Wastewater Fund for (i) the payment of any subordinate obligations or any unsecured obligations, (ii) the acquisition and construction of improvements to the Wastewater System, (iii) the establishment of a rate stabilization fund, or (iv) any other lawful purposes of the Participating Member.

Special Obligation of the Participating Member; Obligations Absolute

The Participating Member's obligation to pay the Member Payments and any other amounts coming due and payable under the Financing Agreement is a special obligation of the Participating Member limited solely to the Net Revenues. Under no circumstances is the Participating Member required to advance moneys derived from any source of income other than the Net Revenues and other sources specifically identified in the Financing Agreement for the payment of the Member Payments and such other amounts. The obligations of the Participating Member to pay the Member Payments from the Net Revenues and to perform and observe the other agreements contained in the Financing Agreement are absolute and unconditional and are not subject to any defense or any right of set-off, counterclaim or recoupment whatsoever.

Rates and Charges

Gross Revenue Covenant. The Participating Member covenants to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year, which are at least sufficient, after making allowances for contingencies and error in the estimates, to yield Gross Revenues sufficient to pay all obligations of the Participating Member which are charges, liens, encumbrances upon, or which are otherwise payable from, the Gross Revenues in such Fiscal Year, including all Member Payments and payments of principal of and interest on Parity Debt.

Net Revenue Covenant. In addition, the Participating Member agrees to fix, prescribe, revise and collect rates, fees and charges for the services and facilities furnished by the Wastewater System during each Fiscal Year which are sufficient to yield Net Revenues at least equal to 120% of the Member Payments and payments of principal of and interest on Parity Debt coming due in such Fiscal Year. The amount of the Unencumbered Fund Balance as of the last day of the immediately preceding Fiscal Year will be credited towards the Participating Member's obligations under this covenant, in an amount not to exceed 20% of the Member Payments and payments of principal of and interest on Parity Debt.

No Senior Lien Debt

So long as the Member Payments remain unpaid, the Participating Member will not issue or incur any additional bonds or other obligations which are senior to the Member Payments.

Issuance of Parity Debt

The Participating Member may issue Parity Debt which is payable from and secured by a pledge of and lien on the Net Revenues on a parity with the Member Payments, upon satisfaction of the following conditions:

- (a) The Participating Member is not then in default in the payment of the Member Payments and in the payment of principal of and interest on any Parity Debt.

- (b) The amount of Net Revenues, calculated in accordance with sound accounting principles, as shown by the books of the Participating Member for the latest Fiscal Year for which audited financial statements are available, or as shown by the books of the Participating Member for any more recent 12-month period selected by the Participating Member, are at least equal to 120% of the amount of Maximum Annual Debt Service. For purposes of determining the amount of Net Revenues under this paragraph, the following will apply:
 - (i) the amount of Net Revenues may be increased to reflect any increase in the rates and charges levied for service from the Wastewater System which has been adopted prior to the date the Parity Debt is issued, in an amount by which the Net Revenues would have been increased if such increase in charges (based on the highest adopted rate which will be in effect for any of the next three Fiscal Years) had been in effect during the whole of such Fiscal Year or other 12-month period;
 - (ii) the amount of Net Revenues may be increased (in an amount not exceeding 20% of Maximum Annual Debt Service) by the amount of the Unencumbered Fund Balance as of the last day of the immediately preceding Fiscal Year; and
 - (iii) the amount of Net Revenues may be increased to take into account any additions or improvements to or extensions of the Wastewater System to be financed from the proceeds of such Parity Debt or from any other source but in any case which, during all or any part of such Fiscal Year or other 12-month period, were not in service, in an amount equal to the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is to be in operation, all as shown by the certificate or opinion of a qualified independent engineer or qualified independent financial consultant employed by the Participating Member.
- (c) The Participating Member agrees to comply with all conditions to the issuance of Parity Debt as set forth in the any Parity Debt Documents.

Issuance of Subordinate Debt

Nothing in the Financing Agreement limits or affects the ability of the Participating Member to issue or incur obligations which are unsecured or which are secured by an interest which is junior and subordinate to the pledge of and lien upon the Net Revenues established thereunder.

Operation and Insurance of the Wastewater System

The Participating Member covenants and agrees to operate the Wastewater System in an efficient and economical manner and to operate, maintain and preserve the Wastewater System in good repair and working order. The Participating Member will at all times maintain with

responsible insurers all such insurance on the Wastewater System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to the Wastewater System. The Participating Member will also maintain, with responsible insurers, worker's compensation insurance and insurance against public liability and property damage to the extent reasonably necessary to protect the Participating Member, the Authority, the Trustee and the Owners of the Bonds.

Records and Accounts

The Participating Member agrees to keep proper books of record and accounts of the Wastewater System in which complete and correct entries are made of all transactions relating to the Wastewater System. Said books will, upon prior written request, be subject to the reasonable inspection of the Authority and the Trustee, or their representatives authorized in writing, upon not less than two Business Days' prior notice to the Participating Member. The Participating Member will cause the books and accounts of the Wastewater System to be audited annually by an Independent Accountant not more than nine months after the close of each Fiscal Year, and will make a copy of such report available for inspection by the Authority and the Trustee. Such report may be part of a combined financial audit or report covering all or part of the Participating Member's finances.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

FORMS OF CONTINUING DISCLOSURE CERTIFICATES

AUTHORITY CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by SILICON VALLEY CLEAN WATER (formerly the South Bayside System Authority) (the “Authority”) in connection with the issuance of the Silicon Valley Clean Water (San Mateo County, California) 2018 Wastewater Revenue Bonds (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of February 1, 2018 (the “Indenture”), by and between the Authority and ZB, National Association dba Zions Bank, as trustee.

The Authority covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Authority for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the Authority pursuant to, and as described in, Sections 4 and 5.

“*Annual Report Date*” means the date that is nine months after the end of the Authority’s fiscal year (currently March 31 based on the Authority’s fiscal year end of June 30).

“*Dissemination Agent*” means the Authority, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

“*Listed Events*” means any of the events listed in Section 3(a).

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the Authority in connection with the issuance of the Bonds.

“*Participating Underwriter*” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Reporting of Significant Events.

(a) The Authority shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.
- (7) Modifications to rights of security holders, if material.
- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the Authority or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the Authority or an obligated person, or the sale of all or substantially all of the assets of the Authority or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall, or shall cause the Dissemination Agent (if not the Authority) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner

not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The Authority acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The Authority shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the Authority obtains knowledge of the occurrence of any of these Listed Events, the Authority will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the Authority will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority.

Section 4. Provision of Annual Reports.

(a) The Authority shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2018, with the report for the 2016-17 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 5. The initial Annual Report for the 2016-17 fiscal year shall be satisfied by filing the Official Statement promptly following the issuance of the Bonds. Not later than 15 Business Days prior to the Annual Report Date, the Authority shall provide the Annual Report to the Dissemination Agent (if other than the Authority). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the Authority) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Authority to determine if the Authority is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 5; provided that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Authority's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 3(c). The Authority shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Authority hereunder.

(b) If the Authority does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the Authority, in a timely manner, shall provide (or

cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

- (c) With respect to each Annual Report, the Dissemination Agent shall:
 - (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
 - (ii) if the Dissemination Agent is other than the Authority, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 5. Content of Annual Reports. The Authority's Annual Report shall contain or incorporate by reference the following:

(a) The Authority's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Authority for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

- (i) remaining and anticipated sources of CIP funding, which may be provided in the same or similar form as Tables 5,6 and 7;
- (ii) any bonds issues in the most recently completed fiscal year that are payable from SVCW Bond Payments;
- (iii) any change in the cost allocations of Members during the most recently completed fiscal year; and
- (iv) average wastewater flow for the most recently completed fiscal year, which may be provided in the same or similar form as Table 9.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the Authority shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Authority shall clearly identify each such other document so included by reference.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 3(b).

Section 8. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Authority. Any Dissemination Agent may resign by providing 30 days' written notice to the Authority.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Section 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to

enable them to evaluate the ability of the Authority to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 3(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Authority shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the Authority fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Authority hereunder, and shall not be deemed to be acting in any fiduciary capacity for the Authority, the Bond holders or any other party. The obligations of the Authority under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: February 22, 2018

SILICON VALLEY CLEAN WATER

By: _____

Name:

Title:

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Silicon Valley Clean Water

Name of Issue: Silicon Valley Clean Water (San Mateo County, California) 2018
Wastewater Revenue Bonds

Date of Issuance: February 22, 2018

NOTICE IS HEREBY GIVEN that the Authority has not provided an Annual Report with respect to the above-named Bonds as required by the Authority Continuing Disclosure Certificate, dated February 22, 2018. The Authority anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____
Its: _____

**PARTICIPATING MEMBER
CONTINUING DISCLOSURE CERTIFICATE**

This CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”) is executed and delivered by _____ (the “Participating Member”) in connection with the issuance of the Silicon Valley Clean Water (San Mateo County, California) 2018 Wastewater Revenue Bonds (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of February 1, 2018 (the “Indenture”), by and between Silicon Valley Clean Water and ZB, National Association dba Zions Bank, as trustee. The Bonds are payable from revenues, including payments to be made by the Participating Member under a Financing Agreement (the “Financing Agreement”), between the Authority and the Participating Member.

The Participating Member covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Participating Member for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the Participating Member pursuant to, and as described in, Sections 3 and 4.

“*Annual Report Date*” means the date that is nine months after the end of the Participating Member’s fiscal year (currently March 31 based on the Participating Member’s fiscal year end of June 30).

“*Dissemination Agent*” means, initially, the Participating Member, or any successor Dissemination Agent designated in writing by the Participating Member and which has filed with the Participating Member a written acceptance of such designation.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the Authority in connection with the issuance of the Bonds.

“*Participating Underwriter*” means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The Participating Member shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2018, with the report for the 2016-17 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. The initial Annual Report for the 2016-17 fiscal year shall be satisfied by filing the Official Statement promptly following the issuance of the Bonds. Not later than 15 Business Days prior to the Annual Report Date, the Participating Member shall provide the Annual Report to the Dissemination Agent (if other than the Participating Member). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the Participating Member) has not received a copy of the Annual Report, the Dissemination Agent shall contact the Participating Member to determine if the Participating Member is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the Participating Member may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the Participating Member's fiscal year changes, it shall give notice of such change in the same manner as for an Annual Report. The Participating Member shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Participating Member hereunder.

(b) If the Participating Member does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the Participating Member, in a timely manner, shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

- (i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and
- (ii) if the Dissemination Agent is other than the Participating Member, file a report with the Participating Member certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The Annual Report for the Participating Member shall contain or incorporate by reference the following:

(a) The Participating Member's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Participating Member's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the Participating

Member for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

- (i) revenues by class of user for the Sewer Utility System for the most recently completed fiscal year;
- (ii) the top ten Sewer Utility System users by revenue for the most recently completed fiscal year;
- (iii) a description of any revisions to the wastewater rates which were adopted or which took effect during the most recently completed fiscal year;
- (iv) the Sewer Utility System's revenues and expenses and Net Revenues, including debt service and coverage ratios, for the most recently completed fiscal year; and
- (v) a description of any additional indebtedness incurred by the Participating Member during the most recently completed fiscal year which is payable from revenues of the Sewer Utility System.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the Participating Member shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Participating Member or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The Participating Member shall clearly identify each such other document so included by reference.

Section 5. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The Participating Member's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Participating Member shall give notice of such termination as follows: the Participating Member shall, or shall cause the Dissemination Agent (if not the Participating Member) to, file a notice of such termination with the MSRB, in an electronic format as prescribed by the MSRB.

Section 7. Dissemination Agent. The Participating Member may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Participating Member. Any Dissemination Agent may resign by providing 30 days' written notice to the Participating Member.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Participating Member may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) if the amendment or waiver relates to the provisions of Sections 3(a) or 4, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Participating Member to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section shall be filed in the same manner as for an Annual Report.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Participating Member from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report, in addition to that which is required by this Disclosure Certificate. If the Participating Member chooses to include any information in any Annual Report in addition to that which is specifically required by this Disclosure Certificate, the Participating Member shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report.

Section 10. Default. If the Participating Member fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Participating Member to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Participating Member to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Participating Member agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Participating Member hereunder, and shall not be deemed to be acting in any fiduciary capacity for the Participating Member, the Bond holders or any other party. The obligations of the Participating Member under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the Participating Member for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Participating Member, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: February 22, 2018

By: _____
Name:
Title:

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Silicon Valley Clean Water

Name of Issue: Silicon Valley Clean Water (San Mateo County, California)
2018 Wastewater Revenue Bonds

Date of Issuance: February 22, 2018

NOTICE IS HEREBY GIVEN that the Participating Member has not provided an Annual Report with respect to the above-named Bonds as required by the Participating Member Continuing Disclosure Certificate, dated February 22, 2018. The Participating Member anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By:

Its:

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Silicon Valley Clean Water

Name of Issue: Silicon Valley Clean Water (San Mateo County, California) 2018
Wastewater Revenue Bonds

Date of Issuance: February 22, 2018

NOTICE IS HEREBY GIVEN that the Participating Member has not provided an Annual Report with respect to the above-named Bonds as required by the Participating Member Continuing Disclosure Certificate, dated February 22, 2018. The Participating Member anticipates that the Annual Report will be filed by _____.

Dated: _____

DISSEMINATION AGENT:

By: _____
Its: _____

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G
FORM OF BOND COUNSEL OPINION

February 22, 2018

Silicon Valley Clean Water
1400 Radio Road
Redwood City, California 94065

OPINION: \$140,955,000 Silicon Valley Clean Water
(San Mateo County, California)
2018 Wastewater Revenue Bonds

Members of the Authority:

We have acted as bond counsel in connection with the issuance by Silicon Valley Clean Water (the "Authority") of its \$140,955,000 aggregate principal amount of Silicon Valley Clean Water (San Mateo County, California) 2018 Wastewater Revenue Bonds (the "Bonds"). The Bonds have been issued by the Authority under the provisions of Article 4 (commencing with Section 6584) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Bond Law"), an Indenture of Trust dated as of February 1, 2018 (the "Indenture") between the Authority and ZB, National Association dba Zions Bank, as trustee, and a resolution adopted by the Commission of the Authority on January 18, 2018. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is duly organized and validly existing as a joint powers authority under the laws of the State of California, with the power to enter into the Indenture, perform the agreements on its part contained therein and issue the Bonds.
2. The Bonds constitute legal, valid and binding special obligations of the Authority enforceable in accordance with their terms and payable solely from the sources provided therefor in the Indenture.
3. The Indenture has been duly approved by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

4. Under the Bond Law, the Indenture establishes a valid lien on and pledge of the Revenues (as that term is defined in the Indenture) for the security of the Bonds.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax; although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986 which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in the Indenture and in other instruments relating to the Bonds to comply with each of such requirements, and the Authority has full legal authority to make and comply with such covenants. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

6. Interest on the Bonds is exempt from California personal income taxation.

Except as set forth above, we express no opinion regarding any other tax consequences arising with respect to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in accordance with principles of equity or otherwise in appropriate cases.

Respectfully submitted,

A Professional Law Corporation

APPENDIX H

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the bonds described in this Official Statement (the "Bonds"), payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust

companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX I

Annual Financial Report for Silicon Valley Clean Water – Fiscal Year Ended June 30, 2017

[THIS PAGE INTENTIONALLY LEFT BLANK]



SILICON VALLEY CLEAN WATER

Annual Financial Report

For the Years Ending
June 30, 2017 & 2016

This page intentionally left blank

SILICON VALLEY CLEAN WATER

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2017**

* * *



Chavan & Associates, LLP
Certified Public Accountants
1475 Saratoga Ave., Suite 180
San Jose, CA 95129

Silicon Valley Clean Water

Table of Contents June 30, 2017

Independent Auditor's Report.....	1 - 3
Management's Discussion and Analysis	5 - 15
Basic Financial Statements:	
Statement of Net Position	17
Statement of Activities and Changes in Net Position	18
Statement of Cash Flows	19
Notes to Financial Statements.....	20 - 42
Required Supplementary Information:	
Schedule of Pension Contributions - CalPERS	44
Schedule of Proportionate Share of Net Pension Liability	45
Supplementary Information:	
Combining Schedule of Net Position - Enterprise Funds	47 - 48
Combining Schedule of Activities and Changes in Net Position - Enterprise Funds...	49 - 50
Combining Schedule of Cash Flows - Enterprise Funds	51 - 52
Schedule of Analysis of Net Position	53 - 54
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	
	56 - 57



INDEPENDENT AUDITOR'S REPORT

To the Commission of
Silicon Valley Clean Water
Redwood City, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Silicon Valley Clean Water ("SVCW") as of and for the fiscal years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise SVCW's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

SVCW's 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SVCW'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 SVCW's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of SVCW, as of June 30, 2017, and the respective changes in 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of pension contributions - CalPERS, schedule of proportionate share of net pension liability, and schedule of funding progress for the retiree healthcare plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SVCW's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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. In our opinion, this information is fairly stated in all material respects in relation to the financial statements as a whole. The Schedule of Analysis of Net Position has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2017 on our consideration of SVCW's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SVCW's internal control over financial reporting and compliance.

C & A LLP

November 17, 2017
San Jose, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

Silicon Valley Clean Water (the “Authority”, or “SVCW”) has issued its financial statements for the fiscal year ended June 30, 2017 in conformity with the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34). The Management of SVCW presents the following narrative overview and analysis of the financial activities, with comparative data for the fiscal year ended June 30, 2016. The Management Discussion and Analysis (MD&A) section is an overview of SVCW’s financial activities and is an integral part of the accompanying Basic Financial Statements. This information should be read in conjunction with the audited financial statements that follow this section.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

SVCW’s revenues and expenses are recognized on a full accrual basis; revenues are recognized in the period in which they are earned and expenses are recognized in the period incurred. The basic financial statements are comprised of two components: Financial Statements and Notes to the Financial Statements. The Financial Statements report information about SVCW accounting using methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities and include:

- The *Statement of Net Position* presents SVCW assets and liabilities, with the difference between the two reported as *net position*. This statement provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the SVCW. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SVCW is improving or deteriorating.
- The *Statement of Activities and Changes in Net Position* accounts for revenues and expenses and reflects the results of SVCW operations over the course of the fiscal year. This statement can be used as an indicator of the extent to which SVCW recovers its costs through charges.
- The final required Financial Statement is the *Statement of Cash Flows*, with the primary purpose of providing information about SVCW’s cash receipts and cash payments during the reporting period. In addition to cash receipts and payments, this statement illustrates net changes in cash resulting from operations and investments. It also answers questions about the sources and uses of cash, and describes the change in cash balance during the reporting period.

The Notes to Financial Statements provide information that is not displayed on the face of the financial statements but is essential to a reader’s full understanding.

ORGANIZATION AND BUSINESS

SVCW is a joint exercise of powers authority that provides wastewater transmission, treatment, and effluent disposal to the cities of Belmont, Redwood City, and San Carlos, and the West Bay Sanitary District (collectively, the “Members”), all of which are located in the northern part of Silicon Valley between the cities of San Francisco and San Jose. SVCW’s wastewater treatment plant is located in the City of Redwood City and serves more than 200,000 people and businesses located predominantly in San Mateo County, California. SVCW operates in a robust Bay Area economy with a customer base that includes Oracle Corporation, EA Sports, and Facebook. In response to SVCW capital needs, ratepayers have already accommodated rate increases dedicated to large infrastructure improvements.

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

SVCW owns and operates a regional wastewater treatment plant with an average dry weather flow permit capacity of 29 million gallons per day, an approximately nine-mile influent force main pipeline that conveys wastewater from the Members to SVCW's treatment plant, five wastewater pump stations, and a 1.25 mile effluent disposal pipeline that discharges treated effluent into the San Francisco Bay. SVCW also provides recycled water to the City of Redwood City.

A four-member "Commission" consisting of one appointed member from each of the Members' governing bodies governs SVCW. Voting is proportional to the Members' respective ownership interests in SVCW's wastewater system. A proportionally-weighted vote of at least three-fourths of the total Commission votes is required to adopt or amend bylaws, rules, and regulations; to adopt or modify any budget; to approve any capital costs, materials and construction contracts, appropriations, or transfers of more than \$50,000; to employ the manager and certain consultants; to sell or dispose of property; and to approve other designated items. Other actions of the Commission must be approved by a majority of total possible votes. Any amendment of the Joint Powers Agreement requires the concurrence of all Members. In addition, any amendment to the Joint Powers Agreement must also be approved by a 4/5 vote by each of the Members' governing bodies.

The Joint Powers Agreement sets forth how SVCW's operating and capital costs are allocated to the Members. Operating costs are allocated to each Member based on a three-year average of each Member's annual pro-rata share of total wastewater flow and strength loadings as measured by biological oxygen demand ("BOD") and suspended solids ("SS"). As a result, the Budget for fiscal year 2017-18 allocates operating and maintenance costs to the Members as follows:

- City of Redwood City 46.5%
- West Bay Sanitary District 27.9%
- City of San Carlos 12.8%
- City of Belmont 12.8%

Capital costs are allocated per Members' share of capacity owned in various components of the wastewater system as established in the Joint Powers Agreement. All SVCW capital improvement expenditures are allocated as follows:

- City of Redwood City 48.57%
- West Bay Sanitary District 26.84%
- City of San Carlos 15.14%
- City of Belmont 9.45%

The following table shows a history of average daily wastewater flow conveyed to SVCW from each Member for the last five fiscal years. Note that four years of an official drought were ended with heavy rains experienced in fiscal year 2016-17:

<u>Member</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
<u>Redwood City</u>	6.4	6.6	6.1	6.4	7.8
<u>West Bay</u>	3.5	3.5	3.6	3.8	3.9
<u>San Carlos</u>	1.7	1.9	1.8	1.5	2.7
<u>Belmont</u>	<u>1.7</u>	<u>1.9</u>	<u>1.9</u>	<u>1.7</u>	<u>2.0</u>
<u>Total</u>	13.3	13.9	13.4	13.4	16.4

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

FINANCIAL ANALYSIS

Our analysis of SVCW begins on page 17 of the Financial Statements. One of the most important questions asked about SVCW's finances is "Is SVCW as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about SVCW's activities in a way that will help answer this question. These two statements report the net position of SVCW and changes in them, which helps measure the financial health of the organization. Over time, increases or decreases in SVCW's net position are one indicator of whether its financial health is improving or deteriorating. However, it is important to keep these indicators in context with other non-financial factors such as changes in economic conditions, population growth, climate, zoning, or the regulatory environment.

SVCW's fiscal year 2016-17 operating revenues and expenses were comparable both to the prior fiscal year as well as to the 2016-17 Budget. SVCW also invested \$30.9 million cash into constructing assets associated with its ongoing Capital Improvement Program. Key projects included sectional replacement of the effluent pipeline, upgrades to the electrical power system, improvements to primary sedimentation tanks, and modernizing solids thickening processes.

The Capital Improvement Program is largely funded through long-term borrowings and, to a lesser extent, member agency cash contributions. As of June 30, 2017, SVCW long-term debt was \$201.8 million, a net increase of \$2.6 million from prior year after \$6.6 million in additional State Revolving Fund borrowings, premium amortization of \$0.6 million, and principal payments of \$3.4 million.

SVCW Commission has an established reserve policy to protect its fiscal solvency. As of June 30, 2017, cash reserves were \$28.8 million (a \$3.8 million increase over the prior year) to prepare for required debt reserves and to ease economic uncertainty in the event of unforeseen large expenditures or catastrophic events. In addition, the Authority has a \$5 million debt reserve associated with its 2009 bond issue.

Like other governmental agencies, SVCW implemented Governmental Accounting Standards Board Statement No. 68 (GASB 68) in fiscal year 2014-15. The 2014-15 financial statements reflect a one-time \$10.1 million adjustment for net pension liability.

FINANCIAL HIGHLIGHTS

- SVCW net position increased during fiscal year 2016-17 by \$2.51 million (3.18%) from the previous year. Current Assets fell by \$3.7 million as receivables associated with a State Water Board loan program were settled. Total Noncurrent Assets increased by \$4.2 million, a change that included spending \$15 million of Cash/bond proceeds held by Fiscal Agent on Construction in Progress, which increased \$17 million. The Net Position balance also reflects a \$2.8 million reduction in deferred inflows associated with prior years' CalPERS pension earnings that were recognized in the 2016-17 fiscal year.
- Operating revenues, inclusive of Members' cash contributions in lieu of capital financing, decreased \$11.95 million (23.8%) from the previous year. Whereas the prior year included \$14.2 million of cash-in-lieu financing from Redwood City and Belmont, no such contributions were required in 2016-17. Excluding this item, overall Operating Revenue increased by \$2.2 million for ordinary operations and paying increased debt service.

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

- Total expenses ended the fiscal year at \$39.4 million, a \$297 thousand decrease (0.7%) compared to the prior year. Depreciation increased by \$1.3 million as SVCW placed new assets into service during the fiscal year. Operating expenses were \$925 thousand less than prior year, specifically in personnel costs, as deferred inflows associated with CalPERS pension earnings were recognized in the 2016-17 fiscal year. Non-operating expenses declined by \$720 thousand (8.0%) as a recent early bond refunding reduced interest expense.
- Current cash balances increased \$1.7 million (6.12%) as member agencies continued to contribute to the Capital Improvement Reserve during the year.

NET POSITION

A summary of SVCW's Statement of Net Position is presented in Table 1, which indicates a \$2.5 million increase in SVCW's net position from fiscal year 2015-16. Significant changes during the fiscal year included:

- Current Assets plus Investment in Real Estate and an OPEB asset decreased by \$3 million, largely from reduced receivables associated with a State Revolving Fund loan. The reimbursable SRF balance due to SVCW as of June 30, 2017 was \$9.3 million.
- Restricted assets decreased by \$15 million (72.8%) from the prior year-end balance of \$20.6 million as SVCW used bond cash proceeds on construction projects.
- Capital assets, net of depreciation, increased by \$18.5 million (8%) reflecting the continued investment in critical infrastructure improvements as SVCW proceeds with its long-term Capital Improvement Program.
- Total SVCW liabilities increased by \$1.34 million (0.6%), a net change that reflects additional State Revolving Fund borrowings of \$6.1 million offset by \$2.94 million in debt principal payments and \$3.2 million less accounts payable at June 30, 2017.
- Deferred Outflows and Deferred Inflows represent changes in the components of Authority's pension liability. Specifically, the changes are to recognize in the total pension liability and in the pension plan's fiduciary net position. The most significant change in deferred inflows and outflows was the impact of differences between past years' projected investment earnings and the actual experiences. Such changes are spread to pension expense over a period of five years.

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

TABLE 1
Condensed Statement of Net Position

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Percent Change
Current and other assets	\$ 48,000,613	\$ 51,048,297	\$ (3,047,684)	-5.97%
Restricted assets	5,602,191	20,591,923	(14,989,732)	-72.79%
Capital assets	251,171,625	232,622,646	18,548,979	7.97%
Total Assets	304,774,429	304,262,866	511,563	0.17%
Deferred Outflows	4,117,386	3,547,927	569,459	16.05%
Total Liabilities	225,860,283	224,521,135	1,339,148	0.60%
Deferred Inflows	1,352,904	4,125,769	(2,772,865)	-67.21%
Net investment in capital assets	51,472,947	50,662,258	810,689	1.60%
Restricted	5,063,980	5,040,771	23,209	0.46%
Unrestricted	25,141,701	23,460,860	1,680,841	7.16%
Total Net Position	\$81,678,628	\$79,163,889	\$ 2,514,739	3.18%

Table 2 below shows the activities associated with construction funds during the year. During 2016-17, member agencies collected \$2.1 million in Stage 2 capacity fees associated with development in their communities. Members also contributed \$1.8 million and \$1.5 million, respectively, to Capital Reserves and pay-go capital projects, respectively. Approximately \$11.9 million was received into the Capital Improvement Fund for debt service.

As part of continued expenditures on its Capital Improvement Program, SVCW spent \$30.8 million on capital projects during fiscal year 2016-17. Specific expenditures included sectional replacement of the effluent pipeline, upgrades to the electrical power system, improvements to primary sedimentation tanks, and modernizing solids thickening processes.

TABLE 2
Construction Fund Activity

	Capital Reserve (13 Fund)	New Capital (14 Fund)	Replacement (17 Fund)	Stage 2 (15 Fund)	Capital Improvement Program (20-22 Fund)	Totals
Member contributions	\$ -	\$ -	\$ -	\$ 2,138,907	\$ -	\$ 2,138,907
Operating income	1,785,312	1,536,845	-	-	11,877,963	15,200,120
Interest	23,665	1,224	15,903	13,260	31,766	85,818
Total Revenue	1,808,977	1,538,069	15,903	2,152,167	11,909,729	17,424,845
Cash to construction	\$ -	\$ 1,409,308	\$ -	\$ 108,128	\$ 29,338,785	\$ 30,856,221

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

While the Statement of Net Position shows the change in financial position from year to year, the Statement of Activities and Changes in Net Position (Table 3 below) provides answers as to the nature and source of the changes. It shows that total 2016-17 revenues decreased from the prior year by \$11.5 million (21.6%). Operating Revenues decreased by \$11.95 million (23.8%), which reflects how, in 2015-16, member agencies contributed \$14.2 million to fund projects rather than increasing their proportionate share of debt. Capital Contributions revenue increased by \$541 thousand (26.3%), representing more new development associated with Stage 2 capacity remittances from Members.

Fiscal year 2016-17 total expenses decreased by \$297 thousand (.7%) over the prior year, which included changes in several key expenditures:

- Depreciation expense increased \$1.35 million (17%), consistent with the increase in capitalized assets placed into service during the fiscal year.
- Operating expenses were \$925 thousand (4.1%) less than the prior year. Most of this decrease was related to recognizing pension expense amortizations.
- Non-operating expenses decreased by \$720 thousand. SVCW completed a \$53.2 million advanced refunding of bonds in the prior fiscal year, producing a \$750 thousand decrease in interest expense.

TABLE 3
Condensed Statements of Activities and Changes in Net Position

	Fiscal Year 2017	Fiscal Year 2016	Dollar Change	Percent Change
Operating revenues	\$ 38,333,303	\$ 50,284,840	\$ (11,951,537)	-23.8%
Non-operating revenues	1,001,807	1,124,265	(122,458)	-10.9%
Capital Contributions	2,600,122	2,058,666	541,456	26.3%
Total Revenues	41,935,232	53,467,771	(11,532,539)	-21.6%
Depreciation expense	9,279,531	7,931,726	1,347,805	17.0%
Operating expense	21,892,649	22,817,854	(925,205)	-4.1%
Non-operating expense	8,248,313	8,967,969	(719,656)	-8.0%
Total Expenses	39,420,493	39,717,549	(297,056)	-0.7%
Changes in Net Position	\$ 2,514,739	\$ 13,750,222	\$ (11,235,483)	-81.7%
Beginning net position	79,163,889	65,413,667	13,750,222	21.0%
Beginning net position - adjusted	79,163,889	65,413,667	13,750,222	21.0%
Ending Net Position	\$ 81,678,628	\$ 79,163,889	\$ 2,514,739	3.2%

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

BUDGETARY HIGHLIGHTS

The SVCW Commission adopts an annual Operating Fund budget that provides for current activities and establishes a short-term spending plan aligned with SVCW financial goals. Budgets are prepared on the accrual basis of accounting. Table 4 below compares actual and budgeted expenditures for the Operating Fund during the year ended June 30, 2017.

TABLE 4
FY 2016-2017 Actual vs Budget

	Actual	Budget	Dollar Variance	Percent Variance
Member Contributions	\$ 22,549,104	\$ 22,549,103	\$ 1	0.00%
Source Control Revenue	69,724	56,000	13,724	24.51%
Other Revenue	295,102	370,829	(75,727)	-20.42%
Total Operating Revenue	22,913,930	22,975,932	(62,002)	-0.27%
Operations	8,114,728	8,300,593	185,865	2.24%
Maintenance	5,845,384	5,932,900	87,516	1.48%
Laboratory	1,490,025	1,643,647	153,622	9.35%
Environmental Services	960,717	1,094,402	133,685	12.22%
Engineering	359,802	507,159	147,357	29.06%
Information Services	1,682,948	1,747,490	64,542	3.69%
Safety	331,500	370,779	39,279	10.59%
Administration	3,390,953	3,378,961	(11,992)	-0.35%
Depreciation	9,279,531	9,279,531	-	0.00%
Total Operating Expenses	31,455,588	32,255,462	799,874	2.48%
Operating Income/(Loss)	\$ (8,541,658)	\$ (9,279,530)	\$ 737,872	7.95%

Inclusive of \$9.3 million in depreciation, SVCW reported an operating loss of \$8.5 million, which was \$737.8 thousand less than budgeted during fiscal year 2016-17. Member Contributions revenue matched Budget but Other Revenue ended the year \$76 thousand (20.4%) less than budgeted due to timing of grant reimbursements from a California Energy Commission grant. Total expenditures were \$799.8 thousand (2.5%) less than budgeted and was largely due to the timing of recognizing deferred inflows associated with CalPERS pension earnings.

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

CAPITAL ASSETS

SVCW has a ten-year Capital Improvement Program to improve existing facilities, build new facilities, rehabilitate assets, repair or replace infrastructure, preserve assets, enhance safety and security, and perform needed maintenance. Significant investments in infrastructure have included replacement of significant lengths of the influent conveyance pipe, modernization of electronic control systems for activated sludge handling, upgrades of electrical systems. More recently, SVCW entered into design-build agreements for its Regional Environmental Sewer Conveyance Upgrade (RESCU) program. This program replaces an existing forcemain with a gravity pipeline and constructs essential pretreatment facilities.

Consistent with the Capital Improvement Program, the Commission approved these and other capital improvements to protect public health, the environment, and agency facilities. Table 5 below provides a summary of SVCW capital assets and shows how, at the ends of fiscal years 2015-16 and 2016-17, Net Property Plant & Equipment (PP&E) was \$155.4 million and \$156.6 million, respectively.

Additional information about SVCW's capital acquisitions and construction is presented in Note 5 to the financial statements.

TABLE 5
Capital Assets

	Balance at June 30, 2016	Additions	Deletions	Adjustments & Transfers	Balance at June 30, 2017
Land	\$ 1,282,081	\$ -	\$ -	\$ -	\$ 1,282,081
Buildings & Struct.	77,638,983	-	-	6,565,580	84,204,563
Pipelines	55,057,704	-	-	93,300	55,151,004
Pump Stations	6,543,649	-	(20,005)	544,872	7,068,516
Machines & Equip.	86,116,135	-	(170,933)	3,326,574	89,271,776
Total PP&E, Cost	226,638,552	-	(190,938)	10,530,326	236,977,940
Accum. Depreciation	71,199,772	9,279,531	(142,737)	-	80,336,566
Total PP&E, Net	\$ 155,438,780	\$ (9,279,531)	\$ (48,201)	\$ 10,530,326	\$ 156,641,374
Construction in Progress:					
Stage 2 Capacity	\$ 2,867,123	\$ 67,306	\$ -	\$ -	\$ 2,934,429
General	74,316,743	27,809,405	-	(10,530,326)	91,595,822
Total CIP	\$ 77,183,866	\$ 27,876,711	\$ -	\$ (10,530,326)	\$ 94,530,251

LONG TERM DEBT

Including a Line of Credit but excluding Unamortized Premium on outstanding Bonds, SVCW had total long-term debt outstanding of \$188 million as of June 30, 2017, a \$3.4 million increase from June 30, 2016. Components of SVCW's long-term debt liability as of June 30, 2017 include \$130.4 million of Wastewater Revenue Bonds (excluding unamortized premiums of \$17.2 million), Notes Payable

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

obligations to the California Clean Water State Revolving Fund for approximately \$54 million, and a line of credit of \$3.5 million.

When SVCW credit rates were last reviewed in November 2016, Moody's upgraded its Wastewater Revenue Bonds rating to Aa2 from Aa3. Standard & Poor's Ratings Services separately affirmed its 'AA' long-term rating with a stable outlook.

Wastewater Revenue Bonds

SVCW has \$130.4 million outstanding in Wastewater Revenue Bonds par value, the proceeds for which were used to acquire and construct wastewater system improvements. These Bonds are limited obligations of SVCW, payable solely from and secured solely by the revenues pledged under the Indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Table 6 below shows the total bonds outstanding for the fiscal years ended June 30, 2016 and 2017:

TABLE 6
Wastewater Revenue Bonds

Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds	Issued	Bonds
					Outstanding	(Redeemed)	Outstanding
					July 01, 2016		June 30, 2017
2009 Revenue Bond	7/1/2009	8/1/2039	1.74-8.1%	\$ 55,855,000	\$ 4,925,000	\$ (1,160,000)	\$ 3,765,000
2014 Revenue Bond	3/6/2014	2/1/2044	3.0-5.0%	60,000,000	58,205,000	(1,010,000)	57,195,000
2015 Revenue Bond	11/24/2015	8/1/2045	2.0-5.0%	70,200,000	70,200,000	(770,000)	69,430,000
Total Wastewater Revenue Bonds				\$ 186,055,000	\$ 133,330,000	\$ (2,940,000)	\$ 130,390,000

State Water Resources Control Board Loan

SVCW has financed three projects by entering into separate sale-repurchase agreements with the State Water Resources Control Board (SWRCB). Combined, the principal due on these agreements totaled \$54 million as of June 30, 2017. The project funds, together with all accrued interest, are repaid in annual installments commencing one year after the completion of construction.

In August 2011, SVCW secured SWRCB funding for the construction of an administration and plant control building. The outstanding liability was \$9.5 million as of June 30, 2017 and is scheduled to be fully repaid by June 2033.

In March 2012, SVCW entered a similar agreement with the SWRCB for up to \$35.4 million for certain improvements to the wastewater treatment plant. As of June 30, 2017, SVCW had incurred \$30.7 million in expenditures and the project was completed in July 2017. The total outstanding balance at completion was \$31.5 million. The first annual payment of \$1.89 million was made October 31, 2017 and the final payment is scheduled October 31, 2036.

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

In May 2017, SVCW entered a third SWRCB agreement for up to \$14 million to plan improvements to its conveyance system. As of June 30, 2017, SVCW had incurred the full \$14 million in expenditures under this project by year-end. SVCW intends to consolidate this loan into a subsequent construction loan associated with conveyance projects in 2018.

Line of Credit

On May 29, 2017, SVCW secured a \$30 million line of credit with Wells Fargo Bank. Advances on the line of credit provide for an interest rate based on either a fixed per annum rate of interest equal to the LIBOR rate plus the Applicable LIBOR Rate Margin, or a variable per annum rate of interest equal to the Base Rate plus the Applicable Base Rate Margin. SVCW had \$3.5 million outstanding on the line of credit at June 30, 2017.

More detailed information about SVCW's long-term debt, Notes Payable, and Line of Credit is presented in note 6 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The approved Operating Budget for fiscal year 2017-18 recommends expenditures based on a prioritization of needs, goals and objectives; it also anticipates external cost pressures and provides a roadmap to meet the needs of the community in the coming fiscal year. The Budget considered ordinary inflationary pressures, and incorporated savings from operational improvements. Personnel costs are relatively unchanged in terms of staffing levels, though adjusted to incorporate terms of a Memorandum of Understanding (MOU) between SVCW and the International Union of Operating Engineers Stationary Local 39, AFL-CIO. This MOU expires June 30, 2018.

Each Member Agency has proactively raised sewer rates to support its allocable share of funding requirements for SVCW's operations and Capital Improvement Program, as well to meet their own operating and capital needs.

Table 7 compares the fiscal year 2017-18 Operating Fund Budget to the fiscal year 2016-17 actual results. Total 2017-18 Operating Expenses are anticipated to increase \$1.7 million (5.5%) from prior year actual expenditures. The largest increase over 2016-17 actual expenditures is in personnel costs. In addition to a \$900 thousand impact of recognizing the timing Deferred Inflows related to CalPERS pension earnings, the Budget provides \$860 thousand for routine salary increases and filling of two vacant positions. Other non-personnel budgeted costs are generally consistent 2016-17 actuals as SVCW continues to incur savings from more efficient capital projects and equipment, as well as other process optimization efforts.

Silicon Valley Clean Water
Management Discussion and Analysis
June 30, 2017

TABLE 7
FY 2017-2018 Budget vs FY 2016-2017 Actual

	FY 2017-2018 Budget	FY2016-2017 Actual	Dollar Change	Percent Change
Member Contributions	\$ 23,291,325	\$ 22,549,104	\$ 742,221	3.3%
Source Control Revenue	56,486	69,724	(13,238)	-19.0%
Other Revenues	565,122	295,102	270,020	91.5%
Total Operating Revenue	23,912,933	22,913,930	999,003	4.4%
Operations	8,781,725	8,114,728	666,997	8.2%
Maintenance	6,091,043	5,845,384	245,659	4.2%
Laboratory	1,721,762	1,490,025	231,737	15.6%
Environmental Services	1,095,886	960,717	135,169	14.1%
Engineering	554,380	359,802	194,578	54.1%
Information Systems	1,697,101	1,682,948	14,153	0.8%
Safety	381,463	331,500	49,963	15.1%
Administration	3,589,562	3,390,953	198,609	5.9%
Depreciation	9,279,531	9,279,531	-	0.0%
Total Operating Expenses	33,192,453	31,455,588	1,736,865	5.5%
Operating Income/(Loss)	\$ (9,279,520)	\$ (8,541,658)	\$ (737,862)	-8.6%

CONTACTING SILICON VALLEY CLEAN WATER MANAGEMENT

This financial report is designed to provide SVCW officers, investors, stakeholders, and other interested parties with a general overview of SVCW's financial condition. If you have any questions about this report or need additional financial information, please contact the offices of the General Manager or the Chief Financial Officer at Silicon Valley Clean Water, (650) 832-6224, 1400 Radio Road, Redwood City, CA, 94065.

BASIC FINANCIAL STATEMENTS

Silicon Valley Clean Water
Statement of Net Position
June 30, 2017
(With Comparative Totals as of June 30, 2016)

Assets	2017	2016
Current Assets:		
Cash and investments	\$ 30,047,972	\$ 28,315,756
Accounts receivable	10,194,719	15,784,338
Interest receivable	514,607	524,026
Employee notes receivable	21,741	12,672
Deposits	-	93,300
Inventory	1,828,192	1,720,615
Prepaid expenses	198,984	38,537
Total Current Assets	42,806,215	46,489,244
Noncurrent Assets:		
Investment in real estate	2,552,962	2,552,962
Cash with fiscal agent	5,602,191	20,591,923
OPEB asset	2,641,436	2,006,091
Capital assets - net:		
Depreciable capital assets:		
Plant in service - net	155,359,294	154,156,699
Non-depreciable capital assets:		
Land	1,282,081	1,282,081
Construction in progress:		
Stage 2	2,934,429	2,867,123
General	91,595,821	74,316,743
Total Capital assets - net	251,171,625	232,622,646
Total Noncurrent Assets - Net	261,968,214	257,773,622
Total Assets	\$ 304,774,429	\$ 304,262,866
Deferred Outflows of Resources		
Pension Contributions and Adjustments	\$ 3,609,256	\$ 2,947,263
Deferred Loss on Defeasance	508,130	600,664
Total Deferred Outflows of Resources	\$ 4,117,386	\$ 3,547,927
Liabilities		
Current Liabilities:		
Accounts payable	\$ 3,062,607	\$ 6,218,324
Accrued payroll and employee benefits	682,100	1,158,427
Accrued interest payable	4,166,921	4,220,963
Unearned revenue	297,280	1,246,444
Noncurrent liabilities due within one year	5,749,478	4,177,590
Total Current Liabilities	13,958,386	17,021,748
Noncurrent liabilities due in more than one year	211,901,897	207,499,387
Total Liabilities	\$ 225,860,283	\$ 224,521,135
Deferred inflows of Resources		
Pension Differences Between Actual and Expected Returns	\$ 1,352,904	\$ 4,125,769
Net Position		
Net Investment in Capital Assets	\$ 51,472,947	\$ 50,662,258
Restricted for:		
Debt service	5,063,980	5,040,771
Unrestricted	25,141,701	23,460,860
Total Net Position	\$ 81,678,628	\$ 79,163,889

The notes to basic financial statements are an integral part of this statement

Silicon Valley Clean Water
Statement of Activities and Changes in Net Position
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016)

	2017	2016
Operating Revenues:		
Member contributions for services	\$ 22,768,357	\$ 22,118,913
Member contributions for cash reserves	3,315,348	3,158,796
Member contributions for debt service	11,877,963	10,513,768
Member contributions for cash in-lieu-of financing	-	14,174,489
Sources control charges	69,724	42,065
Miscellaneous revenues	301,911	276,809
Total operating revenues	<u>38,333,303</u>	<u>50,284,840</u>
Operating Expenses:		
Operations	8,043,786	8,469,525
Maintenance	5,690,268	5,734,661
Laboratory	1,437,783	1,594,084
Environmental services	914,870	958,571
Engineering	399,315	474,546
Information systems	1,655,229	1,525,354
Safety	322,260	335,727
Administration	3,429,138	3,696,801
Claims paid	-	28,585
Depreciation	9,279,531	7,931,726
Total operating expenses	<u>31,172,180</u>	<u>30,749,580</u>
Operating Income (Loss)	<u>7,161,123</u>	<u>19,535,260</u>
Nonoperating Revenues (Expenses):		
Grants	271,125	-
Stage 2 capacity fees	2,600,122	2,058,666
Interest by fund:		
Operations fund	16,419	15,586
Stage 2 capacity fund	13,260	105,552
Capital improvement reserve fund	24,889	206,864
Self insurance fund	33	57
Operating reserve fund	15,903	49,093
Recycled water fund	29	38
Capital improvement fund	89,670	116,838
Net increase (decrease) in fair value of investments	(57,904)	1,853
Interest expense	(8,200,112)	(8,950,017)
Premium amortization	628,383	628,384
Gain (loss) on disposal of fixed assets	(48,201)	(17,952)
Total nonoperating revenues (expenses)	<u>(4,646,384)</u>	<u>(5,785,038)</u>
Change in Net Position	2,514,739	13,750,222
Beginning Net Position	<u>79,163,889</u>	<u>65,413,667</u>
Ending Net Position	<u>\$ 81,678,628</u>	<u>\$ 79,163,889</u>

The notes to basic financial statements are an integral part of this statement

Silicon Valley Clean Water
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016)

	2017	2016
Cash Flows from Operating Activities:		
Cash received from member agencies	\$ 43,123,993	\$ 52,042,284
Cash paid to suppliers for goods and services and employees for services	(23,564,270)	(22,664,008)
Other cash received (paid)	301,911	257,434
Net Cash Provided (Used) by Operating Activities	<u>19,861,634</u>	<u>29,635,710</u>
Cash Flows from Capital and Related Financing Activities:		
Cash received from member agencies other than for services	2,138,907	2,058,666
Cash received from grants	271,125	-
Cash paid for investment in real estate	-	(857)
Proceeds from capital debt	14,396,887	88,139,927
Interest paid on capital debt	(8,161,620)	(7,712,475)
Principal paid on capital debt	(11,019,946)	(60,795,599)
Purchases and construction of capital assets	(30,856,221)	(42,729,535)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(33,230,868)</u>	<u>(21,039,873)</u>
Cash Flows from Investing Activities:		
Investment income	111,718	503,952
Net Cash Provided (Used) by Investing Activities	<u>111,718</u>	<u>503,952</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(13,257,516)	9,099,789
Cash and Cash Equivalents Beginning	48,907,679	39,807,890
Cash and Cash Equivalents Ending	<u>\$ 35,650,163</u>	<u>\$ 48,907,679</u>
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ 7,161,123	\$ 19,535,260
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	9,279,531	7,931,726
Amortization of issuance costs	-	50,605
Depreciation and capital asset adjustments	-	(17,952)
Pension expense adjustment - GASB 68	(264,929)	650,160
Net change in:		
Accounts receivable	6,050,834	780,069
Employee notes receivable	(9,069)	8,790
Inventory	(107,577)	(149,011)
Prepaid expenses	(160,447)	(643)
Deposits	93,300	(413)
Net OPEB asset	(635,345)	(533,641)
Accounts payable	(176,206)	(76,500)
Accrued payroll and employee benefits	(476,327)	147,368
Unearned revenue	(949,164)	1,245,394
Accrued compensated absences	55,910	64,498
Net Cash Provided (Used) by Operating Activities	<u>\$ 19,861,634</u>	<u>\$ 29,635,710</u>

The notes to basic financial statements are an integral part of this statement

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

NOTE 1 - NATURE OF ORGANIZATION

Silicon Valley Clean Water (SVCW, or “the Authority”), formerly South Bayside System Authority, was founded in 1975 as the successor to the Strategic Consolidation Sewerage Plan. SVCW took title to all property of the Strategic Consolidation Sewerage Plan. SVCW maintains and operates sanitary sewerage pumping, transmission and outfall facilities constructed by the Strategic Consolidation Sewerage Plan. In addition, SVCW has constructed and is operating sewerage treatment plant facilities. The members of SVCW are the Cities of Belmont, Redwood City, San Carlos, and the West Bay Sanitary District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

All activities of SVCW are accounted for within enterprise funds. SVCW's financial statements include a Statement of Net Position, a Statement of Activities and Changes in Net Position and a Statement of Cash Flows.

The financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of SVCW's assets (including capital assets, as well as infrastructure assets), deferred outflows of resources, liabilities, deferred inflows of resources, and long-term liabilities are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Deferred outflows of resources is a consumption of net assets by SVCW that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflows of resources is an acquisition of net assets by SVCW that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

SVCW applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued *GASB No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. This includes pronouncements by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and the Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure, unless those pronouncements conflict with or contradict with GASB pronouncements.

Statement of Net Position

The statement of net position is designed to display the financial position of SVCW. SVCW's net position is classified into three categories as follows:

- Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.

- **Restricted** - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.
- **Unrestricted** - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. SVCW first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues in the enterprise funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Budgets and Budgetary Accounting

SVCW adopted a one year budget which provides for the general operations of SVCW. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for all capital projects.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for deposits and investment risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Investments

SVCW participates in various investments, including an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

The following is a summary of the definition of fair value:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

Receivables

Receivables include amounts due from member assessments, services performed for other agencies, and from the state of California. All receivables are current and reported net of an allowance for uncollectible accounts. The allowance for uncollectible accounts was zero as of June 30, 2017.

Inventories

Inventories are valued using the average cost method. Inventories are recorded as expenses when consumed rather than when purchased.

Capital Assets

Property, plant and equipment purchased after June 30, 1992 are stated at cost. Prior acquisitions are stated at their appraised value as of June 30, 1992. Property, plant and equipment contributed to SVCW are stated at estimated fair value at the time of contribution. SVCW policy has set the capitalization threshold for reporting capital assets at \$20,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets generally as outlined by the State Controller's Report on Fixed Assets. The purpose of depreciation is to spread the cost of plant and equipment equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of plant and equipment cost

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

Depreciation of all plant and equipment in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of the capital assets.

SVCW has assigned the useful lives listed below to plant and equipment:

Buildings and Structures	50-70
Pipelines	35
Pump Stations	7-25
Machinery and Equipment	5-10

Compensated Absences

SVCW has a policy whereby an employee can accumulate unused vacation. Compensated absences are recorded as a liability when accrued. Accumulated vacation is computed using current employee accumulated vacation hours at current pay rates. SVCW does not offer payment for sick leave at termination or retirement.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's California Public Employees' Retirement System (CalPERS) plans (the Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure, except as follows:

New Accounting Pronouncements

GASB Statement No. 77, Tax Abatement Disclosures. - Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015 (earlier application was encouraged and was applied at the District).

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the District under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The implementation of this statement did not have a significant impact on SVCW's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* - The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The implementation of this statement did not have a significant impact on SVCW's financial statements and did not result in any prior period restatements or adjustments.

Upcoming New Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

SVCW is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 81, Irrevocable Split-Interest Agreements - The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. SVCW doesn't believe this statement will have a significant impact on SVCW's financial statements.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of GASB 82 for selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. SVCW doesn't believe this statement will have a significant impact on SVCW's financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. SVCW doesn't believe this statement will have a significant impact on SVCW's financial statements.

GASB Statement No. 84, *Fiduciary Activities* - The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. SVCW doesn't believe this statement will have a significant impact on SVCW's financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. SVCW doesn't believe this statement will have a significant impact on SVCW's financial statements.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

NOTE 3 - CASH AND INVESTMENTS

SVCW's cash and investments consisted of the following as of June 30, 2017 and 2016:

Cash and Investments	June 30. 2017	June 30. 2016	Investment Rating
Cash Deposits:			
Demand deposits	\$ 290,844	\$ 408,955	n/a
Cash on hand	1,000	1,000	n/a
Total Cash Deposits	291,844	409,955	
Investments:			
US Treasuries	138,850	-	n/a
Agencies	25,366,854	18,636,582	A-/A3
Commercial paper/corp bonds	2,398,117	2,672,468	A-/A3
Municipal bonds/notes	3,911,208	2,307,210	A-/A3
Money Market/Certificates of Deposit	2,026,757	6,435,233	n/a
State of California Local Agency Investment	1,516,533	18,446,231	Not rated
Total Investments	35,358,319	48,497,724	
Total Cash and Investments	<u>\$ 35,650,163</u>	<u>\$ 48,907,679</u>	

The following is a summary of the Authority's cash and investments as of June 30, 2017:

Description	Available	Restricted	Total
Cash and investments	<u>\$ 30,047,972</u>	<u>\$ 5,602,191</u>	<u>\$ 35,650,163</u>

The following is a summary of the Authority's investments by maturity as of June 30, 2017:

Maturity	June 30. 2017	June 30. 2016
0-1 years	\$ 10,814,114	\$ 29,261,665
1-2 years	4,479,197	7,615,045
2-3 years	13,498,717	5,585,113
2-5 years	6,566,291	6,035,901
Total Investments	<u>\$ 35,358,319</u>	<u>\$ 48,497,724</u>

Cash Deposits

Interest bearing bank balances are insured up to \$250,000 per bank by the Federal Deposit Insurance Company ("FDIC"). SVCW's cash in bank did not exceed the insured limit as of June 30, 2017. All of SVCW's deposits with financial institutions were held in collateralized accounts.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

The Entity has the following recurring fair value measurements as of June 30, 2017 and 2016:

- California Local Agency Investment Fund (LAIF) of \$1,516,533 and \$18,446,231 were valued using Level 2 inputs.
- Certificate of deposits and money market accounts of \$2,026,757 and \$6,435,233 were valued using Level 2 inputs.
- Investments in agencies, commercial paper, corporate bonds, municipal bonds and notes of \$31,815,029 and \$23,616,260 were valued using Level 1 inputs.

Collateral and Categorization Requirements

The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of at least 150% of an agency's total deposits.

Restricted Cash

SVCW's restricted cash consisted of \$5,602,191 in cash and investments as of June 30, 2017 held by trustees or fiscal agent, of which \$5,063,980 is pledged for the payment or security of bonds.

Local Agency Investment Fund

LAIF allows local agencies such as SVCW to participate in a Pooled Money Investment Account managed by the State Treasurer's Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. The Local Agency Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June 30, 2017, was approximately \$77.6 billion. Of that amount, 99.23% is invested in non-derivative financial products and .77% in structured notes and asset-backed securities.

Investment Policy

SVCW's investment guidelines as defined by its written investment policy were approved by the Commission, who also establishes its implementation and direction. Monthly, the Board ratifies the investments that have been made.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

SVCW's investment policy follows the California Government Code which authorizes SVCW to invest in the following:

Authorized Investment Type	Maximum Maturity	Maximum Investment in One Issuer
Certificates of Deposit	1 years	\$ 2,000,000
Bankers' Acceptances	180 days	3,000,000
Commercial Paper	15 days	1,000,000
Treasury Bills, Notes and Bonds	5 years	2,000,000
Securities in U.S. Government Agencies	5 years	-
Passbook Savings Accounts	-	250,000
Local Agency Investment Fund (LAIF)	-	40,000,000

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. In order to limit loss exposure due to Interest Rate Risk, the investment policy limits the length of maturity of investments.
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.
- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, SVCW's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of SVCW's investments were subject to custodial credit risk.
- *Concentration of Credit Risk* - See the chart above for SVCW's limitations on the amount that can be invested in any one issuer. As of June 30, 2017, 4% of SVCW's cash was invested in LAIF, 71% in agencies, 7% in commercial paper and corporate bonds, 11% in municipal bonds and notes, 6% in money market accounts and government securities, and 1% was deposited in banks or was cash on hand.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

NOTE 4 - EMPLOYEE NOTES RECEIVABLE

All full-time and part-time SVCW employees are eligible to obtain an interest-free loan to purchase a computer or certain tools. All requests for loans must be approved by the Department Manager and Administrative Services Manager. Repayment of these loans is handled through payroll deductions which are spread equally over a two year period. Employees must pay off any outstanding balance of their loans upon ending employment with SVCW. As of June 30, 2017 and 2016, outstanding balances for notes receivable were \$21,741 and \$12,672, respectively.

NOTE 5 - CAPITAL ASSETS (PROPERTY, PLANT AND EQUIPMENT)

SVCW's capital assets consisted of the following as of June 30, 2017:

Capital Assets	Balance July 01, 2016	Additions	Deletions	Adjustments/ Transfer	Balance June 30, 2017
Non-depreciable:					
Land	\$ 1,282,081	\$ -	\$ -	\$ -	\$ 1,282,081
Construction in Progress					
Stage 2	2,867,123	67,306	-	-	2,934,429
General	74,316,743	27,809,405	-	(10,530,326)	91,595,822
Total Non-Depreciable	78,465,947	27,876,711	-	(10,530,326)	95,812,332
Depreciable:					
Buildings and structures	77,638,983	-	-	6,565,580	84,204,563
Pipelines	55,057,704	-	-	93,300	55,151,004
Pump station	6,543,649	-	(20,005)	544,872	7,068,516
Machinery and equipment	86,116,135	-	(170,933)	3,326,574	89,271,776
Total Depreciable	225,356,471	-	(190,938)	10,530,326	235,695,859
Less Accumulated Depreciation for:					
Buildings and structures	(32,934,853)	(2,722,148)	-	-	(35,657,001)
Pipelines	(6,469,594)	(1,702,144)	-	-	(8,171,738)
Pump station	(5,357,240)	(154,532)	10,576	-	(5,501,196)
Machinery and equipment	(26,438,085)	(4,700,707)	132,161	-	(31,006,631)
Total Accumulated Depreciation	(71,199,772)	(9,279,531)	142,737	-	(80,336,566)
Total Depreciable PPE - Net	154,156,699	(9,279,531)	(48,201)	10,530,326	155,359,293
Total PPE - Net	<u>\$232,622,646</u>	<u>\$ 18,597,180</u>	<u>\$ (48,201)</u>	<u>\$ -</u>	<u>\$251,171,625</u>

Depreciation expense for the year ended June 30, 2017 and 2016 was \$9,279,531 and \$7,931,726, respectively.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

NOTE 6 - NONCURRENT LIABILITIES

SVCW's noncurrent liabilities consisted of the following as of June 30, 2017:

Description	Balance July 01, 2016	Additions	Deductions	Balance June 30, 2017	Due Within One Year
Wastewater Revenue Bonds	\$ 133,330,000	\$ -	\$ 2,940,000	130,390,000	\$ 3,050,000
Unamortized Premium	17,818,902	-	628,383	17,190,519	-
Note Payable	48,103,409	6,596,887	479,946	54,220,350	1,885,923
Line of Credit	3,300,000	7,800,000	7,600,000	3,500,000	-
Net Pension Obligation	8,367,022	5,641,649	2,471,720	11,536,951	-
Compensated Absences	757,644	55,911	-	813,555	813,555
Total Noncurrent Liabilities	\$ 211,676,977	\$ 20,094,447	\$ 14,120,049	\$ 217,651,375	\$ 5,749,478

Wastewater Revenue Bonds

SVCW's Wastewater revenue bonds consisted of the following as of June 30, 2017:

Waterwater Revenue Bond	Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 01, 2016	Issued	Redeemed	Bonds Outstanding June 30, 2017
2009 Bond	2009	2039	1.74-8.1%	\$ 55,855,000	\$ 4,925,000	\$ -	\$ 1,160,000	\$ 3,765,000
2014 Bond	2014	2044	3-5%	60,000,000	58,205,000	-	1,010,000	57,195,000
2015 Bond	2015	2045	2-5%	70,200,000	70,200,000	-	770,000	69,430,000
Total Wastewater Revenue Bonds				\$ 186,055,000	\$ 133,330,000	\$ -	\$ 2,940,000	\$ 130,390,000

2009 Wastewater Revenue Bonds

In July 2009, SVCW issued \$55,855,000 of Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system; fund the debt service reserve fund, and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

2014 Wastewater Revenue Bonds

In March 2014, SVCW issued \$60,000,000 of Revenue Bonds. The Bonds were issued to finance the acquisition and construction of capital improvements to SVCW's wastewater system and pay costs of issuing the Bonds. The Bonds are limited obligations of SVCW which are payable solely from and secured solely by the revenues pledged under the indenture, consisting primarily of payments made by the City of Redwood, the City of San Carlos, and the West Bay Sanitary District (the "Participating Members"). Annual principal and interest payments on the bonds are expected to require less than 10 percent of net revenues.

2015 Wastewater Revenue Bonds

Wastewater Revenue Bonds in the amount of \$70,200,000 were executed on November 24, 2015. The funds were used to refund the Authority's current outstanding Wastewater Revenue Bonds captioned 2008 Wastewater Revenue Bonds and 2009 Build America Bonds, and to finance certain improvements to the Authority's

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

wastewater treatment system. In conjunction with the issuance of the 2015 Wastewater Revenue Bonds and in accordance with the Authority's refunding plan, \$53,246,823 was deposited with an escrow agent to provide for payment when due of all principal and interest with respect to the 2008 and 2009 refunded Bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$703,660. The difference, reported in the accompanying financial statements as a deduction from bonds payable, will be amortized over the useful life of the refunded bonds using the straight line method. For financial reporting purposes, the refunded portion of the debt is considered defeased and therefore removed as a liability from these financial statements. As of June 30, 2017 there was \$7,405,000 of defeased 2008 bonds outstanding and \$44,765,000 of defeased 2009 bonds outstanding, both to be paid from escrow funds. Interest is payable semi-annually on February 1st and August 1st of each year while principal payments are made on August 1st of each year commencing 2016, with interest rates ranging from 2% to 5%. These wastewater revenue bonds are secured by a pledge of Member revenues.

Wastewater Revenue Bonds Debt Service

The debt service requirements for the bonds as of June 30, 2017 were as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ 3,050,000	\$ 9,957,539	\$ 13,007,539
2019	3,160,000	9,807,255	12,967,255
2020	3,295,000	7,881,096	11,176,096
2021	3,250,000	5,945,000	9,195,000
2022	3,410,000	5,780,000	9,190,000
2023-2027	19,760,000	26,123,875	45,883,875
2028-2032	23,850,000	20,651,625	44,501,625
2033-2037	28,055,000	14,384,700	42,439,700
2038-2042	29,390,000	6,978,300	36,368,300
2043-2047	13,170,000	1,160,125	14,330,125
Total	<u>\$ 130,390,000</u>	<u>\$ 108,669,515</u>	<u>\$ 239,059,515</u>

Wastewater Revenue Bonds - Build America Bonds Refundable Credit

SVCW elected to treat the 2009 Wastewater Revenue Bonds as Build America Bonds under section 54AA of the Tax Code, which entitles it to a refundable credit from the United States Treasury equal to 35% of the interest payable on the bonds. Since March 2013, the Internal Revenue Service has reduced the refundable credit amounts by imposing sequestration rates. The sequestration rate from October 1, 2014 through September 30, 2015 was 7.3%, October 1, 2015 through September 30, 2016 was 6.8%. Effective October 1, 2016 to September 30, 2017, the sequestration rate is 6.9%. The credit is reported as member contributions. The 2017 credit received by SVCW totaled \$1,239,083.

Notes Payable

SVCW has financed multiple projects by entering into two separate sale-repurchase agreements with the State Water Resources Control Board (SWRCB). Combined, these agreements totaled \$54,220,350 as of June 30, 2017. The project funds, together with all accrued interest, are repaid in annual installments commencing one year after the completion of construction.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

In August 2011, SVCW secured SWRCB funding for the construction of an administration and plant control building. The SWRCB reimbursed SVCW for project-related expenditures as incurred, and the outstanding liability was \$9,489,139 as of June 30, 2017. This amount is scheduled to be fully repaid by June 2033.

In March 2012, SVCW entered a similar agreement with the SWRCB for up to \$35,385,953 for certain improvements to the wastewater treatment plant. As of June 30, 2017, SVCW had incurred \$30,731,211. This project is scheduled to be completed in December 2016 and the total incurred expenditures will be repaid by October 2036.

In February 2016, SVCW entered a similar agreement with the SWRCB for up to \$14,000,000 to plan and design certain improvements to the conveyance system. As of June 30, 2017, SVCW had incurred \$14,000,000 in expenditures. This planning is scheduled to be completed in fiscal year 2018-19 and the total incurred expenditures will either be repaid by September 2028 or combined into a subsequent construction loan. SVCW reported a receivable of \$9,320,124 due from SWRCB for project expenditures incurred as of June 30, 2017. The SWRCB has not established the debt service payments for the \$13,052,662 difference between the scheduled debt service payments and SVCW's total obligation. The following summarizes the scheduled future debt service requirements for the SWRCB loans as of June 30, 2017:

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ 1,885,923	\$ 744,675	\$ 2,630,598
2019	1,850,519	780,079	2,630,598
2020	1,887,870	742,728	2,630,598
2021	1,925,999	704,599	2,630,598
2022	1,964,922	665,677	2,630,599
2023-2027	10,437,463	2,715,530	13,152,993
2028-2032	11,539,944	1,613,049	13,152,993
2033-2037	9,675,048	507,938	10,182,986
Total	<u>\$ 41,167,688</u>	<u>\$ 8,474,275</u>	<u>\$ 49,641,963</u>

Line of Credit

On May 29, 2015, SVCW secured a \$30,000,000 line of credit with Wells Fargo Bank. Advances on the line of credit provide for an interest rate based on either a fixed per annum rate of interest equal to the LIBOR rate plus the Applicable LIBOR Rate Margin, or a variable per annum rate of interest equal to the Base Rate plus the Applicable Base Rate Margin. SVCW had \$3,500,000 outstanding on the line of credit at June 30, 2017.

NOTE 7 - INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

Interfund Due-to/from

Interfund receivables and payables as of June 30, 2017 were as follows:

Fund Description	Due From	Due To
Operations	\$ 9,073,378	\$ -
Capital Improvement Program	-	7,223,378
Recycled Water	63,722	-
Self Insurance	212,342	-
Construction Stage 2	958,256	-
Capital Improvements	5,385,125	-
Capital Improvement Program Reserve	-	11,702,307
Operating Reserve	3,232,862	-
Totals	<u>\$ 18,925,685</u>	<u>\$ 18,925,685</u>

Interfund Transfers

Interfund transfers consist of transfers from funds receiving revenue to funds through which the resources are to be expended and transfers of capital assets upon completion of construction. Interfund transfers for the June 30, 2017 fiscal year were as follows:

Fund Description	Transfers In	Transfers Out
Operations	10,530,326	\$ -
Capital Improvement Program	-	9,462,352
Capital Improvements	-	1,067,974
Totals	<u>\$ 10,530,326</u>	<u>\$ 10,530,326</u>

NOTE 8 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plans

Plan Description - All qualified permanent and probationary employees are eligible to participate in the Agency's Miscellaneous Employee Pension Plans (the Plans); cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Agency resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plans are applied as specified by the Public Employees' Retirement Law.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Tier 1	Tier 2	Tier 3
Hire date	Prior to 6/27/11	6/28/11 to 1/1/13	On/After 1/1/13
Benefit formula	2% @ 55	2% @ 60	2% @ 62
Benefit vesting schedule	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62
Monthly benefits as a % of eligible compensation	2.0% to 2.42%	2.0%	2.0%
Required employee contribution rates	7.00%	7.00%	6.25%
Required employer contribution rates	13.75%	7.16%	6.56%

Employees Covered - At June 30, 2017, the following employees were covered by the benefit terms for the Plans:

Description	Tier 1	Tier 2	Tier 3
Active members	60	14	5
Separated	22	-	1
Retirees receiving benefits	68	1	-
Transferred	19	2	1
Total	169	17	7

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rates are 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 Agency is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plans were as follows:

	June 30, 2017
Contributions - employer	\$ 1,127,516
Contributions - employee	616,086
Total	<u>\$ 1,743,602</u>

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

As of June 30, 2017, the Agency reported net pension liabilities for its proportionate shares of the net pension liability as follows:

	June 30, 2017
Net Pension Liability	<u>\$ 11,536,951</u>

The Agency's net pension liability for the Plans is measured as the proportionate share of the net pension

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

liability. The net pension liability of the Plan are measured as of June 30, 2016, and the total pension liability for the Plans used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Agency's proportionate share of the net pension liability for the Plans as of June 30, 2015 and 2016 was as follows:

	Proportion of Net Pension Liability
June 30, 2016	0.3050%
June 30, 2017	0.3321%
Change in Proportions	0.0271%

For the year ended June 30, 2017, the Agency recognized pension expense of \$986,288. At June 30, 2017, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 1,251,217	\$ -
Changes in assumptions	-	(382,091)
Differences between expected and actual experiences	31,132	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	338,250	(970,814)
Net differences between projected and actual earnings on plan investments	1,988,657	-
Total	<u>\$ 3,609,256</u>	<u>\$ (1,352,905)</u>

The Agency reported \$1,251,217 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending:	Deferred Outflows/(inflows) of Resources
2018	\$ (356,039)
2019	(45,077)
2020	891,166
2021	515,085
Total	<u>\$ 1,005,135</u>

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

Actuarial Assumptions - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method

Actuarial Assumptions:

Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Varies by age and service
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.65 percent for the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

(first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount

Rate - The following presents the Agency's proportionate share of the net pension liability for the Plans, calculated using the discount rate for the Plans, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	\$ 18,727,001
Current Discount Rate	7.65%
Net Pension Liability	\$ 11,536,951
1% Increase	8.65%
Net Pension Liability	\$ 5,594,732

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description

SVCW's Retiree Healthcare Plan (the Plan) is a single-employer defined benefit healthcare plan administered by SVCW. The plan provides healthcare benefits to eligible retirees and their dependents. Benefit provisions are established and may be amended through agreements and memorandums of understanding between SVCW, its management employees, and unions representing SVCW employees.

PERS (PEMHCA) Minimum	
Eligibility Age	50
Service Required	5 years
Benefit Amount	Was \$125 monthly in 2016, \$128 in 2017. Increases with the healthcare component of the Consumer Price Index thereafter. For union employees, the reimbursable amount decreases when the employee reaches Medicare eligibility age, or to the Bay Area Kaiser combination rate when the employee's spouse becomes Medicare eligible before the retiree.
Benefits End	Paid for life (child benefits end at age 26)

Normal Retirement Benefit	
Eligibility Age	50
Service Required	5 years
Benefit Amount	Payment of any pre-Medicare PERS premium to a maximum of the Kaiser family premiums. With Medicare, the Kaiser Medicare premiums are the caps.
Benefits End	Paid for life (child benefits end at age 26)

Post-Retirement Death Benefit	
Payment of one-party or two-party premium to eligible surviving spouse/beneficiary for the life of the survivors. Child benefits cease at age 26. Same benefit limitation as above.	

Pre-Retirement Death Benefit	
Eligibility Age	50
Service Required	5 years
Benefit Amount	Same as for post-retirement death
Disability Benefit	Same as retirement benefits shown above if service requirements are met.

Note: Employees hired after January 31, 2011 receive only the PERS Minimum.

Funding Policy

There is no statutory requirement for SVCW to prefund its OPEB obligation. SVCW has currently chosen to fund the program by depositing the Annual Required Contribution (ARC) into a trust fund administered by CalPERS. There are no employee contributions. For the fiscal year ending June 30, 2017, SVCW paid \$329,595 for retiree healthcare plan benefits and contributed \$420,000 in the OPEB trust fund. The ARC is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

Annual OPEB Cost and Net OPEB Obligation

The following table, based on SVCW's actuarial valuation as of July 1, 2017, shows the components of SVCW's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in SVCW's Net OPEB obligation:

Annual required contribution	\$ 114,250
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>114,250</u>
Contributions made	<u>(749,595)</u>
Increase in net OPEB obligation (asset)	(635,345)
Net OPEB obligation (asset) - beginning of year	<u>(2,006,091)</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ (2,641,436)</u></u>

SVCW's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2017 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation (Asset)
2015	205,724	367.06%	(1,472,450)
2016	217,038	345.87%	(2,006,091)
2017	114,250	656.10%	(2,641,436)

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare 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 supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The following summarizes the funded status and progress of the plan as of June 30, 2017:

Actuarial accrued liability (AAL)	\$ 6,910,635
Value of plan assets	<u>5,910,004</u>
Unfunded /(overfunded) actuarial accrued liability (UAAL)	<u><u>\$ 1,000,631</u></u>
Funded ratio (actuarial value of plan assets/AAL)	85.52%
Projected covered payroll (active Plan members)	\$ 10,877,839
UAAL as a percentage of covered payroll	9.20%

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include 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 are consistent with the long-term perspective of the calculations.

In the actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 7% investment rate of return, which is the expected long-term investment return on SVCW investments, a 2.75% general inflation assumption, and an annual aggregate payroll increase rate of 2.75%. The UAAL is being amortized as a level dollar amount over 30 years on a closed basis, beginning in 2009.

Required Supplementary Information

The following is the actuarially determined schedule of funding progress for the postemployment healthcare plan:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
7/1/2013	\$ 3,976,332	\$ 7,163,800	\$ 3,187,468	55.51%	\$ 8,696,205	36.65%
7/1/2015	4,401,750	6,931,933	2,530,183	63.50%	9,703,545	26.07%
7/1/2017	5,910,004	6,910,635	1,000,631	85.52%	10,877,839	9.20%

NOTE 10 - RISK MANAGEMENT

SVCW is a member of the California Sanitation Risk Management Authority (CSRMA) which covers the general liability claims up to \$10,750,000, and provides coverage of Employment Practices Liability (EPL) up to \$10,750,000. Excess public entity general liability insurance of \$10,750,000 is obtained by CSRMA commercially, resulting in a total coverage of \$25,000,000. SVCW has a self-insured retention of \$10,000 per general liability claim and \$25,000 per EPL claim. Once SVCW's self-insured retention is met, CSRMA becomes responsible for payment of all claims up to the limit.

SVCW also has workers' compensation insurance with CSRMA which covers workers' compensation claims up to \$750,000. Excess public entity workers' compensation and employee's liability insurance are obtained by CSRMA commercially up to statutory limit and \$25,000,000 respectively. SVCW has a self-insured retention of \$750,000 per claim.

The contributions made to each risk pool equal the ratio of their respective payrolls to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after retrospective rating. CSRMA's audited financial statements may be obtained by writing them at c/o Alliant Insurance Services, 100 Pine Street, 11th Floor, San Francisco, CA 94111.

Silicon Valley Clean Water
Notes to Financial Statements
June 30, 2017

NOTE 11 - COMMITMENTS AND CONTINGENCIES

SVCW is at risk to be a defendant in various lawsuits which arise in the normal course of business. The final disposition of these legal actions and claims was not determinable. However, in the opinion of management, the outcome of any litigation of these matters will not have a material effect on the financial position or changes in net position of the SVCW.

SVCW had outstanding construction contract commitments on capital projects totaling \$9,063,374 at June 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Silicon Valley Clean Water
Schedule of Pension Contributions - CalPERS
For the Fiscal Year Ended June 30, 2017

	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 1,251,217	\$ 1,127,516	\$ 1,031,475
Contributions in Relation to Actuarially Determined Contributions	1,251,217	1,127,516	1,031,475
Contribution Deficiency (Excess)	-	-	-
Covered Employee Payroll	\$ 10,137,714	\$ 9,454,067	\$ 9,115,492
Contributions as a Percentage of Covered Payroll	12.34%	11.93%	11.32%

Notes to Schedule:

Valuation Date: June 30, 2015
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
3.7 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.5%
CalPERS mortality table using 20 years of membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

Silicon Valley Clean Water
Schedule of Proportionate Share of Net Pension Liability
For the Fiscal Year Ended June 30, 2017

	2017	2016	2015
Proportion of Net Pension Liability	0.33211%	0.30498%	0.32474%
Proportionate Share of Net Pension Liability	\$ 11,536,951	\$ 8,367,040	\$ 8,025,843
Covered Employee Payroll	\$ 10,137,714	\$ 9,454,067	\$ 9,115,492
Proportionate Share of NPL			
as a % of Covered Employee Payroll	113.80%	88.50%	88.05%
Plan's Fiduciary Net Position as a % of the TPL	78.40%	83.30%	84.62%

** Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

This page intentionally left blank

SUPPLEMENTARY INFORMATION

Silicon Valley Clean Water
Combining Schedule of Net Position
Enterprise Funds
June 30, 2017

	Operating Reserve	Capital Improvement Program Reserve	Capital Improvements	Construction Stage 2
Assets				
Current Assets:				
Cash and investments	\$ 3,491,621	\$ 16,094,733	\$ -	\$ 9,220,579
Accounts receivable	-	-	-	461,215
Interest receivable	-	-	-	-
Employee notes receivable	-	-	-	-
Deposits	-	-	-	-
Due from other funds	3,232,862	-	5,385,125	958,256
Inventory	-	-	-	-
Prepaid expenses	-	-	-	-
Total Current Assets	6,724,483	16,094,733	5,385,125	10,640,050
Noncurrent Assets:				
Investment in real estate	-	-	-	-
Cash with fiscal agent	-	-	-	-
OPEB asset	-	-	-	-
Capital assets - net:				
Depreciable capital assets:				
Plant in service - net	-	-	-	-
Non depreciable capital assets:				
Land	-	-	-	-
Construction in progress:				
Stage 2	-	-	-	2,934,429
General	-	-	1,931,274	-
Total Capital assets - net	-	-	1,931,274	2,934,429
Total Noncurrent Assets - Net	-	-	1,931,274	2,934,429
Total Assets	\$ 6,724,483	\$ 16,094,733	\$ 7,316,399	\$ 13,574,479
Deferred Outflows of Resources				
Pension Contributions and Adjustments	\$ -	\$ -	\$ -	\$ -
Deferred Loss on Defeasance	-	-	-	-
Total Deferred Outflows of Resources	\$ -	\$ -	\$ -	\$ -
Liabilities				
Current Liabilities:				
Accounts payable	\$ -	\$ -	\$ 171,698	\$ -
Accrued payroll and employee benefits	-	-	-	-
Accrued interest payable	-	-	-	-
Due to other funds	-	11,702,307	-	-
Unearned revenue	-	7,875	21,081	-
Noncurrent liabilities due within one year	-	-	-	-
Total Current Liabilities	-	11,710,182	192,779	-
Noncurrent liabilities due in more than one year	-	-	-	-
Total Liabilities	\$ -	\$ 11,710,182	\$ 192,779	\$ -
Deferred inflows of Resources				
Pension Differences Between Actual and Expected Returns	\$ -	\$ -	\$ -	\$ -
Net Position				
Net Investment in Capital Assets	\$ -	\$ -	\$ 1,931,274	\$ 2,934,429
Restricted for:				
Debt service	-	-	-	-
Unrestricted	6,724,483	4,384,551	5,192,346	10,640,050
Total Net Position	\$ 6,724,483	\$ 4,384,551	\$ 7,123,620	\$ 13,574,479

(Continued)

Silicon Valley Clean Water
Combining Schedule of Net Position
Enterprise Funds
June 30, 2017

	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Assets					
Current Assets:					
Cash and investments	\$ -	\$ -	\$ -	\$ 1,241,039	\$ 30,047,972
Accounts receivable	-	-	9,328,124	405,380	10,194,719
Interest receivable	-	-	511,674	2,933	514,607
Employee notes receivable	-	-	-	21,741	21,741
Deposits	-	-	-	-	-
Due from other funds	212,342	63,722	-	9,073,378	18,925,685
Inventory	-	-	-	1,828,192	1,828,192
Prepaid expenses	-	-	97,300	101,684	198,984
Total Current Assets	212,342	63,722	9,937,098	12,674,347	61,731,900
Noncurrent Assets:					
Investment in real estate	-	-	2,552,962	-	2,552,962
Cash with fiscal agent	-	-	5,602,191	-	5,602,191
OPEB asset	-	-	-	2,641,436	2,641,436
Capital assets - net:					
Depreciable capital assets:					
Plant in service - net	-	-	-	155,359,294	155,359,294
Non depreciable capital assets:					
Land	-	-	-	1,282,081	1,282,081
Construction in progress:					
Stage 2	-	-	-	-	2,934,429
General	-	-	89,664,547	-	91,595,821
Total Capital assets - net	-	-	89,664,547	156,641,375	251,171,625
Total Noncurrent Assets - Net	-	-	97,819,700	159,282,811	261,968,214
Total Assets	\$ 212,342	\$ 63,722	\$ 107,756,798	\$ 171,957,158	\$ 323,700,114
Deferred Outflows of Resources					
Pension Contributions and Adjustments	\$ -	\$ -	\$ -	\$ 3,609,256	\$ 3,609,256
Deferred Loss on Defeasance	-	-	508,130	-	508,130
Total Deferred Outflows of Resources	\$ -	\$ -	\$ 508,130	\$ 3,609,256	\$ 4,117,386
Liabilities					
Current Liabilities:					
Accounts payable	\$ -	\$ 22,391	\$ 2,099,568	\$ 768,950	\$ 3,062,607
Accrued payroll and employee benefits	-	-	1,242	680,858	682,100
Accrued interest payable	-	-	4,166,921	-	4,166,921
Due to other funds	-	-	7,223,378	-	18,925,685
Unearned revenue	-	20,746	-	247,578	297,280
Noncurrent liabilities due within one year	-	-	4,935,923	813,555	5,749,478
Total Current Liabilities	-	43,137	18,427,032	2,510,941	32,884,071
Noncurrent liabilities due in more than one year	-	-	196,864,946	15,036,951	211,901,897
Total Liabilities	\$ -	\$ 43,137	\$ 215,291,978	\$ 17,547,892	\$ 244,785,968
Deferred inflows of Resources					
Pension Differences Between Actual and Expected Returns	\$ -	\$ -	\$ -	\$ 1,352,904	\$ 1,352,904
Net Position					
Net Investment in Capital Assets	\$ -	\$ -	\$ (106,534,131)	\$ 153,141,375	\$ 51,472,947
Restricted for:					
Debt service	-	-	5,063,980	-	5,063,980
Unrestricted	212,342	20,585	(5,556,899)	3,524,243	25,141,701
Total Net Position	\$ 212,342	\$ 20,585	\$ (107,027,050)	\$ 156,665,618	\$ 81,678,628

(Concluded)

Silicon Valley Clean Water
Combining Schedule of Activities and Changes in Net Position
Enterprise Funds
For the Fiscal Year Ended June 30, 2017

	Operating Reserve	Capital Improvement Program Reserve	Capital Improvements	Construction Stage 2
Operating Revenues:				
Member contributions for services	\$ -	\$ -	\$ -	\$ -
Member contributions for cash reserves	-	1,785,312	1,530,036	-
Member contributions for debt service	-	-	-	-
Sources control charges	-	-	-	-
Miscellaneous revenues	-	-	6,809	-
Total operating revenues	-	1,785,312	1,536,845	-
Operating Expenses:				
Operations	-	-	-	-
Maintenance	-	-	-	-
Laboratory	-	-	-	-
Environmental services	-	-	-	-
Engineering	-	-	-	-
Information systems	-	-	-	-
Safety	-	-	-	-
Administration	6,518	28,118	-	15,454
Depreciation	-	-	-	-
Total operating expenses	6,518	28,118	-	15,454
Operating Income (Loss)	(6,518)	1,757,194	1,536,845	(15,454)
Nonoperating Revenues (Expenses):				
Grants	-	-	-	-
Capital improvements	-	-	-	2,600,122
Interest Income:				
Operations fund	-	-	-	-
Stage 2 capacity fund	-	-	-	13,260
Capital improvement reserve fund	-	23,665	1,224	-
Self insurance fund	-	-	-	-
Operating reserve fund	15,903	-	-	-
Recycled water fund	-	-	-	-
Capital improvement fund	-	-	-	-
Net increase (decrease) in fair value of investments	-	-	-	-
Interest expense	-	-	-	-
Premium amortization	-	-	-	-
Gain (loss) on disposal of fixed assets	-	-	-	-
Total nonoperating revenues (expenses)	15,903	23,665	1,224	2,613,382
Income (Loss) Before Transfers	9,385	1,780,859	1,538,069	2,597,928
Transfers In	-	-	-	-
Transfers Out	-	-	(1,067,974)	-
Change in Net Position	9,385	1,780,859	470,095	2,597,928
Beginning Net Position	6,715,098	2,603,692	6,653,525	10,976,551
Ending Net Position	\$ 6,724,483	\$ 4,384,551	\$ 7,123,620	\$ 13,574,479

(Continued)

Silicon Valley Clean Water
Combining Schedule of Activities and Changes in Net Position
Enterprise Funds
For the Fiscal Year Ended June 30, 2017

	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Operating Revenues:					
Member contributions for services	\$ -	\$ 219,253	\$ -	\$ 22,549,104	\$ 22,768,357
Member contributions for cash reserves	-	-	-	-	3,315,348
Member contributions for debt service	-	-	11,877,963	-	11,877,963
Sources control charges	-	-	-	69,724	69,724
Miscellaneous revenues	-	-	-	295,102	301,911
Total operating revenues	-	219,253	11,877,963	22,913,930	38,333,303
Operating Expenses:					
Operations	-	147,297	-	7,896,489	8,043,786
Maintenance	-	49,583	-	5,640,685	5,690,268
Laboratory	-	11,407	-	1,426,376	1,437,783
Environmental services	-	-	-	914,870	914,870
Engineering	-	-	108,395	290,920	399,315
Information systems	-	-	-	1,655,229	1,655,229
Safety	-	-	-	322,260	322,260
Administration	-	-	-	3,379,048	3,429,138
Depreciation	-	-	-	9,279,531	9,279,531
Total operating expenses	-	208,287	108,395	30,805,408	31,172,180
Operating Income (Loss)	-	10,966	11,769,568	(7,891,478)	7,161,123
Nonoperating Revenues (Expenses):					
Grants	-	-	-	271,125	271,125
Capital improvements	-	-	-	-	2,600,122
Interest Income:					
Operations fund	-	-	-	16,419	16,419
Stage 2 capacity fund	-	-	-	-	13,260
Capital improvement reserve fund	-	-	-	-	24,889
Self insurance fund	33	-	-	-	33
Operating reserve fund	-	-	-	-	15,903
Recycled water fund	-	29	-	-	29
Capital improvement fund	-	-	89,670	-	89,670
Net increase (decrease) in fair value of investments	-	-	(57,904)	-	(57,904)
Interest expense	-	-	(8,200,112)	-	(8,200,112)
Premium amortization	-	-	628,383	-	628,383
Gain (loss) on disposal of fixed assets	-	-	-	(48,201)	(48,201)
Total nonoperating revenues (expenses)	33	29	(7,539,963)	239,343	(4,646,384)
Income (Loss) Before Transfers	33	10,995	4,229,605	(7,652,135)	2,514,739
Transfers In	-	-	-	10,530,326	10,530,326
Transfers Out	-	-	(9,462,352)	-	(10,530,326)
Change in Net Position	33	10,995	(5,232,747)	2,878,191	2,514,739
Beginning Net Position	212,309	9,590	(101,794,303)	153,787,427	79,163,889
Ending Net Position	\$ 212,342	\$ 20,585	\$ (107,027,050)	\$ 156,665,618	\$ 81,678,628

(Concluded)

Silicon Valley Clean Water
Combining Schedule of Cash Flows
Enterprise Funds
For the Fiscal Year Ended June 30, 2017

	Operating Reserve	Capital Improvement Program Reserve	Capital Improvements	Construction Stage 2
Cash Flows from Operating Activities:				
Cash received from member agencies	\$ -	\$ 1,706,868	\$ 1,477,140	\$ -
Cash paid to suppliers for goods and services and employees for services	(6,518)	(28,118)	-	(15,454)
Other cash received (paid)	-	-	6,809	-
Net Cash Provided (Used) by Operating Activities	(6,518)	1,678,750	1,483,949	(15,454)
Cash Flows from Capital and Related Financing Activities:				
Cash received from member agencies other than for services	-	-	-	2,138,907
Cash received from grants	-	-	-	-
Contributions to (from) other funds	(1,060)	77,795	(75,865)	(24,268)
Proceeds from capital debt - net	-	-	-	-
Interest paid on capital debt	-	-	-	-
Principal paid on capital debt	-	-	-	-
Purchases and construction of capital assets	-	-	(1,409,308)	(108,128)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,060)	77,795	(1,485,173)	2,006,511
Cash Flows from Noncapital Financing Activities:				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	-	-	-	-
Cash Flows from Investing Activities:				
Investment income	15,903	23,665	1,224	13,260
Net Cash Provided (Used) by Investing Activities	15,903	23,665	1,224	13,260
Net Increase (Decrease) in Cash and Cash Equivalents	8,325	1,780,210	-	2,004,317
Cash and Cash Equivalents Beginning	3,483,296	14,314,523	-	7,216,262
Cash and Cash Equivalents Ending	\$ 3,491,621	\$ 16,094,733	\$ -	\$ 9,220,579
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ (6,518)	\$ 1,757,194	\$ 1,536,845	\$ (15,454)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	-	-
Pension expense adjustment - GASB 68	-	-	-	-
Net change in:				
Accounts receivable	-	-	-	-
Employee notes receivable	-	-	-	-
Inventory	-	-	-	-
Prepaid expenses	-	-	-	-
Deposits	-	-	-	-
Net OPEB asset	-	-	-	-
Accounts payable	-	-	-	-
Accrued payroll and employee benefits	-	-	-	-
Unearned revenue	-	(78,444)	(52,896)	-
Accrued compensated absences	-	-	-	-
Net Cash Provided (Used) by Operating Activities	\$ (6,518)	\$ 1,678,750	\$ 1,483,949	\$ (15,454)
Noncash Transactions:				
Noncash transfers of capital assets	\$ -	\$ -	\$ (1,067,974)	\$ -

(Continued)

Silicon Valley Clean Water
Combining Schedule of Cash Flows
Enterprise Funds
For the Fiscal Year Ended June 30, 2017

	Self Insurance	Recycled Water	Capital Improvement Program	Operation	Total
Cash Flows from Operating Activities:					
Cash received from member agencies	\$ -	\$ 355,315	\$ 18,160,301	\$ 21,424,369	\$ 43,123,993
Cash paid to suppliers for goods and services and employees for services	-	(243,860)	(118,322)	(23,151,998)	(23,564,270)
Other cash received (paid)	-	-	-	295,102	301,911
Net Cash Provided (Used) by Operating Activities	-	111,455	18,041,979	(1,432,527)	19,861,634
Cash Flows from Capital and Related Financing Activities:					
Cash received from member agencies other than for services	-	-	-	-	2,138,907
Cash received from grants	-	-	-	271,125	271,125
Contributions to (from) other funds	(33)	(111,484)	1,250,766	(1,115,851)	-
Proceeds from capital debt - net	-	-	6,596,887	7,800,000	14,396,887
Interest paid on capital debt	-	-	(8,161,620)	-	(8,161,620)
Principal paid on capital debt	-	-	(3,419,946)	(7,600,000)	(11,019,946)
Purchases and construction of capital assets	-	-	(29,338,785)	-	(30,856,221)
Net Cash Provided (Used) by Capital and Related Financing Activities	(33)	(111,484)	(33,072,698)	(644,726)	(33,230,868)
Cash Flows from Noncapital Financing Activities:					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	-	-	-	-	-
Cash Flows from Investing Activities:					
Investment income	33	29	40,987	16,617	111,718
Net Cash Provided (Used) by Investing Activities	33	29	40,987	16,617	111,718
Net Increase (Decrease) in Cash and Cash Equivalents	-	-	(14,989,732)	(2,060,636)	(13,257,516)
Cash and Cash Equivalents Beginning	-	-	20,591,923	3,301,675	48,907,679
Cash and Cash Equivalents Ending	\$ -	\$ -	\$ 5,602,191	\$ 1,241,039	\$ 35,650,163
Reconciliation of Operating Income (Loss) to Cash Flows Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ -	\$ 10,966	\$ 11,769,568	\$ (7,891,478)	\$ 7,161,123
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	-	-	-	9,279,531	9,279,531
Pension expense adjustment - GASB 68	-	-	-	(264,929)	(264,929)
Net change in:					
Accounts receivable	-	115,316	6,282,338	(346,820)	6,050,834
Employee notes receivable	-	-	-	(9,069)	(9,069)
Inventory	-	-	-	(107,577)	(107,577)
Prepaid expenses	-	-	(97,300)	(63,147)	(160,447)
Deposits	-	-	93,300	-	93,300
Net OPEB asset	-	-	-	(635,345)	(635,345)
Accounts payable	-	(35,573)	-	(140,633)	(176,206)
Accrued payroll and employee benefits	-	-	(5,927)	(470,400)	(476,327)
Unearned revenue	-	20,746	-	(838,570)	(949,164)
Accrued compensated absences	-	-	-	55,910	55,910
Net Cash Provided (Used) by Operating Activities	\$ -	\$ 111,455	\$ 18,041,979	\$ (1,432,527)	\$ 19,861,634
Noncash Transactions:					
Noncash transfers of capital assets	\$ -	\$ -	\$ (9,462,352)	\$ 10,530,326	\$ -

(Concluded)

Silicon Valley Clean Water
Schedule of Analysis of Net Position
Supplemental Schedule (Unaudited)
For the Year Ended June 30, 2017

Fund / Location	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Total
Operations (Fund 18)					
Balance at June 30, 2016	\$ 13,155,181	\$ 75,823,363	\$ 21,735,637	\$ 40,993,727	\$ 151,707,908
Member Agency Contributions	3,014,724	10,019,052	3,289,248	6,226,080	22,549,104
Other Miscellaneous Revenue	80,893	295,653	80,257	179,147	635,951
Unrealized Gain / (Loss) on Investments	(356)	(1,303)	(354)	(789)	(2,802)
Interest Income	1,412	9,652	2,681	5,150	18,895
Capitalized Projects Transferred from other Funds	995,116	5,114,579	1,594,291	2,826,339	10,530,326
Gain / (Loss) on Asset Disposal	(4,555)	(23,411)	(7,298)	(12,937)	(48,201)
Operating & Maintenance Costs	(2,820,794)	(10,309,648)	(2,798,618)	(6,246,994)	(22,176,054)
Depreciation Expenditures	(876,916)	(4,507,068)	(1,404,921)	(2,490,626)	(9,279,531)
Balance at June 30, 2017	<u>\$ 13,544,704</u>	<u>\$ 76,420,870</u>	<u>\$ 22,490,924</u>	<u>\$ 41,479,097</u>	<u>\$ 153,935,596</u>
Retiree Medical Health Benefits Reserve (Fund 12)					
Balance at June 30, 2016	\$ 258,946	\$ 926,769	\$ 324,584	\$ 569,223	\$ 2,079,521
Contributions to Fund 12	97,235	355,380	96,470	215,338	764,422
Interest Income	41	146	51	89	327
Expenditures	(14,533)	(53,115)	(14,418)	(32,184)	(114,250)
Balance at June 30, 2017	<u>\$ 341,688</u>	<u>\$ 1,229,179</u>	<u>\$ 406,687</u>	<u>\$ 752,466</u>	<u>\$ 2,730,020</u>
Capital Improvement Program Reserve (Fund 13)					
Balance at June 30, 2016	\$ 246,045	\$ 1,264,613	\$ 394,202	\$ 698,833	\$ 2,603,693
Member Contributions - Replacement Reserve	140,544	722,376	225,180	365,926	1,454,026
Member Contributions - Debt Service Contributions	28,164	144,744	45,120	113,258	331,286
Change in Fair Value, Unrealized Gain/(Loss)	(17,716)	(91,054)	(28,383)	(50,317)	(187,469)
Fees	(2,657)	(13,657)	(4,257)	(7,547)	(28,118)
Interest Income	60	310	97	172	639
Interest Income - Distributed	19,892	102,237	31,869	56,497	210,494
Balance at June 30, 2017	<u>\$ 414,332</u>	<u>\$ 2,129,570</u>	<u>\$ 663,828</u>	<u>\$ 1,176,821</u>	<u>\$ 4,384,551</u>
Construction Stage 2 (Fund 15)					
Balance at June 30, 2016	\$ 530,131	\$ 6,359,481	\$ 819,493	\$ 3,267,446	\$ 10,976,551
Member Purchases of Capacity	-	799,342	1,264,099	536,681	2,600,122
Interest Income	84	1,096	234	535	1,949
Interest Income - Distributed	10,294	52,909	16,493	29,238	108,934
Interest / (Unrealized Loss) Investments	(9,225)	(47,416)	(14,780)	(26,202)	(97,623)
Fees	(1,460)	(7,506)	(2,340)	(4,148)	(15,453)
Capitalized Projects Transferred to Fund 18	-	-	-	-	-
Balance at June 30, 2017	<u>\$ 529,824</u>	<u>\$ 7,157,907</u>	<u>\$ 2,083,198</u>	<u>\$ 3,803,551</u>	<u>\$ 13,574,480</u>
Self Insurance (Fund 16)					
Balance at June 30, 2016	\$ 22,647	\$ 88,292	\$ 37,882	\$ 63,488	\$ 212,309
Interest Income	4	14	6	10	33
Expenses / Claims	-	-	-	-	-
Balance at June 30, 2017	<u>\$ 22,651</u>	<u>\$ 88,306</u>	<u>\$ 37,888</u>	<u>\$ 63,498</u>	<u>\$ 212,342</u>
Operating & Capital Reserve (Fund 17)					
Balance at June 30, 2016	\$ 759,000	\$ 3,305,490	\$ 857,987	\$ 1,792,622	\$ 6,715,098
Member Contributions	-	-	-	-	-
Unrealized Gain / (Loss) on Investment	(3,643)	(13,316)	(3,615)	(8,069)	(28,644)
Fees	(829)	(3,030)	(823)	(1,836)	(6,518)
Interest Income - Distributed	4,109	21,121	6,584	11,672	43,486
Interest Income	120	522	136	283	1,060
Balance at June 30, 2017	<u>\$ 758,757</u>	<u>\$ 3,310,786</u>	<u>\$ 860,269</u>	<u>\$ 1,794,671</u>	<u>\$ 6,724,483</u>

Continued

Silicon Valley Clean Water
Schedule of Analysis of Net Position
Supplemental Schedule (Unaudited)
For the Year Ended June 30, 2017

Fund / Location	Belmont	Redwood City	San Carlos	West Bay Sanitary District	Total
Revenue-Funded Capital Improvements (Fund 14)					
Balance at June 30, 2016	\$ 686,931	\$ 3,316,982	\$ 768,961	\$ 1,880,651	\$ 6,653,525
Member Contributions - Pay go capital projects	144,588	743,136	231,648	410,664	1,530,036
Miscellaneous Revenue	643	3,307	1,031	1,828	6,809
Interest Income	125	608	148	343	1,223
Capitalized Projects transferred to Fund 18	(100,924)	(518,715)	(161,691)	(286,644)	(1,067,974)
Balance at June 30, 2017	<u>\$ 731,364</u>	<u>\$ 3,545,318</u>	<u>\$ 840,097</u>	<u>\$ 2,006,842</u>	<u>\$ 7,123,620</u>
Recycled Water (Fund 19)					
Balance at June 30, 2016	\$ -	\$ 9,590	\$ -	\$ -	\$ 9,590
Interest Income	-	29	-	-	29
RWC Recycled Water O&M Contributions	-	219,254	-	-	219,254
RWC Recycled Water O&M Expenditures	-	(208,288)	-	-	(208,288)
Balance at June 30, 2017	<u>\$ -</u>	<u>\$ 20,585</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,585</u>
Plant Capital Improvement Program (Fund 20)					
Balance at June 30, 2016	5,520,932	(50,933,008)	(19,804,296)	(34,763,054)	\$ (99,979,426)
Revenues:					
Contributions to Debt Service	-	6,430,596	1,983,153	3,464,213	11,877,962
Cash Contributions in lieu of Debt	-	-	-	-	-
Unrealized Gain (Loss)	(5,472)	(28,124)	(8,767)	(15,542)	(57,904)
Interest on Trustee Reserves	-	56,934	17,734	31,019	105,688
Interest on Cash Contributions	15,492	7,987	(14,206)	(25,291)	(16,017)
Capitalized Projects Transferred to Fund 18	(894,192)	(4,595,864)	(1,432,600)	(2,539,695)	(9,462,352)
Interest Expense	-	(4,382,848)	(1,365,216)	(2,387,908)	(8,135,971)
Other debt-related Expense	-	410,596	127,897	223,705	762,199
Administrative Expense	(18,707)	(96,147)	(29,971)	(53,132)	(197,957)
Non-capitalized expenditures	(10,243)	(52,646)	(16,411)	(29,093)	(108,393)
Transfer Out To Fund 21 & 22	-	(856,815)	-	(958,062)	(1,814,877)
Balance at June 30, 2017	<u>\$ 4,607,810</u>	<u>\$ (54,039,339)</u>	<u>\$ (20,542,682)</u>	<u>\$ (37,052,838)</u>	<u>\$ (107,027,049)</u>
West Bay Sanitary District Capital Impr. Program (Fund 21)					
Balance at June 30, 2016	\$ -	\$ -	\$ -	\$ (958,062)	\$ (958,062)
Transfer in from Fund 20	-	-	-	958,062	958,062
Balance at June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0</u>	<u>\$ 0</u>
Redwood City Capital Impr. Program (Fund 22)					
Balance at June 30, 2016	\$ -	\$ (856,815)	\$ -	\$ -	\$ (856,815)
Transfer In from Fund 20	-	856,815	-	-	856,815
Balance at June 30, 2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Concluded					
TOTAL NET POSITION - June 30, 2017	\$ 20,951,130	\$ 39,863,182	\$ 6,840,208	\$ 14,024,108	\$ 81,678,628

OTHER INDEPENDENT AUDITOR'S REPORT



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

To the Commission
Silicon Valley Clean Water

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Silicon Valley Clean Water (SVCW) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise SVCW's basic financial statements, and have issued our report thereon dated November 17, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SVCW's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

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

C & A LLP

November 17, 2017
San Jose, California

This page intentionally left blank



Silicon Valley Clean Water

A Joint Powers Authority

APPENDIX J

Comprehensive Annual Financial Report for the City of Redwood City – Fiscal Year Ended June 30, 2017

[THIS PAGE INTENTIONALLY LEFT BLANK]



Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2017





City of Redwood City
Comprehensive Annual Financial Report
June 30, 2017

City of Redwood City

Redwood City, California



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2017

TABLE OF CONTENTS

City of Redwood City
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2017

Page

I. INTRODUCTORY SECTION

Finance Director's Letter of Transmittal	i
GFOA Certificate of Achievement for Excellence in Financial Reporting.....	vii
Principal Officials	viii
Finance Division Staff	ix
Organization Charts.....	x
City of Redwood City Core Purpose.....	xii

II. FINANCIAL SECTION

A. Independent Auditors' Report	1
B. Management's Discussion and Analysis	4
C. Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position.....	21
Statement of Activities	22
Fund Financial Statements:	
Governmental Fund Financial Statements:	
Balance Sheet	25
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position	26
Statement of Revenues, Expenditures and Changes in Fund Balances	27
Reconciliation of the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	28

TABLE OF CONTENTS

City of Redwood City
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2017

Page

II. FINANCIAL SECTION, Continued

Proprietary Fund Financial Statements:

Statement of Net Position.....	30
Statement of Revenues, Expenses and Changes in Net Position	31
Statement of Cash Flows	32

Fiduciary Fund Financial Statements:

Statement of Fiduciary Net Position	33
Statement of Changes in Fiduciary Net Position	34

Notes to the Basic Financial Statements.....	35

D. Required Supplementary Information (Unaudited):

Budgets and Budgetary Accounting	86
Defined Benefit Pension Plan	90
Other Post Employment Benefits (OPEB).....	93

E. Supplementary Information:

General Fund:

Comparative Balance Sheet.....	96
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget	97
Schedule of Revenues Compared with Budget (GAAP Basis) and Actual.....	98
Schedule of Expenditures Compared with Budget (GAAP Basis) and Actual.....	99

Non-Major Governmental Funds:

Combining Balance Sheet.....	102
Combining Statement of Revenues, Expenditures and Changes in Fund Balances.....	106

Budgeted Non-Major Funds:

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual	110

TABLE OF CONTENTS

City of Redwood City
Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2017

Page

II. FINANCIAL SECTION, Continued

Internal Service Funds:

Combining Statement of Net Position	120
Combining Statement of Revenues, Expenses and Changes in Net Position	121
Combining Statement of Cash Flows	122

Agency Funds:

Combining Statement of Changes in Assets and Liabilities.....	124

III. STATISTICAL SECTION (Unaudited)

Statistical Category Narrative	125
Schedule 1 - Net Position by Component – Last Ten Fiscal Years	126
Schedule 2 – Changes in Net Position – Last Ten Fiscal Years	128
Schedule 3 – Fund Balances – Governmental Funds – Last Ten Fiscal Years.....	130
Schedule 4 – Changes in Fund Balances – Governmental Funds – Last Ten Fiscal Years	132
Schedule 5 – Assessed Value and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	134
Schedule 6 – Direct and Overlapping Debt – Last Ten Fiscal Years.....	135
Schedule 7 – Principal Property Tax Payers – Last Ten Fiscal Years.....	136
Schedule 8 – Property Tax Levies and Collections – Last Ten Fiscal Years.....	137
Schedule 9 – Ratios of Outstanding Debt by Type – Last Ten Fiscal Years	138
Schedule 10 – Direct and Overlapping Governmental Activities Debt.....	139
Schedule 11 – Legal Debt Margin Information – Last Ten Fiscal Years.....	140
Schedule 12 – Pledged-Revenue Coverage – Last Ten Fiscal Years.....	141
Schedule 13 – Demographic and Economic Statistics – Last Ten Calendar Years.....	143
Schedule 14 – Principal Employers – Current and Nine Years Ago	144
Schedule 15 – Full Time Equivalent Employees by Function – Last Ten Fiscal Years.....	145
Schedule 16 – Operating Indicators by Function/Program – Last Ten Fiscal Years.....	146
Schedule 17 – Capital Asset Statistics by Function/Program – Last Ten Fiscal Years	147
Schedule 18 – Construction Values – Last Ten Fiscal Years.....	148

Office of Administrative Services



1017 Middlefield Road
Redwood City, California 94063
Telephone: (650) 780-7070
Fax: (650) 366-2447
E-mail: mail@redwoodcity.org

December 11, 2017

Honorable Mayor Ian Bain
Members of the City Council,
City Manager, and Citizens of the
City of Redwood City
Redwood City, California

I am pleased to submit for your information and consideration the Comprehensive Annual Financial Report of the City of Redwood City for the fiscal year ended June 30, 2017.

This report contains a complete set of audited financial statements, prepared by the City's Finance Division in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB). The responsibility for both the accuracy of the printed data and the completeness and fairness of the presentation including all disclosures rests with the management of the City. It is our opinion that: the data presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial positions and results of operations of the City and its related entities as measured by the financial activities of their various funds; and that all disclosures necessary for the reader to gain a full understanding of their financial activities have been included. To provide a reasonable basis for making those representations, City management has established a comprehensive internal control framework designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP.

Badawi and Associates, a firm of independent, licensed and Certified Public Accountants, has audited the City's financial statements for the fiscal year ended June 30, 2017. The objective of the independent audit is to provide reasonable assurance that the financial statements of the City and related entities are free of material misstatement. The auditors concluded, based upon their audit, that there was a reasonable basis for rendering an unmodified opinion on the City's basic financial statements as of and for the fiscal year ended June 30, 2017. The independent auditor's report is located at the front of the financial section of this report on page 1.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This transmittal letter is designed to complement the MD&A and should be read in conjunction with it. Redwood City's MD&A can be found immediately following the report of the independent auditors on page 4. The notes to the financial statements are provided in the financial section and are considered essential to fair presentation and adequate disclosure.

REPORTING ENTITY AND ITS SERVICES

Redwood City is a San Francisco Bay Area community located in the heart of Silicon Valley. With a population of over 85,000, Redwood City is the third largest city within the County of San Mateo. The City of Redwood City was incorporated in 1867 and became a Charter City in 1929. It operates under a council-manager form of government and is a full service City, providing a range of services that include police and fire protection,

recreation and parks, libraries, street maintenance and construction, infrastructure improvements, planning and zoning, water delivery, port facilities, and storm drains. Although the City maintains sewer lines and pump stations, the sewer plant and treatment services are provided by the Silicon Valley Clean Water Authority (formerly the South Bayside System Authority), a joint powers authority of which Redwood City is an equity holder.

The financial reporting entity includes all funds of the primary government (i.e. the City of Redwood City) as well as its component units. The City Council serves in separate session as the governing bodies of the Successor Agency to the Redevelopment Agency of Redwood City, the Redwood City Facilities and Infrastructure Authority, and the Public Financing Authority, although these agencies are legal entities apart from the City. Debt service paid during the fiscal year is presented in the debt service fund. Under the City Charter, the City Council appoints the Board of Port Commissioners to oversee the operations of the Port of Redwood City, which is considered a department of the City of Redwood City. The Port of Redwood City is an enterprise activity and is presented as an enterprise fund.

Financial information for separate legal entities related to the City, including the Redwood City Facilities and Infrastructure Authority, Redwood City Public Financing Authority, and Successor Agency to the Redevelopment Agency of Redwood City, is blended in the City's financial statements in accordance with Governmental Accounting Standards Board Statement No. 14.

FINANCIAL INFORMATION

Accounting System and Budgetary Control

The City's accounting records for governmental operations are maintained on a modified accrual basis, with the revenues being recorded when both measurable and available, and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprises are maintained on the accrual basis.

In developing and modifying the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding 1) the safeguarding of assets against loss from unauthorized use or disposition, and 2) the reliability of financial records for preparing financial statements and maintaining accountability for assets.

Because the cost of internal controls should not outweigh their benefits, the City's controls have been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. The concept of reasonable assurance recognizes that the evaluation of costs and benefits requires estimates and judgments by management. Within this framework, we believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As demonstrated by the statements and schedules included in the financial section of this report, the City of Redwood City continues to meet its responsibility for sound financial management.

Beginning with the financial statements for FY 2014-15, the City, along with other governmental agencies, was required to implement a new accounting standard, Governmental Accounting Standards Board Statement No. 68 (GASB 68). GASB 68 required all governmental agencies to record the unfunded pension liability on their balance sheet (i.e. Statement of Net Position). More detailed information regarding the City's pension liability is described in Note 9.

FACTORS AFFECTING FINANCIAL CONDITION

Local Economy

The local economy is strong. As of June 30, 2017, the unemployment rate in San Mateo County dropped from 3.3% to 2.9%, and Redwood City's unemployment rate was 2.7%. Both San Mateo County and Redwood City unemployment rates are consistently lower than the State's unemployment rate of 4.9% and the national rate of 4.5%. The number of employed residents in the County increased slightly from 430,900 in June 2016 to 435,300 in June 2017.

The Redwood City commercial real estate market continues to exhibit signs of high demand with the citywide vacancy rate stable at 3.8% as of the second quarter 2017. Vacancy rates as of June 2017 in Redwood City's downtown area are stable due to new construction of retail space, with retail vacancy up slightly to 3.4% from 2.5% last year. The office space vacancy rate in downtown has dropped to 1.5% as of June 2017 compared to 4.4% as of June 2016.

We believe these indicators paint a positive picture of the local economy and provide a solid underpinning for steady economic growth continuing into the near future. Recognizing that local and regional growth have exacerbated long-term mobility and affordable housing challenges, the City Council has taken numerous steps to address these issues over the past several years. Over the past fiscal year, application of the housing impact fee (adopted in 2016) allowed for funds to be granted to non-profits, allowing for a 55-unit and a 7-unit apartment building to be purchased, and deed restricted for affordable housing for at least 55 years. In addition, 105 additional deed-restricted affordable units were approved downtown, and another 117 are under construction. Additional affordable housing units are currently under review outside the downtown area. The City Council has also directed staff to complete a citywide transportation study and will undertake several related planning projects, including the El Camino Real Corridor Plan and the Downtown Transit Center and Broadway Streetcar/Urban Circulator Study.

Economic Development Initiatives

With the adoption of the Downtown Precise Plan in 2011, Downtown Redwood City has become a vibrant district where Redwood City residents enjoy working, living, and playing.

The opening of the Crossing 900 Building, and four other office buildings under construction totaling 500,000 new square feet, has made downtown a desirable location for new businesses to locate. The close proximity to a Caltrain station, easy freeway access, and central location to San Francisco and San Jose make Redwood City one of the fastest growing locations for startup businesses to locate.

In addition to the new office developments, Redwood City is also seeing a growth in housing. New housing units in the Downtown, along with several new projects located in close proximity, are helping to not only meet a much-needed regional housing need, but also provide housing for the City's growing employment base.

Phase I of the Stanford Redwood City project is under construction and consists of 570,000 square feet of office space, a 1,057 space parking structure, a fitness center, a childcare facility, and a 2.4 acre publicly-accessible open space. As part of the development, Stanford is providing over \$15 million in community benefits for such things as education, sustainability, public transportation studies, affordable housing and more.

The City expects greater revenues from development related fees, as the Council adopted an updated fee schedule that goes into effect in FY 2017-18.

Long-Term Financial Planning

Maintaining a sustainable budget and prudently planning for the City's current and long-term needs is a top priority for Redwood City. The City continues to focus strategically on appropriate funding strategies for annual operations, a robust capital improvement program, and future liabilities. Each year, the City prepares a five-year forecast to project revenue and expenditure trends. These forecasts are an integral part of the annual budget process as the City seeks to establish and implement its priorities in a fiscally sustainable manner. The City reviews major cost drivers to anticipate and control expenses to the full extent possible and makes fiscal decisions within the framework of the forecast. The City also monitors its revenue sources to identify and plan for trends. A summary of major revenue sources and other significant financial planning items is below.

Sales Tax

Sales tax is an important source of general fund revenue as it accounts for about 19% of total General Fund revenues. When compared to FY 2016-17 budget, actual revenues generated approximately 2.7% less revenue than expected. Sales tax revenue decreased by 2.1%. Even though there was significant growth in the food products category, activities in all other categories resulted in decreasing revenues during the same period.

Several factors are negatively affecting the generation of sales tax revenue, nationally and locally. The increasingly rapid growth of online sales transactions, currently exempt from sales tax, is eroding the tax base; changing demographics are causing greater spending in non-taxable categories of goods and services among all age groups; and the numbers and types of transactions that are exempt from sales tax is also increasing. Given the cyclical nature of the local economy, the stabilizing of the rate of new vehicle sales, and the aforementioned factors, it is anticipated that sales tax revenue will remain flat or possibly even decline in the near future.

Property Taxes

Property tax accounts for 37% of City revenue and is a key indicator of the City's economic outlook. Projections for secured taxes in Redwood City in FY 2017-18 call for a 1% increase over FY 2016-17 actuals with indications that growth in assessed value will continue in FY 2017-18 due to strong real estate sales, property improvements, and development.

Utilities Users Taxes

This City collects a voter-approved Utilities User Tax (UUT) on gas, electricity, cable and telecommunications services. UUT revenue increased 2% in FY 2016-17 compared to FY 2015-16, driven by an increase in utility rates and usage, although other sources of UUT revenues such as wireless and cable services continue to decline. Following the passage of Assembly Bill 1717 in 2014, the City entered into an agreement with the State Board of Equalization for the collection of our UUT on prepaid wireless services. The City began collecting revenue on prepaid wireless in January 2016 and will continue until AB 1717 sunsets in 2020. This revenue source amounted to \$159,337 for FY 2016-17. While traditional UUT revenue has been dedicated on an annual basis to support the City's capital improvement program, the City has committed this particular new source of UUT revenue to affordable housing.

Educational Revenue Augmentation Fund Refunds

In FY 1992-93 and FY 1993-94, the State shifted property taxes from cities, counties, and special districts to school districts to supplant funding that the State was providing to school districts. The funds shifted from these local governments are placed into the Educational Revenue Augmentation Fund (ERAF) by the County Controller. The Controller then disburses these funds to school districts based upon the formula prescribed by State law. Any funds remaining in ERAF (after the distribution to the school districts) are returned to the cities, county, and special districts in proportion to the amount they contributed to ERAF. This return of property tax revenue is difficult to anticipate due to complicated State school funding formulas and at risk of reduction or elimination by State action. In FY 2015-16 and FY 2016-17, the City received \$4.8 million and \$4.9 million respectively. This level

of funding was higher than can be expected in the future due to various one-time factors and recent and potential changes in school financing, which the County Controller has indicated could significantly reduce this revenue source in FY 2017-18 and future years. The City's policy is to budget what can reasonably be estimated, which is approximately \$2.5 million, or about 51% of the FY 2016-17 actual amount received. The City Council has directed that any additional funds be used to offset the cost of relocation benefits and other costs associated with ending residential uses at Docktown Marina.

Successor Agency to the Redevelopment Agency

As Successor Agency, the City continues to focus on the disposition of the \$10.3 million in funds that had been in the former Redevelopment Agency's possession and which were encumbered for below-market housing through an agreement with the Legal Aid Society. The control of these funds has been in dispute with the State of California Department of Finance (DOF) since the Redevelopment Agency was dissolved in FY 2011-12. The City filed suit against the State of California challenging the DOF's position that these funds are unencumbered and must be remitted to the County Controller. Although the State prevailed in the Superior Court trial, the City has filed an appeal. The appeal is fully briefed and the City is awaiting a court date.

In the meantime, new State legislation (SB107) was passed in September 2015 requiring that all obligations determined by the DOF be paid in order for successor agencies to receive the benefits of a finding of completion. The City remitted the funds prior to the end of calendar year 2015 for distribution to the taxing entities while it continues to pursue its appeal. The City advised the taxing entities to hold the funds in case the City prevails in this appeal.

The City also continues to work with the State of California regarding the disposition of several former Redevelopment Agency land parcels.

Relevant Financial Policies

In FY 2016-17, the City Council adopted a general fund reserve policy, where the unreserved portion of the general fund's fund balance shall be 15% of anticipated General Fund revenues. Any excess balance above a 15% reserve threshold was approved to be utilized to set up a Section 115 Trust Account to fund pension expenses.

As a result of implementing GASB 54, these unreserved amounts are now reported under the category "Unassigned Fund Balances." In recent fiscal years, the City has used balances in excess of the reserve policy to pay down unfunded liabilities.

In addition, the City Council adopted a Debt Disclosure Policy and updated the Investment Policy. The City reviews these policies regularly and uses them to maintain sound fiscal practices. The City has also established cash management, accounting, budgetary and risk management policies and practices that are essential to the City's long-term fiscal health. These financial policies and practices also promote public confidence and increase the City's credibility in the eyes of bond rating agencies and potential investors. Such policies also provide the resources to react to financial needs in a prudent manner.

The City also elected to change investment practices by hiring a third party to provide independent, professional investment management services. The purpose is to create a more strategic investment policy, and to diversify the City's investments.

Appropriation Limit

Article XIII B of the California State Constitution, which became effective in FY 1979-80, and which was modified (by Proposition 111) in November 1989, establishes, by formula, an appropriation limit for governmental agencies. Using the appropriations of FY 1978-79 as the base year, the limit is modified by the change in the composite consumer price index, population, and the value of commercial property development within the City

limits during each fiscal year. Article XIII B also sets the guidelines as to what is to be included in the appropriation limits.

The appropriation limit for Redwood City for FY 2016-17 was \$648,487,191 while the actual appropriations subject to the limit amounted to \$97,696,342. The 2016-17 appropriation limit increased from FY 2015-16 due primarily to the increase (5.37%) in per capital personal income, one of the factors used in calculating the change in the appropriation limit.

OTHER INFORMATION

Annual Independent Audit

The annual audit of the books and financial records of the City was completed by Badawi and Associates, certified public accountants appointed by the City Council. The independent auditor's report is part of this report, starting on page 1.

Awards

The Government Finance Officers Association (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City of Redwood City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. This is the 30th consecutive year that Redwood City has received this prestigious award. In order to be awarded a certificate of achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A certificate of achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the certificate of achievement program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report could not have been achieved without the skillful, dedicated and efficient services of the entire staff of the Finance Division. I would like to extend special recognition to Derek Rampone for his professionalism and leadership in overseeing this process. Special thanks must also be expressed to Jennifer Chang, Molly Flowerday, Carolyn Kerans, Jun Nguyen, and Sylvia Peters for their important contributions, and to Nancy Murguia for her support with the publication of this document.

I would also like to thank and commend the City Council and City Manager for their ongoing interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner in the best interests of the residents of Redwood City.

Respectfully submitted,

A handwritten signature in black ink, reading "Kimbra McCarthy". The signature is fluid and cursive, with a large loop at the end of the last name.

Kimbra McCarthy
Assistant City Manager of Administrative Services
City of Redwood City
Redwood City, California



Government Finance Officers Association

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

Presented to

**City of Redwood City
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

CITY OF REDWOOD CITY - REDWOOD CITY, CALIFORNIA

PRINCIPAL OFFICIALS

AS OF JUNE 30, 2017

CITY COUNCIL

John Seybert, Mayor November 2018
Ian Bain, Vice Mayor November 2020
Alicia C. Aguirre.....November 2020
Janet Borgens.....November 2020
Jeffrey Gee November 2018
Diane Howard November 2018
Shelly Masur.....November 2020

CITY MANAGER

Melissa Stevenson Diaz

DEPARTMENT DIRECTORS

Assistant City Manager/Administrative Services.....Kimbra McCarthy
Assistant City Manager/Community Development.....Aaron Aknin
City Clerk Silvia Vonderlinden
Fire Chief Stan Maupin
Library Derek Wolfgram
Parks, Recreation, and Community Services Chris Beth
Police Chief JR Gamez
Public Works Ramana Chinnakotla

CITY ATTORNEY

Veronica Ramirez

City of Redwood City
1017 Middlefield Road
Redwood City, California 94063
Telephone: (650) 780-7070
Fax: (650) 366-2447
E-Mail: mail@redwoodcity.org
Web Site: www.redwoodcity.org

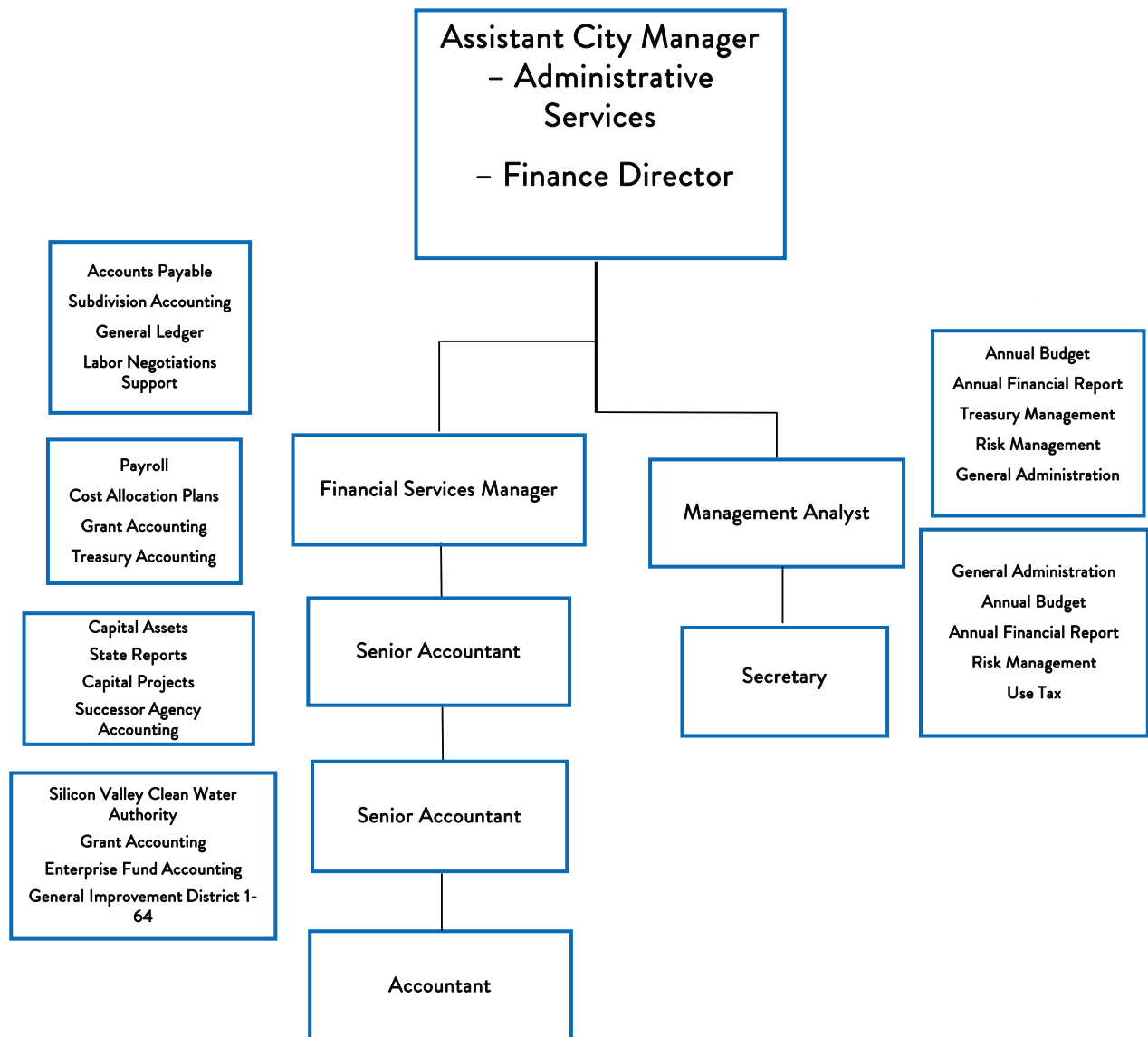
CITY OF REDWOOD CITY - REDWOOD CITY, CALIFORNIA

FINANCE DIVISION STAFF
As of June 30, 2017

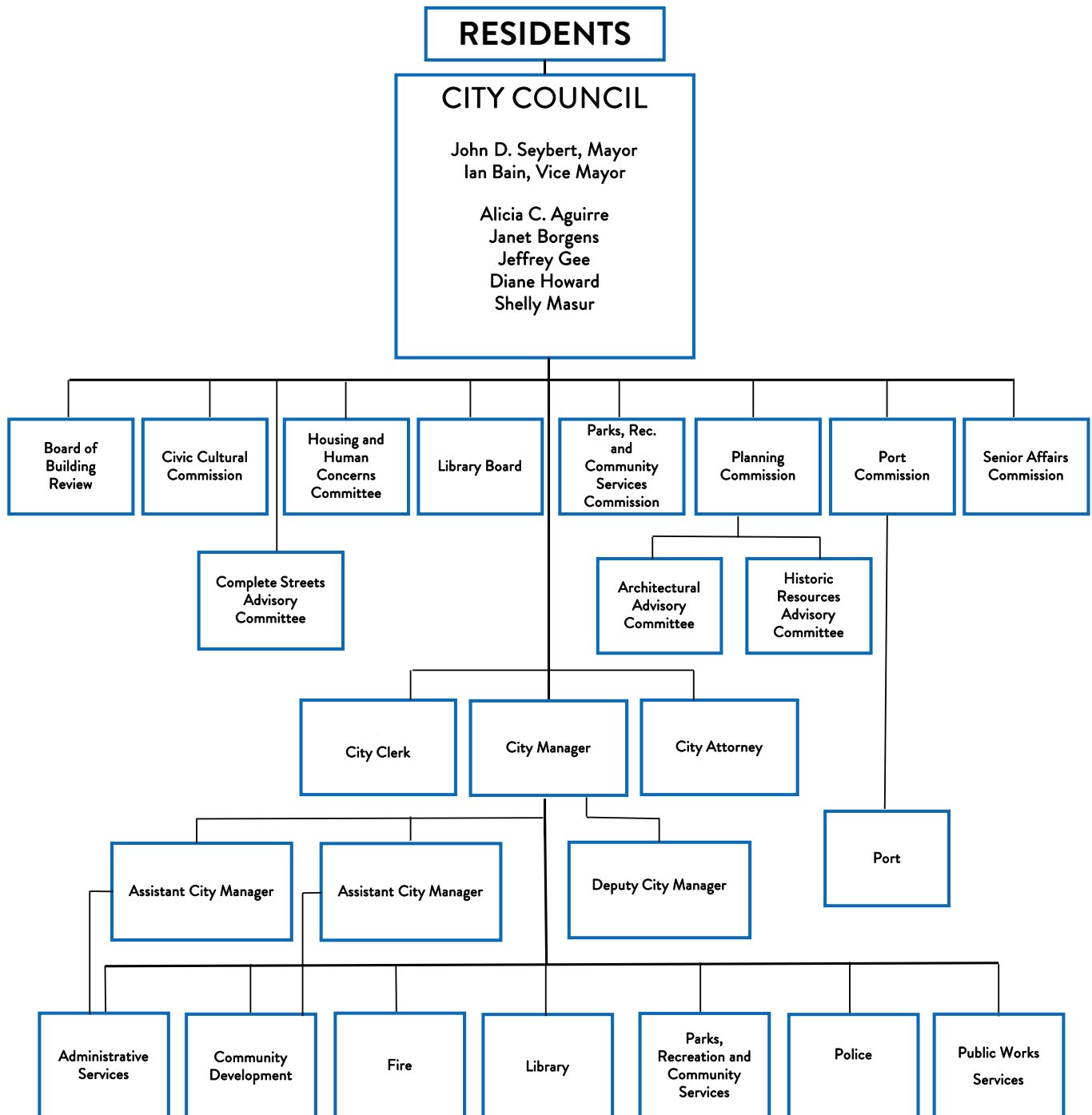
Derek Rampone	Financial Services Manager
Jennifer Chang	Senior Accountant
Carolynne Kerans	Senior Accountant
Sylvia Bravo Peters	Management Analyst
Molly Flowerday	Acting Accountant
Gina Clark	Account Technician
Anna Indy	Account Technician
Lisa Crudo.....	Account Clerk
Nancy Murguia	Secretary

June 30, 2017

Administrative Services Department
Finance Division



June 30, 2017





CORE PURPOSE

Build a Great Community Together

CORE VALUES

Excellence:

Passion to Do Our Best in Each Moment

Integrity:

Do the Right Thing, Not the Easy Thing

Service:

We Care and It Makes a Difference

Creativity:

Freedom to Imagine and Courage to Act



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Redwood City, California (City), as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the City's investment in the Silicon Valley Clean Water Authority, which represents 37 percent, 39 percent and zero percent, respectively, of the City's assets, net position, and revenues of the Sewer Utility Fund and 11 percent, 16 percent, and zero percent, respectively, of the assets, net position, and revenues of the business-type activities. The City's investment in the Silicon Valley Clean Water Authority was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the City's investment in the Silicon Valley Clean Water Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2017, and the respective changes in 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension information, and schedules of funding progress other post-employment benefit plans on pages 4 to 18 and 86 to 93 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

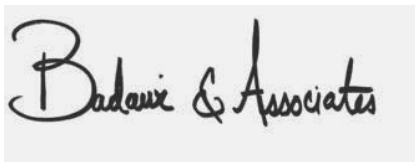
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, general fund comparative statements, general fund comparative budgetary schedules on pages 95-99, combining and individual nonmajor fund financial statements, budgetary comparison information for non-major funds, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The general fund comparative statements, comparative budgetary schedules on pages 95-99, combining and individual nonmajor fund financial statements, and budgetary comparison information for non-major funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the general fund comparative statements, combining and individual nonmajor fund financial statements, and budgetary comparison information for non-major funds are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2017, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Badawi & Associates". The signature is written in a cursive, flowing style.

Badawi and Associates
Certified Public Accountants
Oakland, California
December 11, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City's Comprehensive Annual Financial Report presents a narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

FISCAL YEAR 2016-17 FINANCIAL HIGHLIGHTS

During fiscal year 2016-17, the City experienced continued growth in revenues as the local economy continued to grow. Financial highlights of the fiscal year include the following:

- The City's total net position increased \$25.9 million in FY 2016-17, after a \$30.6 million increase in the preceding fiscal year. At June 30, 2017, net position totaled \$422.0 million, comprised of \$165.2 million for governmental activities and \$256.8 for business-type activities.
- Total City revenues, including program and general revenues, were \$232.7 million, a decrease of \$200 thousand over the prior fiscal year, while total expenses were \$206.7 million, an increase of \$4.5 million from FY 2015-16.
- Net position in governmental activities increased \$5.5 million, while net position in business-type activities increased \$20.4 million.
- Governmental program revenues were \$38.0 million, which reflected a decrease of \$2.9 million over the prior fiscal year.
- Governmental general revenues increased to \$103.3 million in FY 2016-17, up \$5.9 million from the prior fiscal year.
- Governmental program expenses increased to \$134.1 million in FY 2016-17, up \$7.8 million from the prior fiscal year.
- Total revenues from business-type activities decreased to \$91.3 million in FY 2016-17, down \$3.3 million from the prior fiscal year.
- Total expenses of business-type activities decreased to \$73.6 million in FY 2016-17, a \$3.3 million decrease over the prior fiscal year.
- General fund revenues of \$129.6 million increased by \$11.2 million over the prior fiscal year.
- General fund expenditures of \$112.1 million increased by \$10.5 million over the prior fiscal year.
- General fund balance of \$32.4 million at June 30, 2017 increased by \$3.9 million over the prior fiscal year.

OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report is in six parts:

1. Introductory section, which includes the transmittal letter and general information
2. Management's Discussion and Analysis
3. The Basic Financial Statements, which include the government-wide and the fund financial statements, along with the notes to these financial statements
4. Required supplementary information
5. Combining statements for non-major governmental funds and fiduciary funds
6. Statistical information

The Basic Financial Statements

The Basic Financial Statements comprise the City-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The City-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in Net Position for the fiscal year.

All of the City's activities are grouped into government activities and business-type activities, as explained below. All the amounts in the Statement of Net Position and the Statement of Activities are separated into governmental activities and business-type activities in order to provide a summary of these two activities of the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the City's general fund and other major funds. The Fund Financial Statements, which are prepared using the modified accrual basis of accounting, measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

Major funds account for the major financial activities of the City and are presented individually, while the activities of non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major funds are explained below.

The Government-wide Financial Statements

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, culture-recreation, public improvements, planning and zoning, and general administration services. These activities have been broken down into various functions, such as community development, human services, public safety, transportation, environmental support and protection, leisure, cultural and information services, and policy development and implementation. These services are supported by general City revenues such as taxes, and by specific program revenues such as developer fees.

Business-type Activities — All of the City's enterprise activities are reported here, including water, sewer, parking, the Port of Redwood City, and Docktown Marina. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Government-wide financial statements are prepared on the full accrual basis, which means they measure the flow of all economic resources of the City as a whole.

The government-wide financial statements may be found on pages 21-22 of this report.

Fund Financial Statements

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

Fund financial statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each major fund is presented individually, with all non-major funds summarized and presented only in a single column. Subordinate schedules present the detail of these non-major funds. Major funds present the major activities of the City for the fiscal year, and may change from fiscal year to fiscal year as a result of changes in the pattern of the City's activities.

Governmental fund financial statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the governmental fund financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

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

The City of Redwood City maintains 23 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Outlay Fund, which meet the criteria to be considered major funds. Data from the other 21 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Redwood City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund.

The governmental fund financial statements may be found on pages 25 and 27 of this report.

Proprietary funds are maintained in two ways. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, sewer, parking, Port, and Docktown Marina operations. Internal services funds are used to account for costs of the City's equipment services, the City's insurance program, the costs of the City's telephone/communications and information technology services, maintenance and repair of buildings, custodial services, and employee benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary fund financial statements may be found on pages 30-32 of this report.

Since the City's internal service funds provide goods and services only to the City's governmental and business-type activities, their activities are reported only in total at the fund level. Internal service funds may not be major funds because their revenues are derived from other City funds. These revenues are eliminated in the City-wide financial statements and any related profits or losses are returned to the activities which created them, along with any residual net position of the internal service funds.

Comparisons of budget and actual financial information are presented only for the general fund and other major funds that are special revenue funds. For the fiscal year ended June 30, 2017 there were no major special revenue funds.

Fiduciary Funds

The City maintains fiduciary funds that consist of a Private Purpose Trust Fund and Agency Funds. The Private Purpose Trust Fund accounts for the activity of the former Redevelopment Agency of Redwood City, while the Agency Funds account for tax free employee and employer contributions made under the provisions of section 125 of the Internal Revenue Code (cafeteria benefits fund), and for transactions involving the Pacific Shores Community Facilities District, the Shores Transportation Improvement District, the One Marina Community Facilities District, and the Community Benefit Improvement District. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and the Agency Funds Statement of Changes in Assets and Liabilities. The accounting used for fiduciary funds is much like that used for proprietary funds. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its own operations.

The fiduciary fund financial statements may be found on pages 33-34 of this report.

Notes to the Financial Statements

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Notes to the Financial Statements may be found on pages 35-85 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may over time serve as a useful indicator of the City's financial position. The City's assets exceeded liabilities by \$422.0 million at June 30, 2017.

City's Net Position (in Millions)

	Governmental Activities		Business-type Activities		Total		
	2017	2016	2017	2016	2017	2016	Variance
	\$	\$	\$	\$	\$	\$	
Cash and investments	164.549	152.571	99.597	91.469	264.146	244.040	8.24%
Other assets	35.352	38.929	47.532	45.971	82.884	84.900	-2.37%
Capital assets	193.154	193.563	203.549	200.074	396.703	393.637	0.78%
Total assets	393.055	385.063	350.678	337.514	743.733	722.577	2.93%
Total deferred outflows of resources	38.554	14.391	6.127	4.922	44.681	19.313	131.35%
Long-term debt outstanding	12.591	12.778	67.805	75.700	80.396	88.478	-9.13%
Other liabilities	250.043	217.714	31.886	27.670	281.929	245.384	14.89%
Total liabilities	262.634	230.492	99.691	103.370	362.325	333.862	8.53%
Total deferred inflows of resources	3.779	9.271	0.300	2.692	4.079	11.963	-65.90%
Net Position:							
Net investment in capital assets	192.119	191.852	142.830	132.570	334.949	324.422	3.24%
Restricted	59.815	60.812	6.227	5.662	66.042	66.474	-0.65%
Unrestricted	(86.738)	(92.973)	107.757	98.142	21.019	5.169	306.64%
Total net position	165.196	159.691	256.814	236.374	422.010	396.065	6.55%

The largest portion (79.4%) of the City's net position reflects its capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, as the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (15.6%) represents resources that are subject to external restrictions on how they may be used. Unrestricted net position may be used to meet the government's ongoing obligations (although portions of unrestricted net position may by law or contract be only used for specified purposes and may not necessarily be used for any general governmental purpose) to residents and creditors. Due to the City's net pension liability, the City's unrestricted net position has a balance of \$27.2 million, or 5.0% of total net position.

The City's net position increased by \$25.9 million during the current fiscal year.

City of Redwood City
Management's Discussion and Analysis
For the fiscal year ended June 30, 2017

Changes in City's Net Position (in Millions)

	Governmental Activities		Business-type Activities		Total		Variance
	2017	2016	2017	2016	2017	2016	
	\$	\$	\$	\$	\$	\$	
Revenues							
Charges for services:							
Community development	8.087	6.340			8.087	6.340	27.56%
Public safety	8.216	7.905			8.216	7.905	3.93%
Environmental support and protection	1.541	1.461			1.541	1.461	5.48%
Leisure, cultural and information services	3.534	3.091			3.534	3.091	14.33%
Policy development and implementation	4.906	1.776			4.906	1.776	176.24%
Water			36.744	35.203	36.744	35.203	4.38%
Sewer			37.069	45.510	37.069	45.510	-18.55%
Parking			1.965	2.401	1.965	2.401	-18.16%
Port of Redwood City			7.128	6.780	7.128	6.780	5.13%
Docktown Marina			0.693	0.664	0.693	0.664	4.37%
Operating grants and contributions:							
Community development	2.229	2.160			2.229	2.160	3.19%
Public safety	1.179	0.977			1.179	0.977	20.68%
Transportation	1.712	1.486			1.712	1.486	15.21%
Environmental support and protection	0.018	0.015			0.018	0.015	20.00%
Leisure, cultural and information services	2.958	2.490			2.958	2.490	18.80%
Policy development and implementation	0.428	0.629			0.428	0.629	-31.96%
Water			0.062	0.016	0.062	0.016	287.50%
Parking			0.002	0.001	0.002	0.001	100.00%
Port of Redwood City			0.004		0.004		n/a
Capital grants and contributions:							
Community development	2.385	1.116			2.385	1.116	113.71%
Transportation	3.031	6.483			3.031	6.483	-53.25%
Environmental support and protection	0.023	0.086			0.023	0.086	-73.26%
Leisure, cultural and information services	1.566	4.906			1.566	4.906	-68.08%
Policy development and implementation	0.350				0.350		n/a
Water			1.690	3.009	1.690	3.009	-43.84%
Sewer			0.226	0.023	0.226	0.023	882.61%
Parking			4.925		4.925		n/a
Port of Redwood City				0.083		0.083	-100.00%
General revenues:							
Taxes/special assessments	101.742	95.747	0.214	0.157	101.956	95.904	6.31%
Investment earnings	1.242	1.425	0.606	0.742	1.848	2.167	-14.72%
Other	0.332	0.199	0.001	0.001	0.333	0.200	66.50%
Total revenues	145.479	138.292	91.329	94.590	236.808	232.882	1.69%
Expenses							
Community development	11.283	10.472			11.283	10.472	7.74%
Human services	1.829	1.673			1.829	1.673	9.32%
Public safety	70.532	65.192			70.532	65.192	8.19%
Transportation	15.543	13.001			15.543	13.001	19.55%
Environmental support and protection	1.919	3.524			1.919	3.524	-45.54%
Leisure, cultural and information services	27.414	25.393			27.414	25.393	7.96%
Policy development and implementation	8.710	6.122			8.710	6.122	42.27%
Interest on long term debt	0.063	0.023			0.063	0.023	173.91%
Water			36.789	33.505	36.789	33.505	9.80%
Sewer			26.676	34.346	26.676	34.346	-22.33%
Parking			3.005	3.006	3.005	3.006	-0.03%
Port of Redwood City			5.692	5.179	5.692	5.179	9.91%
Docktown Marina			1.408	0.826	1.408	0.826	70.46%
Total expenses	137.293	125.400	73.570	76.862	210.863	202.262	4.25%
Change in net position before transfers	8.186	12.892	17.759	17.728	25.945	30.620	-15.27%
Transfers	(2.682)	(3.453)	2.682	3.453			
Change in net position	5.504	9.439	20.441	21.181	25.945	30.620	-15.27%
Net position - July 1, as restated	159.692	150.253	236.373	215.192	396.065	365.445	8.38%
Net position - June 30	165.196	159.692	256.814	236.373	422.010	396.065	6.55%

GOVERNMENTAL ACTIVITIES

Governmental activities prior to transfers increased the City's net position by \$8.2 million. Including transfers, governmental activities net position increased \$5.5 million. Transfers out of governmental activities and into business-type activities during FY 2016-17 consisted of the transfer out of the General Fund to the Docktown Marina fund of \$2.4 million to cover litigation settlement expenses related to ending residential uses at the marina, a transfer out of the General Fund to the Water Fund in the amount of \$200 thousand to support operations, and a transfer out of the General Fund to the Parking Fund in the amount of \$100 thousand to support operations.

Key elements of the increase/decrease in revenues for governmental activities are as follows:

General governmental revenues (non-program) increased by 6.1%, or \$5.9 million from FY 2015-16, as almost all broad categories of general revenues increased, other than franchise taxes, property transfer taxes, motor vehicle in lieu tax, and investment earnings, which all decreased. Within the broad categories, property taxes increased \$4.6 million, sales taxes increased \$1.3 million (including transportation-related sales taxes that were not included in prior fiscal year calculations), franchise taxes decreased \$28 thousand, property transfer taxes decreased \$136 thousand, business license taxes increased \$98 thousand, utility users' taxes increased \$195 thousand, transient occupancy taxes increased \$101 thousand, motor vehicle in lieu tax decreased \$132 thousand, and investment earnings decreased \$183 thousand, and other revenues increased \$133 thousand.

Community development revenues increased due to an increase in building permits issued and an increase in capital grants and contributions. Public safety revenues increased primarily due to an increase in fees collected for full fire services provided by Redwood City to the City of San Carlos through an agreement between the Cities. Transportation revenues decreased due to a decrease in Measure A grant revenues received. Environmental support and protection revenues increased slightly due to an increase in property tax revenues in the various maintenance district funds. Leisure, cultural and information services decreased primarily due to a large decrease in the receipt of Park Impact Fees. Policy development and implementation revenue increased due to including \$4.1 million of right-of-way rent received from the Water and Sewer Funds, which had been eliminated (consolidated) in prior fiscal year CAFRs. The increase in revenue was offset by the elimination (consolidation) of lease revenue of \$700 thousand in the Public Financing Authority Debt Service Fund that was previously reported in this function.

Key elements of the increase/decrease in expenses for governmental activities are as follows:

Total governmental activities expenses were up \$11.9 million, or 9.5%, due to increases in almost all functions, except environmental support and protection. Interest on long-term debt increased slightly to \$63 thousand.

Community development expenses increased \$811 thousand primarily due to increases in community planning, strategic planning, administration, general engineering, subdivision engineering, and code enforcement. Human services expenses increased slightly (\$156 thousand) due to general increases related to supplies and services costs. Public safety expenses increased by \$5.3 million primarily due to increases in all police expenditure accounts, as well as an increase in all fire expenditure accounts. A large component of these increased expenses is the recording of the increase in the City's CalPERS retirement obligation. Transportation expenses increased \$2.5 million due to including street tree maintenance expenditures in this category instead of in leisure, cultural, and information services as it had been presented in prior fiscal years. Transportation expenses also increased as a result of increased

expenditures in the Capital Outlay Fund (for non-capitalized transportation project expenditures), the Special Gas Tax Street Improvement Fund, the Transportation Fund, and the Traffic Mitigation Fees Fund, offset by a decrease in the Transportation Grants Fund and Traffic Mitigation Fees Fund. Environmental support and protection decreased \$1.6 million mostly due to an increase in the internal service funds' operating income in FY 2016-17, of which a large portion of this income is offset against environmental support and protection expenses. Leisure, cultural, and information services increased \$2.0 million due to increased costs to operate the Library, including the literary services and neighborhood libraries and outreach. Also included in this increase are increases in various Parks, Recreation, and Community Services Department categories, such as community services and special interest programming/marketing. Policy development and implementation increased \$2.6 million due to increases in management/policy execution and the decrease in the reimbursement from other funds in FY 2016-17 as a result of not eliminating the \$4.1 million of right-of-way rent received from the Water and Sewer Funds, which had been previously presented as an offset to policy development and implementation expenses. The increases in policy development and implementation expenses was partially offset by a decrease in legal services and less expenditures in the capital outlay fund related to non-capitalized policy development and implementation expenditures (projects).

During FY 2016-17 there was an increase of \$40 thousand in interest expense related to the outstanding 2013 Public Financing Authority Refunding Lease.

BUSINESS-TYPE ACTIVITIES

Business-type activities prior to transfers increased the City's net position by \$17.8 million in FY 2016-17.

Key elements accounting for increases or decreases in revenues and expenses are as follows:

Business-type revenues increased primarily due to the increase in utility rates and a large increase in parking in-lieu fees collected. There was a decrease in Sewer Fund revenues in FY 2016-17 due to a small increase in the value of our investment in the Silicon Valley Clean Water Authority (SVCWA) of \$153 thousand during the FY 2016-17, compared to an increase of \$10.8 million in FY 2015-16. A large part of this increase in the value of the investment in FY 2015-16 was due to our contribution of \$10 million to partially supplant our portion of the bond issued by the Authority in FY 2015-16. Port revenues increased by \$269 thousand mostly due to increased user fees.

The water utility's expenses were higher in FY 2016-17 due to an increase in the rates charged for water by the San Francisco Public Utilities Commission, an increase in employee costs, supplies and services, depreciation, and insurance costs and claims, offset by decreases in maintenance, utility costs, and contractual services.

Sewer utility expenses increased by \$3.1 million, not including the \$10.8 million payment to SVCWA in FY 2015-16. The increase consists of an increase in payments to SVCWA for wastewater treatment, and debt service reimbursement for SVCWA debt issued for wastewater system capital improvements, as well as an increase in employee costs, maintenance, supplies and services, depreciation, and insurance costs and claims, offset by decreases in utility costs and non-capitalized project costs.

The expenses of the parking fund essentially stayed the same, with a decrease of only \$773 from the prior fiscal year.

The expenses of the Port of Redwood City experienced a slight increase of \$513 thousand due to an increase in employee costs, maintenance, and depreciation, offset by decreases in utility costs, contractual services, supplies and services, and insurance and claims.

During fiscal year 2016-17, the Docktown Marina expenses increased by \$582 thousand, primarily due to an increase in contractual services related to ending residential uses of the marina, offset by a decrease in employee costs.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The general government functions are contained in the general, special revenue, debt service, and capital project funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources by using the modified accrual basis of accounting. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year.

At June 30, 2017, the City's governmental funds reported combined fund balances of \$130.6 million, which reflects an increase of \$5.7 million from the beginning fund balance.

Governmental fund revenues increased \$8.8 million this fiscal year to \$145.7 million. Significant increases occurred in the general fund, low and moderate income housing asset fund, and community benefits fund, which were offset by a large decrease in the parks impact and in lieu fee fund. Expenditures, including capital outlay, increased \$4.6 million this fiscal year to \$136.3 million. A large part of the increase was attributable to the \$10.5 million expenditure increase in the general fund, described below, offset by decreases in every other fund except the traffic safety fund, transportation fund, redwood shores maintenance fund, supplemental law enforcement services fund, traffic mitigation fees fund, low and moderate income housing asset fund, planning cost recovery fund, and the new art in public places fund.

The general fund is the primary operating fund of the City. At June 30, 2017, unassigned fund balance of the general fund was \$29.4 million, while total fund balance increased to \$32.4 million from a beginning fund balance of \$28.4 million, as a result of revenues and transfers in of \$130.4 million, exceeding expenditures and transfers out of \$126.4 million. Unassigned fund balance increased \$4.2 million during the current fiscal year, providing additional resources available for ongoing operations when compared to the prior fiscal year. During FY 2016-17, the City Council approved a reduction in the General Fund reserve from 20% to 15%, with the excess balance being utilized to set up a Section 115 Trust Account to fund pension expenses. It is expected that at least \$8.8 million will be deposited into this Trust Account in FY 2017-18. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 26.2% of total fund expenditures, while total fund balance represents 28.9% of that same amount.

The following are the major funds that qualified under the reporting criteria for major funds selection:

General Fund – General fund revenues increased approximately \$11.2 million this fiscal year due to increases in all revenues, except for sales and other taxes and contributions. These increases were a result of the continued recovery from the recession. The increase in property taxes of \$4.6 million resulted primarily from an increase in assessed valuations. There was a slight increase in revenue received in the general fund from the county as its share of the Education Revenue Augmentation Fund (ERAF) refund in FY 2016-17. ERAF increased by \$132 thousand to a total of \$4.9 million.

ERAF, which was created by state law in the early 1990's, allowed the state to shift on an ongoing basis a portion of each city, county, and special district's property taxes to school districts. This shift allowed the state to decrease the state's general fund support to schools throughout the state and concomitantly reduced state funding of schools. Within each county, ERAF revenues are allocated to schools based upon a formula that considers, among several factors, the average daily attendance and the amount of each school district's own property tax revenue. Within San Mateo County, the outcome of applying this formula was that the school districts did not require all of the funds shifted from the cities, county, and special districts. Consequently, these funds were returned to each entity in proportion to the amount that was initially collected.

Sales and other taxes decreased by \$220 thousand, primarily due to a decrease in sales tax and property transfer tax, offset by increases in franchise taxes, transient occupancy taxes, business license taxes, and utility users' tax.

Licenses and permits increased by \$535 thousand, a 24% increase, primarily due to an increase in building permit revenue related to increases in building activity.

Fines, forfeitures, and penalties increased by \$54 thousand, primarily due to an increase in parking citations, offset by a decrease in library fines.

Use of money and property increased by \$4.2 million, primarily due to including \$4.1 million of right-of-way rent received from the Water and Sewer Funds, which had been consolidated in prior fiscal year CAFRs.

Intergovernmental revenues increased by \$282 thousand primarily due to the City receiving additional funding from various government grants.

Charges for current services increased \$1.8 million primarily due to an increase in revenue received from the City of San Carlos for fire services provided, an increase in plan check fees, and an increase in recreational program revenue.

General fund expenditures increased \$10.5 million over the prior fiscal year. The increase primarily resulted from programmatic changes, including increases in required CalPERS contributions, and a decrease in the reimbursement from other funds in FY 2016-17 as a result of not eliminating the \$4.1 million of right-of-way rent received from the Water and Sewer Funds, which had been previously presented as an offset to policy development and implementation expenditures. All expenditure categories had increases from the prior fiscal year. The amounts of the increases were as follows: community development (\$737 thousand), human services (\$85 thousand), public safety (\$3.4 million), transportation (\$1.0 million), environmental support and protection (\$62 thousand), leisure, cultural, and information services (\$860 thousand), and policy development and implementation (\$4.3 million).

Transfers out of the general fund decreased by \$3.2 million in FY 2016-17 primarily due to a decrease of \$3.0 million in the transfer to the self-insurance internal service fund to cover increased workers' compensation costs.

Capital Outlay Fund – This fund accounts for resources provided to finance general governmental capital projects. In FY 2016-17, the capital outlay fund generated \$1.3 million in revenue, most of which was from public, educational, and governmental fees, interest income, and contributions. This fund was also the recipient of \$8.9 million of transfers from the general fund from the Utility Users' Tax, which has been allocated to support the City's infrastructure. Total outlays were \$8.7 million, of which \$3.7 million met the City's criteria for capitalization. The balance (\$5.0 million) was expended on non-capitalized projects in FY 2016-17. Total outlays in the prior fiscal year (FY 2014-15) were \$12.8 million. Of the capital outlay fund's \$29.6 million fund balance, \$26.7 million was committed to capital projects, and \$2.9 million was assigned to capital projects.

Proprietary Funds – Enterprise fund net position totaled \$256.8 million at the end of the fiscal year, an increase of \$20.4 million over the prior fiscal year balance of \$236.4 million. Enterprise operating revenues were \$83.6 million this fiscal year, an increase of \$3.8 million over last fiscal year, while net non-operating revenues (expenses) were a negative \$2.5 million compared to a positive \$8.8 million the prior fiscal year. Net non-operating revenues (expenses) experienced a \$11.2 million decrease primarily due to a decrease in investment revenues of \$289 thousand, and a decrease in the change in the investment in SVCWA of \$10.6 million (current fiscal year increase of \$153 thousand versus an increase of \$10.8 million in the prior fiscal year).

Enterprise fund operating expenses were \$70.2 million this fiscal year, down \$3.7 million from the prior fiscal year, primarily due to lower operating expenses in the sewer utility fund (\$7.7 million), offset by increases in operating expenses in the water utility fund (\$3.2 million), the port fund (\$150 thousand), and the Docktown Marina fund (\$582 thousand).

Water Utility – The water utility fund realized operating income of \$2.3 million in the current fiscal year, down from the operating income of \$4.0 million in the prior fiscal year. Operating revenues increased by \$1.5 million, while operating expenses increased by \$3.2 million. After non-operating revenues (expenses), capital contributions, and transfers into the water fund, net position increased by \$2.4 million.

Sewer Utility – The sewer utility fund realized operating income of \$10.4 million in the current fiscal year, up from the operating income of \$406 thousand in the prior fiscal year. Operating revenues increased by \$2.3 million, while operating expenses decreased by \$7.7 million from the prior fiscal year, primarily due to the City's \$10.0 million contribution to SVCWA in the prior fiscal year, which was reported as an operating expense. During the current fiscal year, there was no debt issue at SVCWA. After non-operating revenues (expenses), capital contributions, and transfers out of the sewer fund, net position increased by \$10.5 million.

Parking Fund – Operating revenues decreased by \$436 thousand this fiscal year to \$2.0 million, while operating expenses were comparable to last year, decreasing by \$773 to \$3.0 million. After non-operating revenues (expenses), capital contributions, and transfers into the parking fund, net position increased by \$4.3 million.

Port Fund – Operating revenues were up \$348 thousand while operating expenses were up \$149 thousand over FY 2015-16. After non-operating revenues (expenses), net position increased by \$1.5 million.

Docktown Marina – Operating revenues increased by \$30 thousand while operating expenses increased by \$582 thousand. During FY 2016-17, the General Fund transferred \$2.4 million into the Docktown Marina Fund in relation to a litigation settlement agreement to end residential uses at the marina. After non-operating revenues (expenses) and transfers into the Docktown Marina fund, net position increased by \$1.7 million, primarily due to the \$2.4 million transfer from the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

Property taxes exceeded budget by \$2.2 million primarily due to the continued strength of the housing market.

Sales and other taxes were less than budget by \$444 thousand primarily due to shortfalls in transient occupancy tax and sales tax.

Licenses and permits were less than budget by \$509 thousand due to building permits and fire permits coming in lower than expected.

Use of money and property revenue was less than budget by \$13 thousand due to greater investment earnings than expected as investment returns continued to rise, but lower than expected rents and concessions revenue.

Intergovernmental revenue was greater than budget by \$1.1 million, primarily due to higher than expected governmental grants received in the current fiscal year.

Charges for current services were greater than budget by \$1.6 million primarily due to recreation program fees exceeding expectations, offset by garbage collection revenues falling short of budget.

Other revenue was under budget by \$291 thousand due to miscellaneous revenues falling short of expected receipts, offset by higher than expected contributions.

Expenditures, overall, were \$844 thousand less than budgeted primarily due to accurate budgeting by most departments. Unexpected shortfalls in community development, transportation, environmental support and protection and leisure, cultural, and information services were more than offset by budget savings in human services, public safety, and policy development and implementation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2016-17, the City had \$393.6 million, net of depreciation, invested in a broad range of capital assets used in governmental and business-type activities, as shown in the table below. Additional information on the City's capital assets can be found in Note 4 of this report.

Capital Assets at fiscal Year-end (in Millions)

	Governmental Activities		Business-Type Activities		Total		Variance
	2017	2016	2017	2016	2017	2016	
	\$	\$	\$	\$	\$	\$	
Land	31.397	31.397	3.180	3.180	34.577	34.577	0.00%
Streets	116.873	114.667			116.873	114.667	1.92%
Construction in progress	21.616	24.539	14.116	10.008	35.732	34.547	3.43%
Buildings	83.309	83.309	62.467	62.467	145.776	145.776	0.00%
Equipment	25.627	24.622	1.709	1.684	27.336	26.306	3.92%
Improvements	9.049	7.884	201.516	196.336	210.565	204.220	3.11%
Harbor improvements			4.774	4.774	4.774	4.774	0.00%
Parks, bridges, etc.	38.703	32.210			38.703	32.210	20.16%
Traffic signals	3.096	2.641			3.096	2.641	17.23%
Storm drains	12.420	12.190			12.420	12.190	1.89%
Less accumulated depreciation	<u>(148.936)</u>	<u>(139.895)</u>	<u>(84.213)</u>	<u>(78.376)</u>	<u>(233.149)</u>	<u>(218.271)</u>	6.82%
Total capital assets	<u>193.154</u>	<u>193.564</u>	<u>203.549</u>	<u>200.073</u>	<u>396.703</u>	<u>393.637</u>	0.78%

Governmental Activities – Streets increased due to the completion of the Depot Circle improvements project, the Broadway roadway improvements project, and the City's acceptance of developer improvements at several sites throughout the City. Equipment increased due to the replacement and addition of 18 vehicles through the equipment replacement program. Improvements increased due to the completion of a new citywide telephone system and the new HVAC at the Fair Oaks Community Center. Parks and bridges increased due to the completion of the renovation of Red Morton Park and the replacement of the synthetic turf fields and lighting systems. Traffic signals and Storm drains increased due to the City's acceptance of developer improvements at several sites throughout the City. Construction in progress increased primarily due to work on the Blomquist extension project, the improvements to the Armory at Red Morton Park, renovations to several tennis courts, upgrades to the playground at the Redwood Shores Library, and the Linden Park renovation.

Business-Type Activities –Equipment increased slightly due to the purchase of equipment at the Port. Increases in the improvements category were due to the completion of a portion of the replacement of the water distribution system, the sewer collection system, the sewer rehabilitation program, the collection system replacement program, and the utility relocation project in the Jefferson Garage. Construction in progress increased primarily due to work done on the Walnut Street Interceptor Replacement program.

Long-Term Debt

Additional information can be found in Notes 6 and 7 of this report.

Outstanding Debt (in Millions)

	Governmental Activities		Business-Type Activities		Total		Variance
	2017	2016	2017	2016	2017	2016	
	\$	\$	\$	\$	\$	\$	
Revenue bonds			66.890	74.814	66.890	74.814	-10.59%
Refunding lease	1.035	1.711			1.035	1.711	-39.51%
Accrued sick leave and vacation	11.556	11.067	0.915	0.886	12.471	11.953	4.33%
Total long term debt	12.591	12.778	67.805	75.700	80.396	88.478	-9.13%

SPECIAL ASSESSMENT DISTRICT DEBT

Special assessment districts in different parts of the City have also issued debt to finance infrastructure and facilities construction in their respective districts.

At June 30, 2017, a total of \$12.9 million in special assessment district debt was outstanding, issued by three special assessment districts. This debt is secured only by special assessments on the real property in the district issuing the debt, and is not the City's responsibility, although the City does act as these Districts' agent in the collection and remittance of assessments.

PRIVATE PURPOSE TRUST FUND DEBT

On February 1, 2012, the Redevelopment Agency of the City of Redwood City was dissolved pursuant to California State law, and as of that date, the long-term debt associated with the former Redevelopment Agency was transferred to a private purpose trust fund for the Successor Agency. At June 30, 2017, the Successor Agency had tax allocation bonds outstanding in the amount of \$38.5 million including unamortized premium and accreted interest payable.

ECONOMIC OUTLOOK AND NEXT FISCAL YEAR'S BUDGET

Redwood City, like many cities, relies heavily upon property taxes and sales taxes to finance general governmental activities. In FY 2016-17, these two revenue streams accounted for approximately 40.5% and 17.2% of general fund revenues respectively. In FY 2016-17, the City experienced a significant gain in property tax revenue, with an increase of 9.6% in the general fund. However, general fund sales tax revenue decreased by 2.1%. The increase in property tax revenue is attributed to the turnover of real estate properties and booming housing market. The decrease in sales tax revenue reflects a change in consumer spending habits, where online purchasing is growing and consumers are spending more on non-taxable "experiences" rather than material goods. Moreover, pension costs are escalating and the City has other liabilities and funding commitments to address. As a result, maintaining the long-term fiscal stability of the City remains a top priority.

The adopted FY 2017-18 general fund budget projects a surplus of \$2.0 million, and relies on ongoing revenue to fund ongoing expenses, uses one-time revenue for one-time expenses, and maintains a prudent general fund reserve of 15%. For the foreseeable future, the City's pension contributions are estimated to increase annually due to changes in actuarial assumptions and investment methodologies made by the California Public Employees Retirement System. Moreover, it is unknown when another recession will occur, but certain factors point to a slowing of the economy over the next few years. These factors will be taken into consideration when developing the FY 2018-19 budget and Financial Sustainability Plan.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Comprehensive Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Finance Division, at 1017 Middlefield Road, Redwood City, CA 94063.



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2017*

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position and the Statement of Activities summarize the entire City's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the City's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis of accounting — the effect of all the City's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between City funds have been eliminated.

The Statement of Net Position reports the difference between the City's total assets and the City's total liabilities, including all the City's capital assets and all its long-term debt. The Statement of Net Position presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the City's net position, by subtracting total liabilities from total assets.

The Statement of Net Position summarizes the financial position of the City's governmental activities in a single column, and the financial position of all City business-type activities in a single column; these columns are followed by a total column that presents the financial position of the entire City.

The City's governmental activities include the activities of its general fund, along with all its special revenue, capital projects and debt service funds. Since the City's internal service funds service these funds, their activities are consolidated with governmental activities, after eliminating inter-fund transactions and balances. The City's business-type activities include all its enterprise fund activities.

The Statement of Activities reports increases and decreases in the City's net position. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the fund financial statements, which reflect only current assets, current liabilities, available revenues, and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues — that is, revenues which are generated directly by these programs — are then deducted from program expenses to arrive at the net expense of each governmental and business-type activity. The City's general revenues are then listed in the governmental activities or business-type activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

CITY OF REDWOOD CITY, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities \$	Business-Type Activities \$	Total \$
ASSETS			
Cash and investments available for operations	160,367,657	93,088,210	253,455,867
Cash and investments, restricted	4,180,968	6,508,765	10,689,733
Receivables (net of allowance for uncollectibles):			
Taxes and assessments - current	6,541,184		6,541,184
Accounts	1,954,240	6,237,526	8,191,766
Loans	9,399,022		9,399,022
Accrued interest	2,068,832	7	2,068,839
Due from other governmental agencies	5,458,339	2,486,085	7,944,424
Internal balances	1,800,000	(1,800,000)	
Advances to RDA successor agency	1,441,204		1,441,204
Inventory of supplies at cost	120,852		120,852
Deposits	535,000	10,360	545,360
Prepaid items and other assets	291,984	335,312	627,296
Land held for redevelopment	5,741,208		5,741,208
Investment in sewer authority		39,863,182	39,863,182
Investment in sewer capacity rights		400,000	400,000
Capital assets:			
Nondepreciable	53,012,815	17,296,364	70,309,179
Depreciable buildings, property, equipment and infrastructure, net	140,141,631	186,252,642	326,394,273
Total assets	393,054,936	350,678,453	743,733,389
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refundings		1,690,925	1,690,925
Deferred outflows - pension	22,505,712	2,762,901	25,268,613
Deferred pension contributions	16,048,151	1,673,401	17,721,552
Total deferred outflows of resources	38,553,863	6,127,227	44,681,090
LIABILITIES			
Accounts payable	7,011,429	6,542,422	13,553,851
Accrued interest payable	7,811	875,552	883,363
Accrued payroll	2,374,210		2,374,210
Deposits payable	9,445,040	1,201,133	10,646,173
Unearned revenue	6,060,384	2,213,542	8,273,926
Insurance claims payable:			
Due in one year	4,674,166		4,674,166
Due in more than one year	19,096,327		19,096,327
Accrued sick leave and vacation:			
Due in one year	446,269	451,939	898,208
Due in more than one year	11,110,175	463,554	11,573,729
Net OPEB obligation due in more than one year	6,488,784	735,912	7,224,696
Net Pension liability	194,884,366	20,317,825	215,202,191
Long-Term Debt:			
Due in one year	687,180	2,773,483	3,460,663
Due in more than one year	347,486	64,116,108	64,463,594
Total liabilities	262,633,627	99,691,470	362,325,097
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	3,778,714	300,422	4,079,136
Total deferred inflows of resources	3,778,714	300,422	4,079,136
NET POSITION			
Net investment in capital assets	192,119,780	142,830,042	334,949,822
Restricted for:			
Capital projects	10,571,067	5,400,889	15,971,956
Transportation	10,061,476		10,061,476
Environmental support	2,638,226		2,638,226
Leisure, cultural, and information services	18,146,734		18,146,734
Debt service		826,308	826,308
Community development projects	16,788,633		16,788,633
Public safety	314,484		314,484
Housing purposes	844,008		844,008
Other purposes	450,389		450,389
Total restricted	59,815,017	6,227,197	66,042,214
Unrestricted	(86,738,339)	107,756,549	21,018,210
Total net position	165,196,458	256,813,788	422,010,246

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position		
	Expenses	Overhead Charges	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Governmental Activities:								
Community development	11,283,201		8,087,438	2,229,031	2,384,506	1,417,774		\$1,417,774
Human services	1,829,157					(1,829,157)		(1,829,157)
Public safety	70,531,632		8,215,731	1,179,369		(61,136,532)		(61,136,532)
Transportation	15,543,459			1,712,031	3,030,427	(10,801,001)		(10,801,001)
Environmental support and protection	1,873,886	45,043	1,541,388	17,972	23,392	(336,177)		(336,177)
Leisure, cultural and information services	27,413,602		3,534,018	2,958,353	1,566,230	(19,355,001)		(19,355,001)
Policy development and implementation	9,722,747	(1,013,051)	4,906,365	427,669	350,000	(3,025,662)		(3,025,662)
Interest on long term debt	63,308					(63,308)		(63,308)
Total Governmental Activities	138,260,992	(968,008)	26,284,940	8,524,425	7,354,555	(95,129,064)		(95,129,064)
Business-Type Activities:								
Water Utility Fund	36,206,753	581,880	36,744,157	61,904	1,689,862		1,707,290	1,707,290
Sewer Utility Fund	26,412,632	262,899	37,068,780		226,185		10,619,434	10,619,434
Parking Fund	2,912,895	92,061	1,964,629	1,568	4,925,000		3,886,241	3,886,241
Port of Redwood City	5,692,117		7,127,814	4,134			1,439,831	1,439,831
Docktown Marina	1,376,969	31,168	693,355				(714,782)	(714,782)
Total Business-Type Activities	72,601,366	968,008	83,598,735	67,606	6,841,047		16,938,014	16,938,014
Total	210,862,358		109,883,675	8,592,031	14,195,602	(95,129,064)	16,938,014	(78,191,050)
General revenues:								
Taxes:								
Property taxes						52,616,638	213,553	52,830,191
Sales taxes						24,825,685		24,825,685
Franchise taxes						4,321,659		4,321,659
Property transfer taxes						809,638		809,638
Business license taxes						2,581,968		2,581,968
Utility users taxes						9,827,780		9,827,780
Transient occupancy taxes						6,552,893		6,552,893
Motor vehicle in lieu tax						205,123		205,123
Investment Earnings						1,242,098	606,423	1,848,521
Other						332,294	658	332,952
Transfers						(2,681,630)	2,681,630	
Total general revenues and transfers						100,634,146	3,502,264	104,136,410
Change in Net Position						5,505,082	20,440,278	25,945,360
Net position-Beginning						159,691,376	236,373,510	396,064,886
Net position-Ending						165,196,458	256,813,788	422,010,246

See accompanying notes to financial statements



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2017*

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types. The governmental funds described below were determined to be major funds by the City in FY 2016-17.

GENERAL FUND

The general fund is the general operating fund of the City. It is used to account for all financial resources except those to be accounted for in another fund.

CAPITAL OUTLAY FUND

This fund accounts for all miscellaneous capital improvement projects that are financed by the general fund.

CITY OF REDWOOD CITY, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	General Fund	Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Funds
	\$	\$	\$	\$
ASSETS				
Cash and investments available for operations	40,428,443	28,045,229	50,871,266	119,344,938
Cash and investments, restricted			4,180,968	4,180,968
Receivables (net of allowance for uncollectibles):				
Taxes and assessments - current	6,269,171		272,013	6,541,184
Accounts	1,884,492		8,090	1,892,582
Loans	1,035,949	214,286	8,148,787	9,399,022
Accrued interest	640,653	362,050	1,057,917	2,060,620
Due from other governmental agencies	3,553,792		1,622,694	5,176,486
Due from other funds	373,981	839,137		1,213,118
Advances to RDA successor agency		1,441,204		1,441,204
Prepaid items	95,865	120,473	3,922	220,260
Land held for redevelopment			5,741,208	5,741,208
Total Assets	54,282,346	31,022,379	71,906,865	157,211,590
LIABILITIES				
Accounts payable	3,701,631	925,570	1,789,689	6,416,890
Accrued payroll	2,374,210			2,374,210
Deposits payable	8,930,525	503,427	11,088	9,445,040
Due to other funds	839,137		373,981	1,213,118
Unearned revenue	6,028,080		32,304	6,060,384
Accrued sick leave and vacation	36,254	2,645		38,899
Total Liabilities	21,909,837	1,431,642	2,207,062	25,548,541
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - interest			1,044,137	1,044,137
Total Deferred Inflows of Resources			1,044,137	1,044,137
FUND BALANCES				
Nonspendable:				
Loans	1,035,949			1,035,949
Prepaid items	95,865	120,473	3,922	220,260
Restricted for:				
Community development			15,744,496	15,744,496
Public safety			314,484	314,484
Transportation			10,061,476	10,061,476
Environmental support and protection			2,638,226	2,638,226
Leisure, cultural and information services			18,146,734	18,146,734
Capital projects			10,571,067	10,571,067
Housing purposes			844,008	844,008
Other purposes	96,338		354,051	450,389
Committed to:				
General plan	837,563			837,563
Capital projects		26,622,674	2,725,442	29,348,116
Community benefits			2,284,739	2,284,739
Human services financial assistance			718,302	718,302
Debt service			505	505
Housing purposes			1,867,915	1,867,915
Assigned to:				
Capital projects		2,847,590	2,383,321	5,230,911
Other purposes	884,838			884,838
Unassigned:	29,421,956		(3,022)	29,418,934
TOTAL FUND BALANCES	32,372,509	29,590,737	68,655,666	130,618,912
Total Liabilities, Deferred Inflows of Resources and Fund Balances	54,282,346	31,022,379	71,906,865	157,211,590

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
RECONCILIATION OF THE
GOVERNMENTAL FUNDS - BALANCE SHEET
WITH THE STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>\$</u>
TOTAL FUND BALANCES -- TOTAL GOVERNMENTAL FUNDS	130,618,912
Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:	
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	
Capital assets, net of Internal Service Fund of \$8,519,713	184,634,733
ALLOCATION OF INTERNAL SERVICE FUND NET POSITION	
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain activities, such as insurance and central services and maintenance, to individual governmental funds. The assets and liabilities of the Internal Service Funds are therefore included in Governmental Activities in the Statement of Net Position.	12,160,112
ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES	
The amounts below are revenues in the statement of activities that do not provide current financial resources and therefore are not reported as revenues in the Governmental Funds:	
Interest revenue	1,044,137
LONG TERM ASSETS AND LIABILITIES	
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Governmental Funds:	
Long-term debt	(1,034,666)
Interest payable	(7,811)
Accrued sick leave and vacation, net of Internal Service Fund of \$1,011,176	(10,506,369)
Net OPEB obligation, net of Internal Service Fund of \$491,322	(5,997,462)
Net Pension liability, net of Internal Service Fund of \$17,596,466	(177,287,900)
DEFERRED OUTFLOWS OF RESOURCES - Deferred employer pension contributions, net of Internal Service Fund of \$1,336,335	14,711,816
DEFERRED OUTFLOWS OF RESOURCES - Pension, net of Internal Service Fund of \$2,282,989	32,242,568
DEFERRED INFLOWS OF RESOURCES - Pension, net of Internal Service Fund of \$416,947	<u>(15,381,612)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>165,196,458</u></u>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund \$	Capital Outlay Fund \$	Non-Major Governmental Funds \$	Total Governmental Funds \$
REVENUES				
Property taxes/special assessments	52,433,667		1,541,388	53,975,055
Sales and other taxes	43,966,255		71,498	44,037,753
Licenses and permits	2,806,816	359,665	1,022,714	4,189,195
Fines, forfeitures and penalties	822,066		167,545	989,611
Use of money and property	4,682,075	317,312	1,116,363	6,115,750
Intergovernmental	5,758,016	23,392	6,462,372	12,243,780
Charges for current services	18,101,567	33,358	1,656,606	19,791,531
Contributions	278,923	600,000	2,680,741	3,559,664
Other	773,303	9,453	5,883	788,639
Total Revenues	<u>129,622,688</u>	<u>1,343,180</u>	<u>14,725,110</u>	<u>145,690,978</u>
EXPENDITURES				
Current Operations:				
Community development	9,028,749	233,715	1,725,347	10,987,811
Human services	1,608,705		100,000	1,708,705
Public safety	67,914,463	90,621	181,634	68,186,718
Transportation	1,294,270	3,863,922	6,083,129	11,241,321
Environmental support and protection	306,872	414,205	1,439,521	2,160,598
Leisure, cultural and information services	23,956,812	198,375	352,679	24,507,866
Policy development and implementation	7,929,797	221,744	289,113	8,440,654
Capital outlay	63,546	3,660,814	4,641,443	8,365,803
Debt service:				
Principal retirement			676,920	676,920
Interest and fiscal charges	38,772		23,186	61,958
Total Expenditures	<u>112,141,986</u>	<u>8,683,396</u>	<u>15,512,972</u>	<u>136,338,354</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>17,480,702</u>	<u>(7,340,216)</u>	<u>(787,862)</u>	<u>9,352,624</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	716,554	8,897,388	2,383,071	11,997,013
Transfers (out)	<u>(14,262,818)</u>	<u>(937,044)</u>	<u>(470,216)</u>	<u>(15,670,078)</u>
Total Other Financing Sources (Uses)	<u>(13,546,264)</u>	<u>7,960,344</u>	<u>1,912,855</u>	<u>(3,673,065)</u>
NET CHANGE IN FUND BALANCES	3,934,438	620,128	1,124,993	5,679,559
Fund balances - beginning	<u>28,438,071</u>	<u>28,970,609</u>	<u>67,530,673</u>	<u>124,939,353</u>
Fund balances - ending	<u><u>32,372,509</u></u>	<u><u>29,590,737</u></u>	<u><u>68,655,666</u></u>	<u><u>130,618,912</u></u>

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
RECONCILIATION OF THE
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
WITH THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

	\$
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	5,679,559
Amounts reported for governmental activities in the Statement of Activities are different because of the following	
CAPITAL ASSETS TRANSACTIONS	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
The capital outlay expenditures are therefore added back to fund balance	8,082,678
Depreciation expense is deducted from the fund balance	
(Depreciation expense is net of internal service fund depreciation of \$1,310,890 which has already been allocated to serviced funds.)	(8,040,239)
Loss on sale of capital assets	(2,154)
LONG TERM DEBT PROCEEDS AND PAYMENTS	
Repayment of debt principal is added back to fund balance	676,920
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change)	
Change in compensated absences	(453,824)
Change in interest payable	(1,350)
Interest receivable and intergovernmental revenue	8,175
Deferred pension contributions	14,711,816
Pension expense	(18,081,821)
ALLOCATION OF INTERNAL SERVICE FUND ACTIVITY	
Internal Service Funds are used by management to charge the costs of certain activities, such as equipment acquisition, maintenance, and insurance to individual funds. The portion of the net revenue (expense) of these Internal Service Funds arising out of their transactions with governmental funds is reported with governmental activities, because they service those activities:	
Change in Net Position - All Internal Service Funds	2,925,322
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	5,505,082

See accompanying notes to financial statements

PROPRIETARY FUND FINANCIAL STATEMENTS

ENTERPRISE FUNDS

WATER UTILITY FUND

This fund is used to account for the provision of water services to the residents of Redwood City and some residents of areas adjacent to the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, capital improvements, financing, and billing/collections.

SEWER UTILITY FUND

This fund is used to account for the provision of sewer services to the residents of Redwood City and some residents of areas adjacent to the City. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, capital improvements, financing, and billing/collections.

PARKING FUND

This fund is used to account for on-street and off-street parking operations within the boundaries of the central business district of the City. All activities necessary to provide metered parking within the district are accounted for in these funds, including, but not limited to, administration, operations and maintenance, capital improvements, meter collection, and financing including related debt service. The authority for the formation of the district and the issuance of revenue bonds are contained in the State of California's Streets and Highway Code.

PORT OF REDWOOD CITY (PORT FUND)

This fund is used to account for Port activities within the Port Department as defined in the City Charter. These activities include, but are not limited to, administration, maintenance and operations, and Port improvements. Management of the Port of Redwood City is provided by the Port Commission, whose members are appointed for four-year terms by the City Council. The only limitation to the commissioner's authority is the power to levy taxes, which must be approved by the City Council. Also, the City Charter provides that the City Treasurer is the Port Treasurer and the City Attorney is the Port Attorney. This fund is included in this report because both the Bureau of Census and the State of California require the City to include a summary of the Port's financial transactions in the respective reports.

DOCKTOWN MARINA

This fund is used to account for the operation of the Docktown Marina including administration, operations, maintenance and billing/collections.

INTERNAL SERVICE FUNDS

These funds are used to account for the financing of goods and services provided by one City department to others on a cost reimbursement basis. Internal service funds are included with enterprise funds as both use the same accounting and financial reporting.

CITY OF REDWOOD CITY, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	Business-Type Activities-Enterprise Funds						Governmental Activities-Internal Service Funds
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Docktown Marina	Totals	
	\$	\$	\$	\$	\$	\$	\$
ASSETS							
Current assets:							
Cash and investments available for operations	30,824,060	31,507,972	9,171,661	16,844,610	4,739,907	93,088,210	41,022,719
Receivables (net of allowance for uncollectibles):							
Accounts	3,406,402	1,866,852	103,012	792,107	69,153	6,237,526	61,658
Accrued interest	7					7	8,212
Due from other governmental agencies	732,858	1,753,227				2,486,085	281,853
Due from other funds							300,000
Inventory of supplies at cost							120,852
Deposits	10,360					10,360	535,000
Prepaid items and other assets	48,801	12,591		273,920		335,312	71,724
Total current assets	35,022,488	35,140,642	9,274,673	17,910,637	4,809,060	102,157,500	42,402,018
Noncurrent assets:							
Cash and investments, restricted	47,112		5,400,889	1,060,764		6,508,765	
Advances to other funds							1,500,000
Investment in sewer authority		39,863,182				39,863,182	
Investment in sewer capacity rights				400,000		400,000	
Capital assets:							
Nondepreciable	2,119,490	7,133,355	1,945,331	6,098,188		17,296,364	199,647
Depreciable buildings, property, equipment and infrastructure, net	108,857,308	26,748,546	22,082,145	28,483,997	80,646	186,252,642	8,320,066
Total noncurrent assets	111,023,910	73,745,083	29,428,365	36,042,949	80,646	250,320,953	10,019,713
Total assets	146,046,398	108,885,725	38,703,038	53,953,586	4,889,706	352,478,453	52,421,731
DEFERRED OUTFLOWS OF RESOURCES							
Deferred charge on refundings	1,458,736			232,189		1,690,925	
Deferred outflows - pension	1,327,590	699,047	323,447	341,751	71,066	2,762,901	2,282,989
Deferred employer pension contributions	793,923	404,423	243,573	198,395	33,087	1,673,401	1,336,335
Total deferred outflows of resources	3,580,249	1,103,470	567,020	772,335	104,153	6,127,227	3,619,324
LIABILITIES							
Current liabilities:							
Accounts payable	3,363,529	1,347,016	972,172	724,245	135,460	6,542,422	594,539
Deposits payable	978,375		15,000	164,586	43,172	1,201,133	
Due to other funds	300,000					300,000	
Insurance claims payable - current portion							4,674,166
Accrued sick leave and vacation - current portion	239,283	87,387	43,543	81,726		451,939	407,370
Revenue bonds payable - current portion	1,975,000			798,483		2,773,483	
Unearned revenue	1,956,324		81,886	175,332		2,213,542	
Accrued interest payable	829,088			46,464		875,552	
Total current liabilities	9,641,599	1,434,403	1,112,601	1,990,836	178,632	14,358,071	5,676,075
Noncurrent liabilities:							
Insurance claims payable							19,096,327
Accrued sick leave and vacation	251,580	109,635	102,339			463,554	603,806
Advances from other funds	1,500,000					1,500,000	
Net OPEB obligation	306,124	115,029	52,540	262,219		735,912	491,322
Net Pension liability	9,977,468	4,833,988	2,825,028	2,282,704	398,637	20,317,825	17,596,466
Revenue bonds payable	50,493,510			13,622,598		64,116,108	
Total noncurrent liabilities	62,528,682	5,058,652	2,979,907	16,167,521	398,637	87,133,399	37,787,921
Total liabilities	72,170,281	6,493,055	4,092,508	18,158,357	577,269	101,491,470	43,463,996
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows - pension	144,642	65,198	56,300	29,186	5,096	300,422	416,947
NET POSITION							
Net investment in capital assets	58,508,288	33,881,901	24,027,476	26,331,731	80,646	142,830,042	8,519,713
Restricted for capital projects			5,400,889			5,400,889	
Restricted for debt service				826,308		826,308	
Unrestricted	18,803,436	69,549,041	5,692,885	9,380,339	4,330,848	107,756,549	3,640,399
Total net position	77,311,724	103,430,942	35,121,250	36,538,378	4,411,494	256,813,788	12,160,112

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Business-Type Activities-Enterprise Funds					Governmental Activities-Internal Service Funds
	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Docktown Marina	Totals
	\$	\$	\$	\$	\$	\$
Operating Revenues:						
Charges for services	36,744,157	37,068,780	1,964,629	7,127,814	693,355	83,598,735
Total Operating Revenues	36,744,157	37,068,780	1,964,629	7,127,814	693,355	83,598,735
Operating Expenses:						
Employee services	5,393,814	2,993,100	1,306,107	1,509,962	205,562	11,408,545
Maintenance	1,471,824	891,596	80,203	192,541	21,575	2,657,739
Water purchases	16,883,197					16,883,197
Utilities	947,541	726,078	108,296	227,572	59,757	2,069,244
Contractual services	1,195,090	16,531,985	390,461	373,274	885,003	19,375,813
Supplies and services	3,703,147	2,632,383	417,187	510,136	160,225	7,423,078
Noncapitalized projects	3,663	1,611,375	889		13,751	1,629,678
Depreciation and amortization	3,027,920	670,287	564,852	1,562,952	32,258	5,858,269
Insurance and claims	1,816,839	618,727	136,961	293,092	30,006	2,895,625
Total Operating Expenses	34,443,035	26,675,531	3,004,956	4,669,529	1,408,137	70,201,188
Operating Income (Loss)	2,301,122	10,393,249	(1,040,327)	2,458,285	(714,782)	13,397,547
Nonoperating Revenues (Expenses):						
Gain (loss) on disposal of capital assets						(18,287)
Property taxes			213,553			213,553
Grant revenue	61,904		1,568	4,134		67,606
Investment earnings	8,478	225,234	83,774	107,911	27,914	453,311
Interest expense	(2,132,723)			(595,005)		(2,727,728)
Increase (decrease) in investment in sewer authority		153,112				153,112
Insurance recovery	658					658
Contributions						53,088
Other	(212,875)			(427,583)		(640,458)
Net Nonoperating Revenues (Expenses)	(2,274,558)	378,346	298,895	(910,543)	27,914	290,185
Net Income (Loss) Before Capital Contributions and Transfers	26,564	10,771,595	(741,432)	1,547,742	(686,868)	10,917,601
Capital contributions	1,689,862	226,185	4,925,000			6,841,047
Transfers in	691,113		101,815		2,406,537	3,199,465
Transfers (out)		(517,835)				(517,835)
Total Capital Contributions and Transfers	2,380,975	(291,650)	5,026,815		2,406,537	9,522,677
Change in net position	2,407,539	10,479,945	4,285,383	1,547,742	1,719,669	2,925,322
Total net position-beginning	74,904,185	92,950,997	30,835,867	34,990,636	2,691,825	236,373,510
Total net position-ending	77,311,724	103,430,942	35,121,250	36,538,378	4,411,494	256,813,788

See accompanying notes to financial statements

CITY OF REDWOOD CITY, CALIFORNIA
 PROPRIETARY FUNDS
 COMBINING STATEMENT OF CASH FLOWS
 INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Water Utility Fund	Sewer Utility Fund	Parking Fund	Port of Redwood City	Non-Major Downtown Marina	Totals	Governmental Activities - Internal Service Funds
Cash flows from operating activities:	\$	\$	\$	\$	\$	\$	\$
Cash received from customers	35,742,186	36,148,617	1,918,784	7,062,837	633,134	81,505,558	
Cash received from interfund services provided							32,992,107
Cash payments to suppliers for goods and services	(23,877,870)	(20,635,363)	(576,123)	(1,382,475)	(1,075,134)	(47,546,965)	(15,428,400)
Cash payments to employees for services	(5,251,690)	(2,899,551)	(1,246,467)	(1,330,764)	(199,791)	(10,928,263)	(13,785,639)
Right of way compensation	(2,262,500)	(1,865,119)	(42,000)			(4,169,619)	
Net cash provided by (used in) operating activities	4,350,126	10,748,584	54,194	4,349,598	(641,791)	18,860,711	3,778,068
Cash flows from noncapital financing activities:							
Nonoperating grant revenue	61,904		1,568	4,134		67,606	
Insurance recovery	658					658	53,088
Property taxes			213,553			213,553	
Transfers in	691,113		101,815		2,406,537	3,199,465	1,000,000
Transfers out		(517,835)				(517,835)	(8,565)
Advances to other funds	(300,000)					(300,000)	300,000
Other	(212,875)			(427,583)		(640,458)	
Net cash provided by (used in) noncapital financing activities	240,800	(517,835)	316,936	(423,449)	2,406,537	2,022,989	1,344,523
Cash flows from capital and related financing activities:							
Acquisition and construction of capital assets	(2,781,050)	(4,516,806)	(1,267,836)	(768,287)		(9,333,979)	(879,560)
Contributions	1,689,862	226,185	4,925,000			6,841,047	172,178
Principal retirements	(7,153,940)			(770,416)		(7,924,356)	
Interest paid	(2,203,986)			(610,928)		(2,814,914)	
Proceeds from sale of capital assets							
Net cash used in capital and related financing activities	(10,449,114)	(4,290,621)	3,657,164	(2,149,631)		(13,232,202)	(707,382)
Cash flows from investing activities:							
Interest on investments	31,978	225,236	83,774	107,911	27,915	476,814	252,931
Net cash provided by investing activities	31,978	225,236	83,774	107,911	27,915	476,814	252,931
Net increase (decrease) in cash and cash equivalents	(5,826,210)	6,165,364	4,112,068	1,884,429	1,792,661	8,128,312	4,668,140
Cash and cash equivalents at beginning of year	36,697,382	25,342,608	10,460,482	16,020,945	2,947,246	91,468,663	36,354,579
Cash and cash equivalents at end of year	30,871,172	31,507,972	14,572,550	17,905,374	4,739,907	99,596,975	41,022,719
Financial statement presentation:							
Cash and investments available for operations	30,824,060	31,507,972	9,171,661	16,844,610	4,739,907	93,088,210	41,022,719
Cash and investments, restricted	47,112	-	5,400,889	1,060,764	-	6,508,765	-
Cash and cash equivalents at end of year	30,871,172	31,507,972	14,572,550	17,905,374	4,739,907	99,596,975	41,022,719
Reconciliation of Net Cash Flow from Operating Activities							
Operating income (loss)	2,301,122	10,393,249	(1,040,327)	2,458,285	(714,782)	13,397,547	1,471,524
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation	3,027,920	670,287	564,852	1,562,952	32,258	5,858,269	1,310,890
Change in assets and liabilities:							
Decrease (increase) in accounts receivable	(461,620)	(157,482)	(47,645)	(66,922)	(60,926)	(794,595)	163,388
Decrease (increase) in due from other governmental agencies	(547,638)	(762,681)				(1,310,319)	(72,051)
Decrease (increase) in inventory/prepaid expenses/deposits	(8,115)	956,763		25,161		973,809	(23,288)
Increase (decrease) in vacation & sick leave payable	3,641	23,010	2,930	81,726		111,307	55,018
Increase (decrease) in accounts payable	(110,954)	(445,101)	515,874	188,979	95,183	243,981	(14,159)
Increase (decrease) in customer deposits	7,287		1,800	1,893	705	11,685	
Increase (decrease) in unearned revenue				52		52	
Increase (decrease) in deferred employer contributions	851,905	397,983	181,195	(32,759)	55,629	1,453,953	1,456,296
Increase (decrease) in other pension deferred outflows	(1,327,590)	(699,047)	(323,447)	(341,751)	(71,066)	(2,762,901)	(2,282,989)
Increase (decrease) in other pension deferred inflows	(1,308,666)	(624,070)	(317,293)	(91,696)	(49,866)	(2,391,591)	(2,166,568)
Increase (decrease) in net pension liability	1,922,834	995,673	516,255	500,752	71,074	4,006,588	3,226,356
Increase (decrease) in net OPEB obligation				31,463		31,463	
Increase (decrease) in insurance claims payable							653,651
Total adjustments	2,049,004	355,335	1,094,521	1,891,313	72,991	5,463,164	2,306,544
Net cash provided by (used in) operating activities	4,350,126	10,748,584	54,194	4,349,598	(641,791)	18,860,711	3,778,068
Noncash investing, capital and financing activities:							
Noncash capital contributions	207,190	23,046				230,236	
Gain (loss) on disposal of equipment							(18,287)
Increase (decrease) in investment in sewer authority		153,112				153,112	

See accompanying notes to financial statements

CITY OF REDWOOD CITY
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2017

	Successor Agency Private Purpose Trust Fund	Agency Funds
	<u>\$</u>	<u>\$</u>
ASSETS		
Cash and Investments, restricted	7,700,311	2,343,045
Accounts	1,167	
Accrued Interest Receivable	5,187	
Deposits		29,505
Non depreciable capital assets	2,560,739	
Depreciable capital assets, net	13,138,577	
Unamortized bond issuance costs	497,072	
	<u>23,903,053</u>	<u>2,372,550</u>
Total Assets		
	<u>23,903,053</u>	<u>2,372,550</u>
LIABILITIES		
Accounts payable	362,144	
Advances from City	1,441,204	
Long-term debt:		
Due in one year	3,505,000	
Due in more than one year	34,952,383	
Due to Bondholders		1,862,587
Employee Benefit Plans Payable		60,581
Due to Community Benefit Improvement District		449,382
	<u>40,260,731</u>	<u>2,372,550</u>
Total Liabilities		
	<u>40,260,731</u>	<u>2,372,550</u>
NET POSITION		
Held in trust for other governments	<u>(16,357,678)</u>	

See accompanying notes to financial statements

CITY OF REDWOOD CITY
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Successor Agency Private Purpose Trust Fund
	<u>\$</u>
ADDITIONS	
Property taxes	6,109,943
Investment earnings	<u>72,566</u>
Total additions	<u>6,182,509</u>
DEDUCTIONS	
Community development	758,584
Depreciation	515,979
Interest and fiscal agency expenses of former redevelopment agency	<u>2,797,941</u>
Total deductions	<u>4,072,504</u>
Change in net position	2,110,005
Net position - beginning, as restated	<u>(18,467,683)</u>
Net position - ending	<u><u>(16,357,678)</u></u>

See accompanying notes to financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

The City of Redwood City was incorporated in 1867, became a Charter City in 1929, and operates under a council-manager form of government. The City has defined its reporting entity in accordance with generally accepted accounting principles (“GAAP”) in the United States of America, which provide guidance for determining which governmental activities, organizations, and functions should be included in the reporting entity. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude. A primary government is financially accountable and shares a financial benefit or burden relationship if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Based upon the application of these criteria, the following is a brief description of each component unit included within the City’s reporting entity. All such component units have been “blended” as though they are part of the primary government because the component unit’s governing body is substantially the same as the City’s primary government and there is a financial benefit or burden relationship between the City and the component unit, management of the City has operational responsibilities for the component unit, and/or the component units provide services entirely to the City or otherwise exclusively benefits the City, even though it does not provide services directly to it.

Redwood City Facilities and Infrastructure Authority (RCFISA) was established in 1986 to finance the construction of certain public facilities such as the Main Fire Station, City Hall, and Main Library. After acquiring certain properties from the City, RCFISA leased them back to the City. The lease money provided the funds for the debt service for the certificates of participation issued by the RCFISA to acquire the properties from the City.

The Public Financing Authority (PFA) was established in 1991 to finance construction of the new Police Facility, to finance the defeasance of outstanding certificates of participation issued by the RCFISA, and to issue tax increment bonds on behalf of the former Redevelopment Agency. The PFA has since issued various types of debt on behalf of the City and the former Redevelopment Agency.

The Port of Redwood City was established under the City Charter as a department of the City and is managed by the Port Commission of Redwood City, whose members are appointed by the City Council. This commission is a semi-autonomous body and has full authority to manage the Port. Its financial system is maintained separately from the City by the Port’s own financial staff. The Port’s treasurer and legal counsel are the City’s Finance Director and the City Attorney, respectively. The financial transactions of the Port are incorporated as an enterprise fund. Financial statements for the Port of Redwood City may be obtained from the Port at 675 Seaport Blvd., Redwood City, CA 94063.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Separate financial statements are not prepared for other component units.

B. Basis of Presentation

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities, which are presented as internal balances and eliminated in the total primary government column. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating expenses for proprietary funds are those expenses that are essential to the primary operations of the funds. All other expenses are reported as non-operating expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Major Funds

GASB Statement No. 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, liabilities, revenues, or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The general fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General fund is to account for all financial resources except those to be accounted for in another fund. It is the general operating fund of the City.

Capital outlay fund is to account for all miscellaneous capital improvement projects that are financed by the general fund.

The City reported all of its enterprise funds except the Docktown Marina Fund as major funds in the accompanying financial statements:

Water utility fund is to account for the provision of water services to the residents of Redwood City.

Sewer utility fund is to account for the provision of sewer services to the residents of Redwood City.

Parking fund is to account for on-street and off-street parking operations within the boundaries of the central business district of the City.

Port of Redwood City (Port fund) is to account for Port activities within the Port Department including, but not limited to, administration, maintenance and operations, and Port improvements.

The City also reports the following fund types:

Internal service funds - Internal service funds are used to account for costs of the City's equipment services, the City's insurance program, the costs of the City's telephone/communications and information technology services, maintenance and repair of buildings, custodial services, and employee benefits. These services are provided to departments and other governments on a cost-reimbursement basis.

Fiduciary funds – These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City maintains one private purpose trust fund to account for activities of the Successor Agency to the former Redevelopment Agency.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Major Funds, Continued

The City also maintains five agency funds - Employee Benefit Plans Fund, Pacific Shores Community Facilities District Fund, the Shores Transportation Improvement District Fund, the One Marina Community Facilities District Fund, and the Community Benefit Improvement District Fund - as an agent of the bondholders, City employees, or the Downtown Redwood City Community Benefit Improvement District.

D. Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 90 days after year-end.

The City's fiduciary funds consist of one private purpose trust fund and agency funds which use the accrual basis of accounting. The private purpose trust fund uses the economic resources measurement focus, whereas the agency funds do not have a measurement focus.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured.

General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures/expenses. The City's policy is to first apply restricted resources to such programs, followed by unrestricted resources if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. *Compensated Absences*

In compliance with Governmental Accounting Standards Board Statement No. 16, the City has established a liability for accrued sick leave and vacation in relevant funds. For governmental activities, the current liability for the payouts made after June 30, 2016 for those employees retired on or before June 30, 2016 appears in the respective funds and the long-term liability appears in the government- wide financial statements. This liability is set up for the current employees at the current rates of pay. An employee may accumulate vacation up to two years entitlement and sick leave up to 960 or 1,920 hours depending on the bargaining unit (with the exception that Battalion Chiefs who work 24 hour shifts may accumulate up to 2,400 hours of sick leave).

An employee may elect to receive compensation in lieu of sick leave credits for any calendar year with payment equal to varying amounts from 25% to 50% of the year's unused sick leave, depending upon the employee's sick leave usage during the year. In addition to sick leave, payouts are made for unused administrative holidays and accrued compensatory time.

If sick leave and vacation are not used by the employee or paid out during the term of employment, compensation is payable to the employee at the time of separation. Such compensation is calculated at the employee's prevailing rate at the time of retirement or termination. Whereas vacation is compensated at 100% of accumulated hours, sick leave is compensated at 50% of accumulated hours at retirement depending upon varying restrictions of the bargaining units. Upon termination only accrued vacations are compensated. Each year an adjustment to the liability is made based on pay rate changes and adjustments for the current portion. The general fund is primarily responsible for the repayment of the governmental portion of the compensated absences.

Individual proprietary funds are responsible for the repayment of the liability attributable to their respective funds.

F. *Cash and Cash Equivalents*

The City pools cash resources from all funds in order to facilitate the management of cash. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- a. Interest Rate Risk
- b. Credit Risk
 - i. Overall
 - ii. Custodial Credit Risk
 - iii. Concentrations of Credit Risk

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents, Continued

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end, and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City does not have any investments that are measured using Level 3 inputs.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to the change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City and are presented as "Cash and Investments" in the accompanying Basic Financial Statements.

For purposes of the statement of cash flows, cash equivalents are defined as investments with original maturities of 90 days or less, which are readily convertible to known amounts of cash. The City considers all pooled cash and investments (consisting of cash and investments and restricted cash and investments) held by the City as cash and cash equivalents because the pool is used essentially as a demand deposit account from the standpoint of the funds. The City also considers all non-pooled cash and investments (consisting of cash with fiscal agent and restricted cash and investments held by fiscal agent) as cash and cash equivalents because investments meet the criteria for cash equivalents defined above.

Inventories are stated at moving average cost. The cost is recorded as expenditure at the time an individual inventory item is consumed. As inventories must be maintained at a certain level, an amount for inventories is recorded as non-spendable in the general fund balances. Consequently, these non-spendable fund balance amounts are not available for appropriation.

General fund inventories consist of stationery. Equipment services fund inventory consists of tires, batteries, testing equipment, automotive parts, and small tools.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inventories and Prepaid Items

Under the consumption method, 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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

H. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1, and are collected for a 12 month period effective July 1 by the San Mateo County tax collector. Taxes are billed once a year in late October and are payable in two equal installments due by December 10 and April 10 of the following year. The taxes not paid by those dates are subject to a penalty of 10%.

In September of 1993, the County of San Mateo Board of Supervisors adopted the “Teeter Plan” for secured property taxes. Under the Teeter Plan, the state law allows the county to advance to the cities all property taxes billed, regardless of whether the taxes have been paid. The county then is entitled to keep all penalties and interest accruing on delinquent taxes. Property taxes on unsecured taxable property are not affected by this change.

Under Proposition 13, adopted by the voters in a statewide ballot in 1978, assessed value is increased by the cost of living index, not to exceed 2% as of January 1 each year except for those properties that have changed ownership during the 12-month period since the lien date. City property tax revenues are recognized when levied to the extent that they result in current receivables.

I. Unbilled Service Receivables

In the water and sewer utilities, residential customers are billed bi-monthly and all commercial and industrial customers monthly. Revenue is recorded as billed to customers on a cyclical basis. No accrual is made for unbilled services. There were no unbilled services in Port, parking, Docktown Marina, or internal service funds as of June 30, 2016.

There is no accrual for unbilled water services as of June 30, 2016; revenues cannot be recognized since water meters are not read at such date. Management believes that the revenue from unbilled services does not have a material effect on total revenue.

J. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at acquisition value on the date donated.

The City’s policy is to capitalize all assets with costs exceeding certain minimum thresholds, \$5,000 for machinery and equipment, \$100,000 for buildings, improvements, and infrastructure, and with useful lives exceeding two years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets, Continued

With the implementation of GASB Statement No. 34, the City recorded all of its public domain (infrastructure) capital assets placed in service after June 30, 1980, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems using the basic approach.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

The City has assigned the useful lives listed as follows to capital assets:

Buildings	20-50 Years	Storm Drains	40 Years	Traffic Signals	20 Years
Improvements	33-60 Years	Bridges	30 Years	Streets	20 Years
Equipment	2-15 Years	Parks	25 Years		

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has deferred outflows of resources related to the unamortized losses on refunding of debt. The losses on refunding result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or the refunding debt. The City also has deferred outflows of resources related to employer pension contributions and other amounts related to pension actuarial valuations.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenues) until that time. The City has deferred inflows of resources related to unavailable revenues reported under the modified accrual basis of accounting in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes, advances from the federal and state governments, and other sources as appropriate. These amounts are deferred and recognized as revenues in the period the amounts become available. The City also has deferred inflows of resources related to pension actuarial valuations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Interfund Transactions

Interfund transactions are reflected as loans, services provided or used, reimbursements, or transfers.

Loans reported as receivables and payables are referred to as either “due to/from other funds” (the current portion of interfund loans) or “advances to/from other funds” (the noncurrent portion of interfund loans) as appropriate and are subject to elimination upon consolidation. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

Services provided or used, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses.

Reimbursements occur when the funds responsible for particular expenditures or expenses repay the funds that initially paid for them. Such reimbursements are reflected as expenditures or expenses in the reimbursing fund and reductions to expenditures or expenses in the reimbursed fund.

All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

M. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

N. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City’s California Public Employees’ Retirement System (CalPERS) plans (Plans) and additions to /deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Implementation of New GASB Pronouncements

In FY 2016-17 the City adopted the following new accounting standard in order to conform to the following Governmental Accounting Standards Board Statement:

GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans– The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this statement were not applicable to the City.

GASB Statement No. 77, Tax Abatement Disclosure- This Statement addresses the financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. There was no impact on net position as a result of implementation of this statement.

GASB Statement No. 78, Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans– The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement were not applicable to the City.

GASB Statement No. 80, Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 - The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. The requirements of this statement were not applicable to the City.

NOTE 2 – CASH AND INVESTMENTS

The following is a summary of pooled cash and investments, including cash and investments with fiscal agent at June 30, 2017:

	<u>Government-Wide Statement of Net Position</u>			
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
	\$	\$	\$	\$
Cash and investments	160,366,034	93,088,210	-	253,454,244
Restricted cash and investments	4,180,968	6,508,765	10,043,356	20,733,089
Total cash and investments	<u>164,547,002</u>	<u>99,596,975</u>	<u>10,043,356</u>	<u>274,187,333</u>

Cash and investments as of June 30, 2017 consist of the following:

Deposits:	
Cash on hand	\$ 10,659
Deposits with financial institution	3,293,273
Total deposits	<u>3,303,932</u>
Investments:	
San Mateo Investment Pool	45,476,002
Local Agency Investment funds	77,966,510
Federal Agency Securities	65,807,602
U.S. Treasury Notes	58,483,915
Corporate Notes	10,407,496
Bank Acceptance	4,732,460
Money Market	105,369
Total investments	<u>262,979,354</u>
Total City Treasury	266,283,286
Cash with fiscal agent	<u>7,904,047</u>
Total cash and investments	<u>\$ 274,187,333</u>

A. Cash and Deposits

The carrying amount of the City's cash and deposits, including restricted cash, was \$3,293,273 at June 30, 2017. Bank balances before reconciling items were \$4,114,348 at June 30, 2017. Of the total bank balances, \$500,000 was insured or held by the City or its agent in the City's name.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

A. Cash and Deposits, Continued

All cash deposits in banks are fully insured or collateralized. California state law requires that public fund deposits be collateralized by either government securities with a value equal to 110% of the deposits or first trust deed mortgage notes having a value equal to 150%. Per state law each institution must use a third party (which may be the institution's trust department) to hold the pledged collateral in a pool to secure all the institution's public fund deposits. The code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash is considered to be held in the City's name. Banks and savings and loans in California are subject to state-mandated reporting requirements to ensure that the required levels of control are maintained. The City may waive collateral requirements for deposits, which are fully insured with each financial institution up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

Cash balances from all funds are combined and invested to the extent possible pursuant to the City Council approved investment policy and guidelines and state government code. The earnings from these investments are allocated monthly to each fund based on an average of monthly opening and closing balances of cash and investments. Investments are stated at fair value. All enterprise fund investments are considered to be liquid investments for cash flow purposes.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed three years. Specific maturities of investments depend on liquidity needs.

B. Investments

As of June 30, 2017, the City had the following investments by maturity:

Cash and Investments	Total	Investment Maturities (in years)			
		1 year or Less	1 - 2 years	2- 3 years	5 years or More
County of San Mateo Investment Pool	45,476,002	45,476,002			
California Local Agency Investment Fund	77,966,510	77,966,510			
U.S. Agencies, Securities, and Corporate Notes:					
Federal Agency Securities	65,807,602	2,992,140	35,822,700	15,167,205	11,825,557
U.S. Treasury Notes	58,483,915		2,962,803	55,521,112	
Corporate Notes	10,407,496	4,910,136	590,413	4,906,947	
Bank Acceptance	4,732,460	4,732,460			
Money Market	105,369	105,369			
Total	\$ 262,979,354	\$ 136,182,617	\$ 39,375,916	\$ 75,595,264	\$ 11,825,557

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

B. Investments, Continued

Credit Risk – Defined as the risk of loss of value of an investment due to a downgrade of its rating or the failure or impairment of its issuer. Credit Risk shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that failure of any one issue does not unduly harm the City's capital base and cash flow. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of commercial paper investments to those rated A-1 by Standard and Poor's or P-1 by Moody's Investor's Service, and corporate bonds to those rated A or better by Standard and Poor's or Moody's Investor's Service.

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Obligations	5 years	No limit	No limit
Federal Agency or Government Sponsored Enterprises (GSEs)	N/A	70%	35%
Local Agency Investment Fund	N/A	No limit	\$65 Million
San Mateo County Pool	N/A	No limit	\$50 Million
State and Local Agency Bonds	N/A	20%	2%
Money Market and Mutual Funds	N/A	20%	5%
U.S. Medium-Term Notes	3 years	20%	2%
Certificates of Deposit	3 years	10%	2%
Prime Commercial Paper	270 days	10%	2%
Bankers' Acceptances	180 days	10%	2%
Repurchase Agreements	90 days	10%	No limit

The City's investments are rated by the nationally recognized statistical rating organizations as follows:

	Moody's	S&P	Fitch
U.S. Agencies, Securities, and Corporate Notes:			
Federal Home Loan Bank	Aaa	AA+	
Federal National Mortgage Association	Aaa	AA+	AAA
Federal Home Loan Mortgage Corporation	Aaa	AA+	AAA
Federal Farm Credit	Aaa	AA+	AAA
U.S. Treasury Securities	Aaa	AA+	AAA
External Investment Pools:			
San Mateo County Investment Fund	Not Rated	AAAf/S1	Not Rated
California Local Agency Investment Fund	Not Rated	Not Rated	Not Rated

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, 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 securities, with the exception of the County Pool and LAIF, are held by third-party custodians (Union Bank of California Trust Division, U.S. Bank and Bank of New York). Union Bank, U.S. Bank, and Bank of New York are registered members of the Federal Reserve Bank. The securities held by Union Bank, U.S. Bank, and Bank of New York are in street name, and an account number assigned to the City identifies ownership. None of the City's investments were subject to custodial credit risk.

In fiscal year 1997-98, the City adopted Governmental Accounting Standards Board Statement No. 31, which requires that the City's investments be carried at fair value instead of cost. Under GASB 31, the City must adjust the carrying value of its investments to reflect their fair value at each fiscal year-end, and it must include the effects of these adjustments in income for that fiscal year. The adjustment from carrying value to fair value was an unrealized loss of \$905,581 as of June 30, 2017.

GASB 31 applies to all the City's investments, even if they are held to maturity and redeemed at full face value. Since the City's policy is to hold all investments to maturity, the fair value adjustments required by GASB 31 result in accounting gains or losses (called "recognized" gains or losses) which do not reflect actual sales of the investments (called "realized" gains or losses). Thus, recognized gains or losses on an investment purchased at par will now reflect changes in its value at each succeeding fiscal year-end, but these recognized gains or losses will net to zero if the investment is held to maturity. By following the requirements of GASB 31, the City is reporting the amount of resources which would actually have been available if it had been required to liquidate all its investments at any fiscal year-end.

External Investment Pools

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, supranational obligations, and corporations.

These investments may include the following:

Structured Notes - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

As of June 30, 2017, the City had \$77,966,510 (estimated fair value) invested in LAIF. LAIF had invested 2.89% of the pool investment funds in Structured Notes and Asset-Backed Securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The City valued its investments in LAIF as of June 30, 2017, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. The fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized costs.

Accordingly, as of June 30, 2017, the City's investment in LAIF at fair value amounted to \$77,966,510 using a LAIF fair value factor of 0.998940671. The fair value of the City's position in the pool is materially equivalent to the value of the pool shares.

The City is also a voluntary participant in the San Mateo County Investment Fund that is regulated by California Government Code Section 16429 under oversight of the Treasurer of the County of San Mateo. The City reports its investment in the San Mateo County Investment Fund at the fair value amount provided by County of San Mateo. Included in the San Mateo County Investment Fund investment portfolio are US Treasury Notes, Obligations issued by agencies of the United States Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, and floating rate securities issued by federal agencies, government-sponsored enterprises, repurchase agreements, and corporations.

Investment Valuation

Investments (except for money market accounts, time deposits, and commercial paper) are measured at fair value on a recurring basis. *Recurring* fair value measurements, are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment fair value measurements at June 30, 2017 are described on the following page.

Investments included in LAIF and San Mateo County Pool as well as restricted cash and investments included money market accounts and guaranteed investment contracts are not subject to fair value measurement.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investment Valuation, Continued

Investment Type	Fair Value	Fair Value Measurement Using		
		Level 1	Level 2	Level 3
<u>Investments subject to levels</u>				
Commercial paper/Bank acceptance	\$ 4,732,460		\$ 4,732,460	
Corporate Notes	10,407,496		10,407,496	
Federal Farm Credit Bank	2,982,810		2,982,810	
Federal Home Loan Bank	7,972,210		7,972,210	
Federal Home Loan Mortgage Corporation	26,139,172		26,139,172	
Federal National Mortgage Association	28,713,410		28,713,410	
Money Market	105,369		105,369	
US Treasury Notes	58,483,915	58,483,915		
Total investments subject to levels	139,536,842	58,483,915	81,052,927	
<u>Investment not subject to levels</u>				
San Mateo County Pool	45,476,002			
Local Agency Investment Fund	77,966,510			
Total investments	\$ 262,979,354	\$ 58,483,915	\$ 81,052,927	

Treasury securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Federal Farm Credit Bank Bonds, Federal Home Loan Banks, Federal Home Loan Mortgage Corporate Notes, Federal National Mortgage Association Notes and Corporate Notes categorized as Level 2 are valued based on matrix pricing which use observable market inputs such as yield curves and market indices that are derived principally from or corroborated by observable market data by correlation to other means.

C. Restricted Cash

The City's restricted cash consisted of \$7,904,047 in cash and investments as of June 30, 2017 held by trustees or fiscal agents. The City had \$12,829,042 in restricted cash and investments held by the City. This restricted cash is pledged for the payment or security of certain bonds, certificates of participation, and lease obligations. The California government code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its trustees or fiscal agents may make. In some situations, these investments differ from those permitted by the City investment policy. Included in these investments at June 30, 2017 is a guaranteed investment contract with a maturity date in fiscal year 2035 authorized in the bond indenture and by City Council prior to purchase.

NOTE 3 - LOANS RECEIVABLE

As of June 30, 2017, loans receivable consists of the following:

	<u>Government-Wide</u>
	\$
Wyndham Place First Time Homebuyer Loan Program	333,447
First Time Homebuyer Silent Loan Program	274,960
Loans with Non-profits and For Profit Organizations	1,133,153
Housing Rehabilitation Loans	1,146,924
Shores Childcare Loan	1,035,948
First Community Housing Loan	2,627,000
PAL Loan	214,286
Kainos Home and Training Center Loans	1,893,222
HIP Housing Development Corporation Loan	92,197
HIP Housing - Oxford	103,600
Mental Health Association of San Mateo County Loan	600,000
1512 Stafford Loan	1,577,750
Mezes Court Association	259,757
Allowance for Uncollectible Loans	<u>(1,893,222)</u>
Total	<u>9,399,022</u>

A. Wyndham Place First Time Homebuyer Loan Program

The City established a First Time Homebuyer Program during fiscal year 1995 on a specific development sponsored by the former Redevelopment Agency called Wyndham Place. The program currently involves the resale of Wyndham units where the City has First Right of Refusal. The City exercises its First Right of Refusal and markets the units to qualified buyers.

A portion of the City's Shared Appreciation is used to assist the new buyer in the Resale Program. While the initial program in 1995 made 0% interest loans, current buyers in the Resale Program are assisted according to the needs of the borrower. Depending on the borrower's ability to secure private financing for a first mortgage, the City loan is underwritten based on the borrower's spendable income.

These loans bear no interest and are secured by second deeds of trust on the property, and typically, no payments are due until five years after the date of purchase. As of June 30, 2017 the City has outstanding loans of \$333,447 to eleven Wyndham Place buyers.

B. City Centre Plaza Loans

The former Redevelopment Agency sold several parcels of land to the developers of the City Centre Plaza project (a residential and commercial development) for \$1,700,000 in 1996. The developers constructed City Center Plaza, which contains 81 affordable housing units, a childcare facility, residential and commercial parking, and 17,900 square feet of retail space. The promissory note from Mezes Court Associate in the amount of \$1,445,000 is to be repaid through 2028 from surplus revenues generated by the housing project and accrued interest at 3%, with \$371,076 due to the City's Low and Moderate Income Housing Asset Fund, and \$1,073,924 due to the Successor Agency Private Purpose Trust Fund. The loan was fully paid off during fiscal year 2017.

NOTE 3 - LOANS RECEIVABLE (CONTINUED)

C. *First Time Homebuyer Silent Loan Program*

In 2000, the former Redevelopment Agency established a First Time Homebuyer Silent Loan Program. Loans are deferred for the first five years, and then amortized at 4% interest over the remaining 25 years. An Equity Participation requirement shares appreciation based on the amount of the Agency's original loan amount. At June 30, 2017, there were outstanding loans to four homebuyers totaling \$274,960.

D. *Loans with Non-profits and For Profit Organizations*

The City and former Redevelopment Agency loaned \$500,000 to MP Redwood Court Associates and \$650,000 to Hallmark Apartments LLP. The MP Redwood Court Associates loan agreement was entered into in July 2003 for the repair and rehabilitation of housing units. The loan term is 55 years and bears 0% interest. The loan to Hallmark Apartments LLP has interest deferred for the first 30 years after which it bears interest at 3% until the December 2058 maturity. The outstanding balance at June 30, 2017 was \$1,133,153.

E. *Housing Rehabilitation Loans*

The City and former Redevelopment Agency have outstanding loans for housing rehabilitation in the amount of \$1,146,924.

F. *Shores Childcare Loan*

The City entered into an agreement with Shores Childcare, LLC whereby \$3,200,000 was loaned to Shores Childcare, LLC for construction of a childcare facility on City-owned land in the Redwood Shores area. The term of the loan is 20 years maturing January 2023, with interest payable quarterly and calculated based on the quarterly rate of the State of California Local Agency Investment Fund plus 250 basis points. The outstanding balance of the loan at June 30, 2017 was \$1,035,949.

G. *First Community Housing Loan*

The City entered into an agreement with First Community Housing whereby \$2,627,000 (\$200,000 from Community Development Block Grant, \$1,927,000 from the former Redevelopment Agency low and moderate housing fund, \$500,000 pass-through from County of San Mateo) was loaned to First Community Housing for construction of the Villa Montgomery housing development at El Camino and Vera Avenue. The portion of the loan attributable to the former Redevelopment Agency has been transferred to the City's Low and Moderate Income Housing Asset fund. The loan bears interest at 3% for 40 years. The loan will be repaid annually from 70% of the project's net cash flow. The outstanding balance of the loan at June 30, 2017 was \$2,627,000.

NOTE 3 - LOANS RECEIVABLE (CONTINUED)

H. Police Activities League Loan

In March 2006, the City paid off a construction loan in the amount of \$1,500,000 that the Police Activities League (PAL), a separate, private, non-profit agency, entered into with Bay Area Bank to partially finance the construction of the new PAL community center at Taft School. The City Council and PAL agreed that one-half of the amount, or \$750,000, will be paid back to the City by PAL over a period of 15 years. The outstanding balance of the loan at June 30, 2017 was \$214,286.

I. Kainos Home and Training Center Loan

In 1989-90, the City entered into an agreement with Kainos Home and Training Center whereby \$548,000 from Community Development Block Grant was loaned to acquire and rehabilitate property at 2555 Middlefield Road. In 2013-14, Kainos Home and Training Center sold 2555 Middlefield Road, and used the proceeds from the sale to purchase 2761 Fair Oaks Avenue. The current City loan is structured as a lien transfer of the original amount plus the shared equity of \$437,722 from 2555 Middlefield Road to 2761 Fair Oaks Avenue, totaling \$985,722. The loan bears no interest and is due and payable on March 29, 2039.

In 1997-98, the City entered into an agreement with Kainos Home and Training Center whereby \$57,500 from Community Development Block Grant was loaned to acquire property at 2033 Jefferson Avenue for Kainos Home and Training Center. The loan is deferred and payable upon the sale of the property, at which time the City would receive repayment of the loan plus any accrued equity based on the prorated City share.

In 2010-11, the City entered into an agreement with Kainos Home and Training Center whereby \$400,000 from the City's HOME and CDBG grant programs were loaned to acquire property located at 1122 Valota Road in Redwood City for special needs housing. The loan is deferred for a term of 55 years at 0% interest.

In 2012-13, the City entered into an agreement with Kainos Home and Training Center whereby \$450,000 from HOME grant was loaned to acquire property located at 1033 Redwood Avenue for special needs housing. The loan is deferred for a term of 30 years at 0% interest.

The loans to Kainos Home and Training Center are intended to be forgiven upon maturity, and therefore, an allowance for uncollectible loans has been set up in the amount of \$1,893,222.

J. HIP Housing Development Corporation (HHDC) Loan

In March 2013, the City entered into an agreement with HHDC whereby \$92,197 from HOME investment Partnership Act (HOME) funds were loaned to assist in the rehabilitation of a 12 unit apartment building located at 1157-1161 Willow Road in Menlo Park. The loan is deferred for a term of 30 years at 3% interest. The outstanding balance of the loan at June 30, 2017 was \$92,197.

In August 2015, the City entered into an agreement with HHDC whereby \$103,600 from HOME investment Partnership Act (HOME) funds were loaned to assist in the rehabilitation of rental housing property located at 1505-1509 Oxford Street in Redwood City.

NOTE 3 - LOANS RECEIVABLE (CONTINUED)

K. Mental Health Association of San Mateo County (MHA) Loan

In July, 2013, the City entered into an agreement with MHA whereby \$400,000 from Community Development Block Grant (CDBG) was loaned to assist with the acquisition of a vacant commercial property located at 105 5th Avenue in Redwood City. The loan is deferred for a term of 30 years at 0% interest.

In 2016-2017, the City entered into a second agreement with MHA whereby an additional \$200,000 from Community Development Block Grant (CDBG) was loaned for the property located at 105 5th Avenue in Redwood City. The loan is deferred for a term of 30 years at 0% interest.

L. Mezes Court Association

The City entered into an agreement with Mezes Court Associates on November 24, 2015 whereby \$259,757 from Community Development Block Grant was loaned to acquire property at 950 Main Street for affordable rental housing as set forth in the loan agreement evidencing the loan. The loan accrues interest from December 1, 2016 at the rate of two percent (2%) annual, simple interest for 57 years. Principal and interest are payable in full on the date which 57 years from the date of recordation of the Deed of Trust or the date of sale of property.

M. Stafford Loan

In June, 2017, the City entered into an agreement with HHDC whereby \$1,577,750 from the City's Affordable Housing Fund and HOME and CDBG grant programs were loaned to assist with the acquisition of real property located at 1512 Stafford Street in Redwood City. The loan is deferred for a term of 55 years at 3% interest. The outstanding balance of the loan at June 30, 2017 was \$1,577,750

City of Redwood City
Notes to the Basic Financial Statements
For the fiscal year ended June 30, 2017

NOTE 4 – CAPITAL ASSETS

A. Summary

Capital assets at June 30 are comprised of the following:

	Balance June 30, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
Government activities					
Capital assets not being depreciated:					
Land	\$ 31,397,153	\$ -	\$ -	\$ -	\$ 31,397,153
Construction in progress, Property	24,539,131	6,808,434	-	(9,731,903)	21,615,662
Total capital assets not being depreciated	55,936,284	6,808,434	-	(9,731,903)	53,012,815
Capital assets being depreciated:					
Buildings	83,309,015	-	-	-	83,309,015
Accumulated depreciation	(30,085,717)	(1,660,212)	-	-	(31,745,929)
Improvements other than buildings	7,883,555	-	-	1,165,186	9,048,741
Accumulated depreciation	(2,189,136)	(418,140)	-	-	(2,607,276)
Parks	29,962,322	-	-	6,493,142	36,455,464
Accumulated depreciation	(17,089,061)	(1,051,892)	-	-	(18,140,953)
Streets	114,666,789	1,088,120	-	1,117,593	116,872,502
Accumulated depreciation	(68,823,186)	(4,073,743)	-	-	(72,896,929)
Bridges	2,248,335	-	-	-	2,248,335
Accumulated depreciation	(1,974,940)	(74,945)	-	-	(2,049,885)
Traffic Signals	2,640,545	455,198	-	-	3,095,743
Accumulated depreciation	-	(83,156)	-	-	(2,278,349)
Storm Drains	12,189,946	229,909	-	-	12,419,855
Accumulated depreciation	(2,484,261)	(356,910)	-	-	(2,841,171)
Machinery & Equipment	24,621,604	407,830	(357,979)	955,982	25,627,437
Accumulated depreciation	(15,053,123)	(1,632,130)	310,284	-	(16,374,969)
Net capital assets being depreciated	137,627,494	(7,170,071)	(47,695)	9,731,903	140,141,631
Governmental activity capital assets, net	193,563,778	(361,637)	(47,695)	-	193,154,446
Business-Type Activities					
Capital assets not being depreciated:					
Land	3,180,272	-	-	-	3,180,272
Construction in progress	10,008,331	9,149,473	(299,866)	(4,741,846)	14,116,092
Total capital assets not being depreciated	13,188,603	9,149,473	(299,866)	(4,741,846)	17,296,364
Capital assets being depreciated					
Harbor Improvements	4,773,955	-	-	-	4,773,955
Accumulated depreciation	(3,174,880)	(121,465)	-	-	(3,296,345)
Buildings	62,466,683	-	-	-	62,466,683
Accumulated depreciation	(14,392,501)	(1,288,972)	-	-	(15,681,473)
Machinery and equipment	1,683,597	46,319	(20,724)	-	1,709,192
Accumulated depreciation	(1,553,336)	(52,868)	20,724	-	(1,585,480)
Improvements other than buildings	196,336,355	441,621	(3,569)	4,741,846	201,516,253
Accumulated depreciation	(59,255,179)	(4,394,964)	-	-	(63,650,143)
Net capital assets being depreciated	186,884,694	(5,370,329)	(3,569)	4,741,846	186,252,642
Business-type activity capital assets, net	200,073,297	3,779,144	(303,435.00)	-	203,549,006

NOTE 4 – CAPITAL ASSETS (CONTINUED)

B. Depreciation Allocation

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program is as follows:

Governmental Activities

Community Development	\$	197,513
Human Services		85,175
Public Safety		1,019,803
Transportation		4,012,081
Leisure, cultural, and information services		2,837,765
Policy development and implementation		807,483
Environmental support and protection		391,308
Total Depreciation Expense-Governmental Activities	\$	<u>9,351,128</u>

Business-Type Activities

Water Utility Fund	\$	3,027,920
Sewer Utility fund		670,287
Parking Fund		564,852
Dock Town		32,258
Port of Redwood City		1,562,951
Total Depreciation Expense-Business-Type Activities	\$	<u>5,858,268</u>

NOTE 5 – INVESTMENT IN SILICON VALLEY CLEAN WATER AUTHORITY

Redwood City has an investment of \$32,705,275 in Silicon Valley Clean Water Authority (SVCW), a California joint powers authority (JPA) with the cities of San Carlos, Belmont, and the West Bay Sanitation District. In addition, it has an additional investment of \$7,157,907, in SVCW stage II construction. The City's investment in SVCW was adjusted to reflect a net increase in the investment of \$153,114. Every fiscal year the City adjusts the investment based on the City's proportion of financial activity at SVCW.

SVCW operates and maintains a sewer plant, which was jointly constructed with federal and state grants and contributions from participating entities. SVCW is run by its board of directors, which is comprised of four members. The city councils of each member city and the board of the West Bay Sanitation District each select one of their own members to serve on this board. No member agency has control of SVCW's budget, finances, or operations. The board acts autonomously of the respective member agencies.

NOTE 5 – INVESTMENT IN SILICON VALLEY CLEAN WATER AUTHORITY (CONTINUED)

During the fiscal year ended June 30, 2017, the City contributed \$10,019,052 toward the cost of operating and maintaining the facility and paid debt principal and interest of \$5,701,084 that included the state revolving fund loan and the financing agreements to finance the construction and rehabilitation of the SVCW's wastewater system.

At June 30, 2017, the total obligation for the 2009, 2014 and 2015 revenue bonds is \$130,890,000. The City's direct obligation is \$68,488,754. For the fiscal year 2017-18, the City is obligated to pay debt principal and interest payments totaling \$5,225,548. The financing agreements for these bonds are secured by a pledge of the City's Sewer Enterprise Fund Net Revenue as defined under the financing agreements. For the fiscal year 2016-17, gross Sewer Fund revenues, including operating revenues and non-operating interest earnings, amounted to \$37,294,014. The operating and maintenance costs, including operating expenses, transfers out for overhead and administrative cost but excluding interest, and depreciation or amortization amounted to \$26,523,079. Net revenues available for debt services amounted to \$10,770,935, which represented coverage of 2.03 times over the total of debt services of \$5,302,806.

In October 2015, SVCW issued the 2015 wastewater revenue bonds in the amount of \$70.2 million. Pursuant to the financing agreement, the City's allocable share of the 2015 bonds is approximately 51.3%. Of the total bond proceeds, \$8.5 million will be used to refund, on an advance basis, certain maturities of the 2008 Bonds and approximately \$49.8 million will be used to refund, on an advance crossover basis, certain maturities of the 2009 Bonds.

Proceeds associated with the Refunded 2008 Bonds have been deposited into the "2008 Escrow Fund" for principal and interest payments through August 1, 2017, when the remaining proceeds will be applied to pay the redemption price of the outstanding Refunded 2008 Bonds in full. As result of the deposit and the application of funds under the escrow agreement relating to the Refunded 2008 Bonds, the Refunded 2008 bonds are considered fully defeased upon the issuance of the 2015 bonds and are no longer secured by revenues that were originally pledged for the payment of the 2008 Bonds.

Proceeds associated with the Refunded 2009 Bonds have been deposited into the "2009 Escrow Fund" until the crossover date of August 1, 2019, when all of the outstanding Refunded 2009 Bonds will be redeemed, without premium. Prior to the crossover date, the Refunded 2009 Bonds will continue to be secured by and payable from the revenues that were originally pledged for the payment of the 2009 Bonds.

Audited financial statements are available from Silicon Valley Clean Water Authority, 1400 Radio Road, Redwood City, CA 94065.

NOTE 5 – INVESTMENT IN SILICON VALLEY CLEAN WATER AUTHORITY (CONTINUED)

The condensed unaudited financial information of the JPA as of June 30, 2017 is as follows:

Total Assets	\$	304,774,427
Deferred Outflows of Resources		4,117,386
Total Liabilities		225,860,283
Deferred Inflows of Resources		1,352,904
Total Net Position	\$	81,678,626
Total Operating Revenues	\$	38,333,303
Total Operating Expenses		31,172,180
Total Operating Income (loss)		7,161,123
Other Income (loss)		(4,646,384)
Net Income (loss)	\$	2,514,739
Cumulative Agency Balances:		
Belmont	\$	20,951,130
San Carlos		6,840,208
Redwood City		39,863,182
West Bay Sanitation District		14,024,106
Total Net Position	\$	81,678,626

NOTE 6 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT

A. Description

Redwood City has no outstanding general obligation bonds. The following is the only long-term obligation of the City.

2013 Public Financing Authority Refunding lease – In May 2013, the City entered into a lease agreement with BBVA Compass Bank in the amount of \$3,360,000 to refund the 2003 Public Financing Authority Bonds. Net proceeds of \$3,292,748 plus the 2003 Public Financing Authority Bond Reserve were utilized for the purpose of establishing an irrevocable escrow to refund \$5,880,000 of the City's 2003 Public Financing Authority Bonds. Principal is due in annual installments of \$347,486 to \$687,180, with total principal and interest remaining on the lease in the amount of \$2,450,768 through July 15, 2018. Payments are made from the Public Financing Authority Refunding Lease Debt Service fund out of lease payment revenue received from the general fund, requiring less than 10% of net revenues. The refunding resulted in a decrease in total debt service payments of \$347,302 and an economic gain of \$270,485.

NOTE 6 – GOVERNMENTAL ACTIVITIES LONG-TERM DEBT (CONTINUED)

B. Changes in Long-Term Obligations

As of June 30, 2017, the City had the following long-term obligations outstanding:

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Due within One year
<u>Governmental Activities:</u>	%	\$	\$	\$	\$	\$
Revenue Bonds						
2013 PFA Refunding Lease	1.51	1,711,586		676,920	1,034,666	687,180
Total Bonds and Loans		1,711,586		676,920	1,034,666	687,180
Accrued Sick Leave and Vacation		11,066,600	922,640	432,796	11,556,444	446,269
Total Governmental Activities Long-Term Debt		12,778,186	922,640	1,109,716	12,591,110	1,133,449

At year-end, \$1,011,176 of internal service fund compensated absences is included in the above amounts. For the governmental activities, compensated absences are generally liquidated by the general fund.

C. Annual Repayment Requirements for Long-Term Debt

Fiscal Year End June 30	Refunding Lease	
	Principle	Interest
	\$	\$
2018	687,180	13,039
2019	347,486	2,624
	1,034,666	15,663

NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT

A. Description

Revenue Bonds:

Port of Redwood City 2012 Revenue Bonds – In June 2012, bonds were issued in the amount of \$10,000,000 to finance construction of the Port's Wharf 1 & 2 Redevelopment Project. The bonds are due in annual installments of \$386,916 to \$725,679 through 2032, with total principal and interest remaining of \$11,134,407. The bonds are payable out of net revenues of the Port, which are expected to equal at least 120% of the annual debt service requirement.

NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)

Port of Redwood City 2015 Revenue Bonds – In June 2015, bonds were issued in the amount of \$6,940,000 to (a) refund the 1999 Bonds, (b) purchase the 2016 Reserve Fund Policy in lieu of cash funding a reserve fund for the 2016 Bonds, and (c) pay a portion of the costs of issuance of the 2016 Bonds. The bonds are due in annual installments of \$385,000 to \$611,000 through 2030, with total principal and interest remaining of \$7,845,983. The bonds are payable out of net revenues of the Port, which are expected to equal at least 120% of the annual debt service requirement.

Water Revenue Bonds Series 2007A – In February 2007, Redwood City Public Financing Authority issued \$15,150,000 of bonds to finance a portion of the City's recycled water project. Principal and interest was payable in 28 annual installments of \$728,072 to \$950,950 from August 2007 through February 2035. During the year, these were refunded with the issuance of Series 2017 bonds.

Water Revenue Bonds Series 2013 – In June 2013, Redwood City Public Financing Authority issued \$26,870,000 of bonds to refund the remaining Water Revenue Bonds Series 2005A. The refunding resulted in a decrease of total debt service payments of \$2,386,569 and an economic gain of \$1,231,113. Principal and interest is payable in 21 annual installments of \$1,584,262 to \$2,063,000 from August 2013 through February 2034, with total principal and interest remaining of \$35,032,912. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

Water Revenue Bonds Series 2015 – In May 2015, Redwood City Public Financing Authority issued \$20,235,000 of bonds to refund the remaining Water Revenue Bonds Series 2006A. The refunding resulted in a decrease of total debt service payments of \$3,243,691 and an economic gain of \$2,117,710. Principal and interest is payable in 20 annual installments of \$1,205,491 to \$1,421,544 from August 2016 through February 2035 with total principal and interest remaining of \$25,558,981. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

Water Revenue Bonds Series 2017 – In February, 2017, Redwood City Public Financing Authority issued \$6,300,000 of bonds to refund the outstanding Water Revenue Bonds Series 2007A. The refunding resulted in a decrease of total debt service payments of \$8,191,968 and an economic gain of \$1,169,839. Principal and interest is payable in 18 annual installments of 493,588 to \$496,800 from February 2018 through February 2035 with total principal and interest remaining of \$8,877,694. The bonds are payable out of net revenues of the water utility fund which are expected to equal at least 120% of the annual debt service requirement.

Pledges of Future Revenues – The pledge of future water utility fund revenues ends upon repayment of the \$69.5 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2035-36. For fiscal year 2016-17, water utility fund operating revenues amounted to \$36,744,157 and operating expenses excluding depreciation and amortizations amounted to \$31,415,115. Net revenues available for debt service amounted to \$5,329,042 which represented a coverage ratio of 1.34 over the \$3,974,194 in debt service.

NOTE 7 – BUSINESS-TYPE ACTIVITIES LONG-TERM DEBT (CONTINUED)

The pledge of future Port of Redwood City fund revenues ends upon repayment of the \$19 million in remaining debt service on the bonds which is scheduled to occur in fiscal year 2031-32. Port of Redwood City fund operating revenues amounted to \$7,127,814 and operating expenses excluding depreciation, amortizations, and subvention to the City amounted to \$3,106,577. Net revenues available for debt service amounted to \$4,021,237 which represented a coverage ratio of 2.98 over the \$1,349,331 in debt service.

B. Changes in Debt

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Within One Year
Business-type Activities:	%					
Revenue Bonds						
Port of Redwood City-2012 Series	4.20-4.20	\$ 8,637,370	\$ -	\$ 386,916	\$ 8,250,454	\$ 403,483
Port of Redwood City-2015 Series	2.00-4.00	6,575,000	-	385,000	6,190,000	395,000
Water Revenue Bonds Series 2007A	4.00-4.50	12,060,000	-	12,060,000	-	-
Water Revenue Refunding Bonds Series 2013	3.00-5.00	24,305,000	-	920,000	23,385,000	955,000
Water Revenue Refunding Bonds Series 2015	3.00-4.00	19,525,000	-	735,000	18,790,000	755,000
Water Revenue Refunding Bonds Series 2017	2.00-5.00	-	6,300,000	-	6,300,000	265,000
Unamortized Premium-Water		3,732,452	477,557	216,499	3,993,510	-
Unamortized Discount-Port		(20,873)	-	(1,500)	(19,373)	-
		<u>74,813,949</u>	<u>6,777,557</u>	<u>14,701,915</u>	<u>66,889,591</u>	<u>2,773,483</u>
Accrued Sick Leave and Vacation:		<u>885,914</u>	<u>459,639</u>	<u>430,060</u>	<u>915,493</u>	<u>451,939</u>
Total Business-type Activities Long-Term Debt		<u>\$ 75,699,863</u>	<u>\$ 7,237,196</u>	<u>\$ 15,131,975</u>	<u>\$ 67,805,084</u>	<u>\$ 3,225,422</u>

C. Annual Repayment Requirements for Business-type Activities Long Term Debt

Business-Type Activities:

Year End June 30	Revenue Bonds	
	Principal	Interest
	\$	\$
2018	2,773,483	2,549,043
2019	2,825,759	2,486,485
2020	2,938,775	2,378,768
2021	3,057,563	2,264,131
2022	3,177,155	2,144,889
2023-2027	18,025,303	8,598,722
2028-2032	20,927,416	4,438,828
2033-2036	9,190,000	673,656
	<u>62,915,454</u>	<u>25,534,521</u>

NOTE 8 – DEBT WITHOUT CITY COMMITMENT

A. *Successor Agency Private Purpose Trust Fund Debt*

Tax Increment Bonds:

2003 Tax Allocation Bonds – In October 2003, the former Redevelopment Agency issued \$33,997,448 in bonds to finance various downtown improvements. These bonds consist of current coupon bonds and capital appreciation bonds. The current coupon bonds pay interest-only through January 15, 2010. Principal on the current coupon bonds is paid in annual installments of \$1,225,000 to \$3,045,000 from July 15, 2010 to July 15, 2014. Payments reflecting interest and principal on the capital appreciation bonds are due in annual installments of \$3,505,000 to \$3,510,000 from July 15, 2016 through July 15, 2032. Total principal and interest remaining on the bonds is \$56,090,000. Payments are made from property tax increment generated by the former redevelopment agency fund.

B. *Community Facilities District (Mello-Roos) Bonds*

On October 17, 2000, the Community Facilities District (CFD) issued \$21,000,000 of bonds on behalf of the developer of the Pacific Shores Project to fund various transportation system improvements within the City's right-of-way that were required as a condition of the development.

In July 2012 the CFD issued \$5,555,000 Community Facilities District No. 2000-1 Pacific Shores Special Tax Refunding Bonds, Series 2012 to refund \$8,655,000 of the Series 2000A bonds. The refunding reduced annual debt service payments by approximately 25% or \$52,000, and resulted in an economic gain of \$398,000, which equates to 7.61% of the refunding bonds. In September 2016, the final payment was made and this obligation was paid in full.

On January 17, 2001, the Shores Transportation Improvement District issued \$5,045,000 of Phase I CFD bonds, and on September 3, 2003 the District issued \$7,505,000 of Phase II CFD bonds. The proceeds of these bonds were used to fund various transportation projects that are required under development agreements with commercial property owners in the Redwood Shores area of the City.

In December 2012 the Shores Transportation District issued \$10,275,000 Redwood Shores Community Facilities District No. 99-1 Special Tax Refunding Bonds, Series 2012B to refund \$3,640,000 of the outstanding Series 2001A Bonds and \$6,675,000 of the outstanding Series 2003A Bonds. The refunding reduced annual debt service payments by approximately 16% or \$140,000, and resulted in an economic gain of \$1.7 million, which equates to 16.62% of the refunding bonds.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings.

The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2017, the outstanding principal amount was \$8,595,000.

NOTE 8 – DEBT WITHOUT CITY COMMITMENT (CONTINUED)

On April 5, 2011, the Community Facilities District (CFD) issued \$5,760,000 of bonds on behalf of the developer of the One Marina Project to fund various transportation system improvements within the City's right-of-way that were required as a condition of the development.

These bonds are solely obligations of the property owners in this district and are not obligations of the City, nor has any political subdivision of the State of California pledged its full faith and credit for the payment of these bonds. The City's only responsibilities with respect to any delinquent assessment installments are solely advancing funds from the reserve fund (established with bond proceeds) to the redemption fund, to the extent that such funds are available, and instituting foreclosure proceedings.

In June 2016, Community Facilities District No. 2010-1 issued \$4,350,000 Community Facilities District No. 2010-1 (One Marina) 2016 Special Tax Refunding Bonds to refund the outstanding 2011 Bonds.

The City is not required to advance available funds of the City for payment of principal or interest or to purchase land at a delinquent foreclosure assessment sale. As of June 30, 2017, the outstanding principal amount was \$4,350,000.

NOTE 9 – EMPLOYEE BENEFITS

A. Pension Plan

General Information about the Pension Plan:

Plan Description – All qualified permanent and probationary employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the Plans are established by State statute and Local Government resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and/or their beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law (PERL).

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The plans' provisions and benefits in effect at June 30, 2017 are summarized as follows:

	<u>Public Safety Tier 1</u>	<u>Public Safety Tier 2</u>	<u>Public Safety Tier 3</u>
Benefit Vesting Schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50	50	50
Benefit factor for each year of service as a % of annual salary	3%	2.4%-3%	2%-2.7%
Required employee contribution rates	9%	9%	12%
Required employer contribution rates	22.033%	22.033%	22.033%

	<u>Miscellaneous Tier 1</u>	<u>Miscellaneous Tier 2</u>	<u>Miscellaneous Tier 3</u>
Benefit Vesting Schedule	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life
Retirement age	50	50	52
Benefit factor for each year of service as a % of annual salary	2%-2.7%	1.092%-2.418%	1%-2.5%
Required employee contribution rates	8%	7%	5.75%
Required employer contribution rates	9.274%	9.274%	9.274%

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability. The dollar amounts are billed on a monthly basis. The City's required contribution for the unfunded liability was \$5,603,992 and \$5,225,128 for the safety and miscellaneous plans respectively in fiscal year 2017.

The City's Tier 2 plans for public safety and miscellaneous cover new employees hired on or after October 13, 2011.

The City's Tier 3 plans for public safety and miscellaneous cover new employees hired on or after January 1, 2013 pursuant to the Public Employees' Pension Reform Act of 2013.

Police and fire safety employees hired before October 13, 2011 (Tier 1) are covered under the "3% at 50" formula. Under this retirement plan, an employee's retirement earnings at age 50 are calculated by multiplying 3% by the employee's years of service. This percentage factor increases with the employee's age upon retirement.

Police and fire safety employees hired on or after October 13, 2011 (Tier 2) are covered under the "3% at 55" formula. Under this retirement plan, an employee's retirement earnings at age 55 are calculated by multiplying 3% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service, with the maximum percentage factor equal to 3%.

Police and fire safety employees hired on or after January 1, 2013 (Tier 3) are covered under the "2.7% at 57" formula. Under this retirement plan, an employee's retirement earnings at age 57 are calculated by multiplying 2.7% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.7% at age 57.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Miscellaneous employees hired before October 13, 2011 (Tier 1) are covered under the "2.7% at 55" formula. Under this retirement plan, an employee's retirement earnings, at age 55, are calculated by multiplying 2.7% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Miscellaneous employees hired on or after October 13, 2011 (Tier 2) are covered under the "2% at 60" formula. Under this retirement plan, an employee's retirement earnings at age 60 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 50 at a reduced pension amount. The pension amount increases with age and length of service.

Miscellaneous employees hired on or after January 1, 2013 (Tier 3) are covered under the "2% at 62" formula. Under this retirement plan, an employee's retirement earnings at age 62 are calculated by multiplying 2% by the employee's years of service. An employee with five years of service is eligible to retire at age 52 at a reduced pension amount. The pension amount increases with age and length of service, with a maximum percentage factor equal to 2.5% at age 67.

Employees Covered – At June 30, 2017, the following employees were covered by the benefit terms for each Plan:

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	398	174
Inactive employees entitled to but not yet receiving benefits	457	60
Active employees	512	339
Total	1,367	573

Contributions – Section 20814(C) of the California PERL requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through 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 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 ended June 30, 2016 (the measurement date), the average active employee contribution rate is 7.83 percent of annual pay for the Miscellaneous Plan and 9.04 percent of annual pay for the Safety Plan, and employer contribution rate is 9.27 percent of annual payroll for the Miscellaneous Plan and 22.03 percent of annual payroll for the Safety Plan.

Net Pension Liability:

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2016, using an annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Actuarial Assumptions – The total pension liabilities in the June 30, 2015 actuarial valuation were determined using the following assumptions:

	Miscellaneous	Safety
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method	
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	
Investment Rate of Return	7.50%	7.50%
Mortality (1)	Derived using CalPERS' Membership Data for all Funds	
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter	

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrives at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Changes in the Net Pension Liability:

The changes in the Net Pension Liability for each Plan follow:

Miscellaneous Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016 (1)	\$ 274,601,243	\$ 198,433,873	\$ 76,167,370
Changes in the year:			
Service cost	4,988,704		4,988,704
Interest on the total pension liability	20,902,896		20,902,896
Differences between actual and expected experience	2,720,291		2,720,291
Plan to Plan Resource Movement		8,562	(8,562)
Contribution - employer		7,063,347	(7,063,347)
Contribution - employee		2,605,290	(2,605,290)
Net investment income		1,020,359	(1,020,359)
Administrative expenses		(120,935)	120,935
Benefit payments , including refunds of employee contributions	(13,150,802)	(13,150,802)	
Net changes	15,461,089	(2,574,179)	18,035,268
Balance at June 30, 2017	\$ 290,062,332	\$ 195,859,694	\$ 94,202,638

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Safety Plan:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016 (1)	\$ 319,829,844	\$ 218,060,352	\$ 101,769,492
Changes in the year:			
Service cost	7,609,467		7,609,467
Interest on the total pension liability	24,274,395		24,274,395
Differences between actual and expected experience	2,056,832		2,056,832
Contribution - employer		11,288,655	(11,288,655)
Contribution - employee		2,375,511	(2,375,511)
Net investment income		1,179,363	(1,179,363)
Administrative expenses		(132,896)	132,896
Benefit payments , including refunds of employee contributions	(16,758,122)	(16,758,122)	
Net changes	17,182,572	(2,047,489)	19,230,061
Balance at June 30, 2017	\$ 337,012,416	\$ 216,012,863	\$ 120,999,553

Sensitivity of Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for each Plan, calculated using the discount rate for each Plan, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous	Safety	Total
1% Decrease	6.65%	6.65%	6.65%
Net Pension Liability	\$ 132,245,473	\$ 166,407,092	298,652,565
Current Discount Rate	7.65%	7.65%	7.65%
Net Pension Liability	\$ 94,202,638	\$ 120,999,553	215,202,191
1% Increase	8.65%	8.65%	8.65%
Net Pension Liability	\$ 62,690,949	\$ 83,758,605	146,449,554

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

For the fiscal year ended June 30, 2017, the City recognized pension expense of \$8,864,628 for the Miscellaneous Plan and \$13,755,299 for the Safety Plan. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 17,721,552	
Changes of Assumptions		3,937,518
Differences between Expected and Actual Experiences	3,328,061	141,618
Net differences between projected and actual earnings on plan investments	21,940,552	
Total	<u>\$ 42,990,165</u>	<u>\$ 4,079,136</u>

\$17,721,552 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expenses as follows:

Fiscal Year Ending June 30:	
2018	\$ 1,649,511
2019	3,020,849
2020	10,663,904
2021	5,855,213

Payable to Pension Plan:

As of June 30, 2017, the City reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the fiscal year ended June 30, 2017.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

B. Post Employment Benefits

Redwood City:

The City administers a single-employer defined benefit post-employment healthcare plan. Permanent employees who retire under the City's retirement plan are, pursuant to their respective collective bargaining agreements, eligible to have their medical insurance premiums reimbursed by the City up to the Kaiser family premium rate. Medical insurance premiums for spouses and other dependents generally are not paid by the City. In the case of public safety disability retirement, the City provides medical insurance for dependents. Currently there are 420 retirees receiving this benefit.

The City is not required by law or contractual agreement to provide funding for retiree health costs other than the pay-as-you-go amount necessary to provide current benefits to retirees. The City's retiree health plan is being managed through the California Employer's Retiree Benefits Trust (CERBT), an irrevocable trust fund that allows public employers to prefund the future cost of their retiree health insurance benefits and other post-employment benefits for their covered employees or retirees.

The CERBT's administrator, CalPERS, issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811. During FY 2016-17, the City contributed \$6,163,000, or 100%, of the annual OPEB cost to the retiree health plan. Total current payroll for all covered employees for the fiscal year ended June 30, 2017 was \$58,551,284.

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City's annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Annual required contribution	\$ 6,112,000
Interest on net OPEB obligation	505,000
Adjustment to annual required contribution	(454,000)
Annual OPEB cost	6,163,000
Contributions made to irrevocable trust	(3,045,477)
Benefit payments made outside of trust	(3,117,523)
Increase in net OPEB obligation	-
Net OPEB obligation - beginning of the year	6,962,477
Net OPEB obligation - end of year	\$ 6,962,477

The General fund, the Capital Outlay fund, and other non-major funds have been used to finance the net OPEB obligation.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The City annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year ended June 30, 2017 and the two preceding years were as follows:

Year Ended	Annual OPEB Cost	Annual OPEB Cost	
		Contributed	OPEB Obligation (Asset)
	\$	%	\$
6/30/2015	5,037,000	100	6,962,477
6/30/2016	5,982,000	100	6,962,477
6/30/2017	6,163,000	100	6,962,477

Funding Status: As of June 30, 2017, the most recent actuarial valuation date, the plan was 31.6% funded. The actuarial accrued liability (AAL) for benefits was \$84,172,000, and the actuarial value of plan assets was \$26,570,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$57,602,000. The covered payroll (annual payroll of active employees covered by the plan) was \$57,404,000 and the ratio of UAAL to the covered payroll was 100.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare 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 Supplementary 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 the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include 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 accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2017 actuarial valuation, the actuarial cost method used is Entry Age Normal (EAN) cost method. Under the EAN cost method, the plan's Normal Cost is developed as a level percent of payroll throughout the participants' working lifetime. Entry age is based on current age minus years of service. The Actuarial Accrued Liability (AAL) is the cumulative value on the valuation date of prior Normal Cost. For the retirees, the AAL is the present value of all projected benefits. The Unfunded AAL is being amortized as a level dollar closed 30 year basis, as a level percent of payroll with a remaining amortization period at June 30, 2017 of 24 years.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

GASB 45 requires the interest rate to represent the underlying expected return for the source of funds used to pay benefits. The actuarial methods and assumptions included a 6.75% interest rate, annual inflation at 3% per annum, aggregate payroll assumed to increase at 3.00% per annum, and an annual healthcare trend rate of 7.5% - 7.8% for 2017, reduced gradually each year with an ultimate rate of 5% for 2021 and thereafter. The study also used assumptions for the salary merit and longevity increases, and demographic assumptions such as mortality, withdrawal, and disability based on CalPERS 1997- 2011 Experience Study. Retirement assumption was also based on CalPERS 1997-2011 Experience Study. For employees hired before October 24, 2011 it was assumed Miscellaneous Plan 2.7% at 55 years, with expected retirement age of approximately 57.8, and Public Safety 3% at 50 years, with expected retirement age of approximately 54 for Police and 55.4 for Fire.

For employees hired on or after October 24, 2011 it was assumed Miscellaneous Plan 2% at 60 years, with expected retirement age of approximately 61 years, and Public Safety 3% at 55 years, with expected retirement age of approximately 59.9 for Police and 56.2 for Fire.

Port of Redwood City:

Plan Description

The other post-employment benefits (other than pension) offered by the Port are limited to reimbursement of medical premiums only. Eligibility extends to those employees hired before January 1, 2011 who, prior to retirement, have (a) worked ten or more consecutive years at the Port on a full time basis, and (b) are enrolled in the Port's medical plan, and (c) age 55 or older, and (d) have not been voluntarily or involuntarily terminated from employment at the Port. Spouses and/or dependents are ineligible.

The reimbursement of medical premiums is limited to the lesser of (a) the medical insurance premium paid by the eligible retiree, or (b) the Port's cost to provide medical coverage for an active employee of the same age as the retiree, or (c) the insurance premium for a Medicare supplement plan at the retiree's earliest Medicare eligibility age, whether or not the retiree enrolls in Medicare.

Funding Policy, Status and Progress

The accounting rules governing other post-employment benefits (OPEB) do not require mandatory funding of the actuarial accrued liability or annual required contribution. During the fiscal year ended June 30, 2011, the Port adopted a comprehensive funding policy for post-employment benefits other than pension. The policy addresses the selection of a Section 115 Trust, prefunding strategy, valuation frequency, valuation methodology, disbursements, and administrative matters. The Section 115 Trust selected was the CalPERS California Employer's Retiree Benefit Trust Program (CERBT).

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2017, the Port’s annual OPEB cost was \$39,863; of this amount \$8,400 was expensed and paid for the current retiree, and the remaining \$31,463 net OPEB obligation was expensed and recorded as a liability. Combined with the \$230,756 net OPEB obligation as of June 30, 2016, the total net OPEB obligation as of June 30, 2017 was \$262,219.

The annual required contribution was determined as part of the July 1, 2015, actuarial valuation using the Entry Age Actuarial Cost Method and assumptions consistent with the CalPERS OPEB Assumptions Model. The actuarial assumptions included (a) salary increases of 3.00% per year, (b) a discount rate of 5%, (c) 100% of eligible employees assumed to elect coverage upon retirement and to remain covered for life, (d) retirement, withdrawal, and mortality rates based on CalPERS Assumption model for the classification “public agency miscellaneous 2.7% at 55”, and (e) medical premium inflation rates ranging from 9% to 6% over time. The actuarial present value of future benefits was calculated for each individual using the economic assumptions and specific member data, then aggregated. The amortization component of the unfunded actuarial accrued liability was based on a 30 year amortization period.

The following table shows the components of the Port’s annual OPEB costs for the year, the amount actually contributed to the plan, and changes in the Port’s net OPEB obligation:

Annual OPEB Cost and Net OPEB Obligation

Normal Cost	\$ 10,181
Amortization of unfunded actuarial accrued liability	31,055
Annual required contribution	41,236
Interest on beginning net OPEB obligation	11,538
Annual required contribution adjustment	(12,911)
Annual OPEB expense	39,863
Actual current year employer payment	(8,400)
Decrease in OPEB obligation	31,463
Net OPEB obligation at June 30, 2016	230,756
Net OPEB obligation at June 30, 2017	\$ 262,219

OPEB Unfunded Actuarial Accrued Liabilities

Actuarial accrued liabilities	\$ 565,987
Actuarial value of plan assets	-
Unfunded actuarial accrued liabilities (UAAL)	\$ 565,987
Funded Ratio	0%
Covered Payroll	\$ 609,562
UAAL as a % of Covered Payroll	92.85%

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

The Port's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan for 2017 and the two preceding fiscal years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Cost Contributed</u>	<u>OPEB Obligation (Asset)</u>
	\$	%	\$
6/30/2015	35,737	15.8	202,238
6/30/2016	37,624	24.2	230,756
6/30/2017	39,863	21.1	262,219

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the new 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 supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan participants) and include 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 participants to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

C. Cafeteria Benefit Plan

The City has a cafeteria benefit plan established pursuant to section 125 of the IRS code. Under this plan eligible employees may direct a contribution, made by the City or elect to contribute pre-tax dollars, into any combination of the following three benefit categories:

1. Medical Insurance Premium Account
2. Out of Pocket Medical Spending Account
3. Dependent Care Spending Account

Under no circumstances may an employee direct more than \$5,000 annually into the Dependent Care Spending Account and \$2,550 annually into the Medical Spending Account. This cap applies to both City contributions and employee pre-tax contributions. There are no legal limits on contributions to the Health Premium Account.

NOTE 9 – EMPLOYEE BENEFITS (CONTINUED)

All regular full-time and part-time employees employed on a regular and continuous basis, including certain contractual employees, are eligible to participate in this plan. Temporary and casual employees are not eligible. The plan year adopted by the City begins on January 1 and ends December 31.

To obtain reimbursement of expenses incurred within a plan year within the spending accounts (items 2 or 3), employees must submit claims within 90 days of the end of the plan year or separation of service from the City, whichever occurs first. Funds unclaimed after 90 days of the close of the plan year are then remitted to the City.

D. Deferred Compensation Plans

City employees may defer a portion of their compensation under four separate, optional City-sponsored deferred compensation plans created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death, or in an emergency as defined by the plans.

Effective January 1, 1998, the City signed new deferred compensation plan administration agreements with the deferred compensation providers to provide for the administration and management of employees' deferred compensation plan assets. These agreements incorporate changes in the law governing deferred compensation plan assets which now require plan assets to be held for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these new plans are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

Effective January 28, 2003, the City implemented a retirement enhancement plan (401-A defined contribution plan) for certain executive management employees. In February 2005, a plan amendment was adopted to extend the 401-A plan to all members of the executive management employee classification. Under this plan, the City contributes 2% of the employees' compensation into the 401-A plan.

Effective October 1, 2002 for the Redwood City Management Employees Association, the City contributes an amount equal to 2% of the base monthly salary to a deferred compensation plan offered by the City to members of the Association.

NOTE 10 – NET POSITION AND FUND BALANCES

GASB Statement No. 63 adds the concept of net position, which is measured on the full accrual basis, to the concept of fund balance, which is measured on the modified accrual basis.

A. Net Position

Net position is the excess of all the City's assets over all its liabilities, regardless of fund. Net position is divided into three captions. These captions apply only to net position, which is determined only at the government-wide level and are described below:

Net investment in capital assets describes the portion of net position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes. At June 30, 2017, restricted net position for the governmental activities was \$59,815,017.

Unrestricted describes the portion of net position which is not restricted as to use.

B. Fund Balances

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2017, fund balances for governmental funds are made up of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term loans receivable.

Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action, adopting a resolution, of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City adopting another resolution, as a resolution imposed the constraint originally.

Assigned Fund Balance – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or City Manager, to which the City Council has delegated the authority through a resolution, to assign amounts to be used for specific purposes.

NOTE 10 – NET POSITION AND FUND BALANCES (CONTINUED)

Pursuant to the authority delegated by City Council, the City Manager determines the amount of assigned fund balances, which includes items such as encumbrances, and constrained amounts when it is the City's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of special revenue, capital projects and debt service funds which have not been restricted or committed.

Unassigned Fund Balance – is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In other governmental funds, if expenditures exceed amounts restricted, committed, or assigned, the negative amount is reflected as negative unassigned fund balance. Within the unassigned fund balance of the general fund, the City Council has established a minimum balance representing a level not less than 15% of the following fiscal year's budgeted general fund revenues.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

C. *Deficit Fund Equity/Net Position*

The Successor Agency private purpose trust fund had negative net position of \$16,357,678 due to long-term debt outstanding for bonds used to finance various downtown improvements.

The planning cost recovery fund had a negative fund balance of \$3,022.

The internal services fund had a negative net position of \$12,203,090 due to the net pension liability.

NOTE 11 – FUNDS WITH EXPENDITURES EXCEEDING APPROPRIATIONS

Community Development, Finance, Library, Parks, Recreation and Community Services, and Public Works expenditures exceeded appropriations in the general fund primarily due to unbudgeted program expenditures for which there were sufficient revenues available.

NOTE 12 – INTERFUND TRANSFERS AND TRANSACTIONS

A. Transfers

The following interfund transfers were made during the year:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
General Fund	Non-major Governmental Funds	470,216 ⁽¹⁾
	Capital Outlay Fund	237,773 ⁽¹⁾
	Internal Service Funds	8,565 ⁽²⁾
Capital Outlay Fund	General Fund	8,897,388 ⁽³⁾
Non-major Governmental Funds	General Fund	1,683,800 ⁽¹⁾
	Capital Outlay Fund	699,271 ^{(1) (3)}
Water Fund	General Fund	173,278 ⁽¹⁾
	Sewer Fund	517,835 ⁽¹⁾
Docktown Marina	General Fund	2,406,537 ⁽¹⁾
Parking Fund	General Fund	101,815 ⁽¹⁾
Internal Service Funds	General Fund	1,000,000 ⁽¹⁾
Total Interfund Transfers		<u>16,196,478</u>

The reasons for these transfers are set forth below:

- ⁽¹⁾ Allocation of funds to support operations.
- ⁽²⁾ Reimburse General Fund for interest earned by funds supported by the General Fund.
- ⁽³⁾ Allocation of funds to construct/purchase general capital assets.

B. Short-Term Due to/From other Funds

At the end of the fiscal year the general fund had net utility users tax receivable in the amount of \$839,137. The policy of the City Council dictates the transfer of utility users tax to the capital outlay fund, and once the revenue is received, the general fund will transfer the cash to the capital outlay fund. During FY 2016-17, the low and moderate income housing asset fund borrowed \$373,981 from the general fund as a short-term borrowing related to a loan disbursement for affordable housing. The \$300,000 is related to the long-term advance and is the current portion due.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount Due to/From</u>
		\$
Capital Outlay Fund	General Fund	839,137
General Fund	Non Major Governmental Funds	373,981
Internal Service Funds	Water Utility Fund	300,000
		<u>1,513,118</u>

NOTE 12 – INTERFUND TRANSFERS AND TRANSACTIONS (CONTINUED)

C. Long-Term Interfund Loans

Fund Receiving Advance	Fund Making Advance	Amount of Advance
		\$
Water Utility Fund	Internal Service Funds	1,500,000
Total Long-term Interfund Loans		1,500,000

During FY 2012-13, the equipment services internal service fund advanced \$3,000,000 to the water utility enterprise fund for the implementation of the Automated Meter Infrastructure Project to replace water meters. During FY 2013-14 the water utility enterprise fund repaid \$300,000 to the equipment services internal service fund. During FY 2016-17 the water utility enterprise fund repaid \$300,000 to the equipment services internal service Fund. As of June 30, 2017, \$300,000 of this advance is considered current.

NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND

A. Workers' Compensation and Property Insurance

The City is self-insured for workers' compensation for the first \$350,000 per occurrence and has a commercial insurance policy that covers the City's exposure above the retained limits up to the statutory limits required by the State of California. The City paid \$606,926 during FY 2016-17 for the coverage.

The City's workers' compensation policy includes coverage for the Port of Redwood City. The Port carries property and liability insurance policies with limits of \$15,000,000 and \$150,000,000, respectively.

B. General Liability and Automobile

The City is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA), which is an insurance pool consisting of 19 San Francisco Bay Area government agencies, which the City uses for general liability and auto liability coverage. In FY 2016-17 the City maintained a \$350,000 self-insured retention with coverage from \$350,000 to \$1,000,000 through the BCJPIA. The purpose of the pool is to provide certain levels of liability coverage, claims administration, and loss control support to member agencies. Annually, each agency pays an actuarially-determined premium based upon a formula which takes into account loss experience, annual payroll, and population. This premium pays for administrative costs and funds liability reserves. The premium paid in FY 2016-17 was \$852,412.

The BCJPIA belongs to the California Affiliated Risk Management Authority (CARMA) which is an excess liability pool comprised of the BCJPIA and four other local government insurance pools. CARMA provides coverage from \$1,000,001 to \$28,000,000. A layer from \$1,000,001 to \$4,000,000 is self-insured by CARMA, the layer from \$4,000,001 to \$28,000,000 is reinsured through agreements with commercial insurers.

NOTE 13 – RISK MANAGEMENT AND SELF-INSURANCE FUND (CONTINUED)

The City also carries all risk coverage on buildings and their contents at replacement cost value.

Audited financial statements are available from the Bay Cities Joint Powers Insurance Authority at 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833. The following is the BCJPIA condensed audited financial results for the year ended June 30, 2017:

Assets	\$ 35,252,474
Reserves for Claims	20,100,376
Liabilities(1)	3,924,302
Net Position Unrestricted	11,227,796
Member Contributions	13,223,178
Other Income	716,027
Claims and Claim Adjustment Expenses (2)	6,544,436
Operating Expenses(3)	6,934,541
Change in Net Position	460,228

(1)Excluding claims liabilities

(2)Including change in unpaid claims

(3)Excluding claims and claim adjustment expenses

C. Self-Insurance Fund

The City maintains a self-insurance internal service fund for its workers' compensation and general liability self-insurance programs. This fund accounts for revenues from departmental charges and operating expenses, including settlements within the City's self-insured retentions. Reserves for incurred but not reported claims are maintained within this fund. These reserves are based on an actuarial analysis performed by Richard E. Sherman & Associates, Inc. in accordance with GASB 10.

Changes in the self-insurance fund's claims payable liability for fiscal years ended 2015, 2016, and 2017 were:

	Beginning Balance	Current Year Claims/Changes in Estimates	Claim Payments	Ending Balance
	\$	\$	\$	\$
2014-15	18,454,723	6,671,124	(4,222,289)	20,903,558
2015-16	20,903,558	7,782,145	(5,568,861)	23,116,842
2016-17	23,116,842	4,486,534	(3,822,883)	23,770,493

Settlements have not exceeded coverage for each of the past three fiscal years.

NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY

As part of the FY 2011-12 State Budget package, and in an effort to help solve the State's budget problems, the California legislature enacted and the Governor signed two companion bills addressing redevelopment, AB X1 26 (Dissolution Act) and AB X1 27 (Voluntary Program Act), which took effect on June 29, 2011.

The Dissolution Act immediately suspended all new redevelopment activities and incurrence of indebtedness, and eliminated redevelopment agencies as of October 1, 2011.

The Voluntary Program Act allows the community that created the redevelopment agency to avoid dissolution by opting to pay a substantial community remittance beginning FY 2011-12 and each year thereafter.

On July 18, 2011, the California Redevelopment Association, the League of California Cities, and others filed a Petition for Writ of Mandate in the Supreme Court of the State of California (California Redevelopment Association, et al. v. Ana Matosantos, et al., Case No. 5194861), challenging the constitutionality of the companion bills, the Dissolution Act, and the Voluntary Program Act, on behalf of cities, counties, and redevelopment agencies, and requesting a stay of their enforcement.

On December 29, 2011, the California Supreme Court upheld the Dissolution Act and found the Voluntary Program Act to be unconstitutional and extended the date of dissolution to February 1, 2012.

The Dissolution Act provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "Successor Agency" to hold the assets until they are distributed to other units of state and local government. The City Council elected to become Successor Agency on August 22, 2011 with resolution 15141, and reconfirmed this action on January 23, 2012 with resolution 15164.

Under the Dissolution Act, redevelopment agencies in the State of California cannot enter into new projects, obligations, or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In FY 2010-11, prior to AB X1 26 becoming law, \$3.3 million of real property assets (vacant land) were transferred from the RDA's Low and Moderate Income Housing Fund to the City in an attempt to protect these assets from being diverted for the benefit of the State. AB X1 26, however, specifically disallowed such transfers. Accordingly, the assets were transferred to the Low and Moderate Income Housing Asset Fund in FY 2011-12.

Prior to the dissolution of the redevelopment agency, under an agreement with San Mateo County to receive a cumulative \$25 million of the County's share of tax increment and an agreement with the Legal Aid Society to deposit the first \$11.9 million of the \$25 million into the Low and Moderate Income Housing Fund, the agency had deposited \$10.3 million into the Low and Moderate Income Housing Fund as of June 30, 2011. Pursuant to the agreement with the Legal Aid Society to restrict these funds to housing, after the dissolution of the redevelopment agency these funds were deposited into a new

NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY (CONTINUED)

fund, Housing Legal Aid Society Fund, to be used for housing purposes. The State Department of Finance (DOF) has disputed that these funds are restricted for housing, and the City has filed a lawsuit against the State of California on this matter. On October 30, 2013 the Superior Court Judge hearing the lawsuit filed against the State of California Department of Finance concerning the \$10.3 million the City is holding in the Housing Legal Aid Society Fund as part of the dissolution of the former Redevelopment Agency issued a tentative ruling in favor of the State of California. On November 6, 2013 the Judge then issued a “Request for Further Briefing” to be held on November 22, 2013. On January 4, 2014 the Superior Court Judge ruled in favor of the State of California. In April 2014, the City filed an appeal, and as of the date of this report, a ruling on the appeal has not been issued. In December 2015, the City remitted \$10.3 million to the DOF, under protest, in order for the Successor Agency to receive a finding of completion.

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The City’s former Redevelopment Agency had entered into agreements with certain public entities whose jurisdictions were within the territory of the former Redevelopment Agency under which these entities received a specified share of the property tax increment received by the former Redevelopment Agency. Under Assembly Bill X1 26 the responsibility for making these payments has been shifted to the County of San Mateo.

The following is a summary of the capital assets of the Successor Agency:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated:	\$	\$	\$	\$	\$
Land	3,126,664	-	(565,925)	-	2,560,739
Total capital assets not being depreciated	3,126,664	-	(565,925)	-	2,560,739
Capital assets being depreciated:					
Improvements other than buildings	13,231,503	-	-	-	13,231,503
Accumulated depreciation	(3,020,773)	(356,054)	-	-	(3,376,827)
Traffic Signals	208,691	-	-	-	208,691
Accumulated depreciation	(78,260)	(10,435)	-	-	(88,695)
Storm Drains	4,101,302	-	-	-	4,101,302
Accumulated depreciation	(1,281,659)	(102,533)	-	-	(1,384,192)
Machinery & Equipment	953,244	-	-	-	953,244
Accumulated depreciation	(459,492)	(46,957)	-	-	(506,449)
Net capital assets being depreciated	13,654,556	(515,979)	-	-	13,138,577
Total capital assets, net	16,781,220	(515,979)	(565,925)	-	15,699,316

NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY (CONTINUED)

The following is a summary of the long-term obligations of the Successor Agency.

Tax Increment Bonds:

2003 Tax Allocation Bonds – In October 2003, the former Redevelopment Agency issued \$33,997,448 in bonds to finance various downtown improvements. These bonds consist of current coupon bonds and capital appreciation bonds. The current coupon bonds pay interest-only through January 15, 2010. Principal on the current coupon bonds is paid in annual installments of \$1,225,000 to \$3,045,000 from July 15, 2010 to July 15, 2014. Payments reflecting interest and principal on the capital appreciation bonds are due in annual installments of \$3,505,000 to \$3,510,000 from July 15, 2016 through July 15, 2032. Total principal and interest remaining on the bonds is \$63,029,814. Payments are made from property tax increment generated by the former redevelopment agency fund.

Change in Debt:

	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance	Within One Year
	%	\$	\$	\$	\$	\$
Tax Increment Bonds						
2003 Tax Allocation Bonds	3.50-5.80	19,944,779	-	1,889,861	18,054,918	1,773,916
Accreted interest payable		19,507,026	2,018,233	1,615,138	19,910,121	1,731,084
Unamortized Premium		523,116	-	30,772	492,344	-
Total Bonds		<u>39,974,921</u>	<u>2,018,233</u>	<u>3,535,771</u>	<u>38,457,383</u>	<u>3,505,000</u>

Annual Repayment Requirements for Long-Term Debt:

Year End 30-Jun	Tax Increment Bonds	
	Principle	Interest
	\$	\$
2018	1,773,916	1,731,084
2019	1,663,894	1,841,106
2020	1,557,657	1,947,343
2021	1,450,684	2,054,316
2022	1,352,544	2,152,456
2023-2027	5,512,687	12,017,312
2028-2032	4,064,618	13,465,383
2033-2036	678,918	2,826,082
	<u>18,054,918</u>	<u>38,035,082</u>

Amounts due to the City of Redwood City

During FY 2004-05, the capital outlay fund advanced \$3,000,000 to the redevelopment agency fund to finance various downtown improvements. During FY 2008-09 the Redevelopment Agency repaid \$115,622 of the advance, during FY 2009-10 the Redevelopment Agency repaid \$238,439, and during FY 2010-11 the Redevelopment Agency repaid \$248,364. During FY 2011-12 the Redevelopment Agency was dissolved and the advance payable was transferred to the successor agency private purpose trust fund. Prior to the dissolution the Redevelopment Agency repaid \$128,032. During FY 2016-17 the Successor Agency repaid \$828,339 to the capital outlay fund.

NOTE 14 – DISSOLUTION OF THE REDWOOD CITY REDEVELOPMENT AGENCY (CONTINUED)

During FY 2009-10, the low and moderate income housing fund advanced \$2,812,838 to the redevelopment agency fund to partially finance the amount taken away from the Redevelopment Agency by the State of California. During FY 2010-11 the Redevelopment Agency repaid \$562,568 to the low and moderate income housing fund. During FY 2011-12 the Redevelopment Agency was dissolved and the advance receivable was transferred to the low and moderate income housing asset fund, and the advance payable was transferred to the successor agency private purpose trust fund. During FY 2011-12 the Successor Agency repaid \$562,567 to the low and moderate income housing asset fund. During FY 2016-17 the Successor Agency repaid \$1,687,703 to the low and moderate income housing asset fund.

NOTE 15 – LITIGATION AND CONTINGENT LIABILITIES

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount.

The City is involved in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of management and legal counsel, that the resolution of these matters will not have a material adverse effect on the City's financial statements. In the opinion of the City Attorney, the City has adequate legal defenses and/or reserves to cover such liability if it does arise.

The City has received various state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

NOTE 16 – CONSTRUCTION, OTHER SIGNIFICANT COMMITMENTS AND ENCUMBRANCES

As of June 30, 2017, the City has the following significant commitments:

- \$924,826 – Professional services related to Planning Cost Recovery
- \$442,722 – Professional services related to outsourced Building Regulation and Code Enforcement services
- \$339,532 – Professional services related to the 101/84 Highway Interchange project
- \$337,842 – Professional services related to Transportation Planning

Purchase orders are issued throughout the fiscal year to encumber the budgets in the governmental funds. Following are the outstanding encumbrances as of June 30, 2017:

Major Funds:	\$
General Fund	1,056,649
Capital Outlay Fund	1,713,123
Total Major Funds	2,769,772
Non-Major Funds	3,497,019
Total Encumbrances	6,266,791

NOTE 17 – SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY

The City is a member of the South Bayside Waste Management Authority (SBWMA), a joint powers authority established to purchase the solid waste transfer station located in San Carlos, California from Browning-Ferris Industries. Currently there are 12 public entities that are members of this organization. Each of these members also, by individual and separate legislative action, has entered into a franchise agreement with Recology for solid waste collection within their respective jurisdictions.

The SBWMA issued \$20 million in bonds in 1999 to provide funds for the purchase of the transfer station. The debt issued by the SBWMA is not an obligation of any of the member entities. During FY 2009-10, SBWMA issued \$58.5 million in bonds to finance improvements at the solid waste transfer station, and the remaining balance of the 1999 bonds were retired.

The SBWMA also serves as a regional forum for member entities to collectively pursue other solid waste management matters such as rate setting, solid waste reduction, and meeting recycling goals as required by state law.

Audited financial statements are available from the SBWMA, c/o the City of San Carlos, 600 Elm Street, San Carlos, CA 94070. The following is SBWMA's condensed unaudited financial results for the fiscal year ended June 30, 2017:

	\$
Total assets	75,297,751
Total liabilities	<u>53,647,487</u>
Total net position	<u><u>21,650,264</u></u>

NOTE 18 – RELATED PARTY TRANSACTIONS

In June 2000, the City's former Redevelopment Agency authorized a First Time Homebuyer Program targeted to City employees and school teachers from the Redwood City Elementary School District. Under the program, the Agency offered first time homebuyers financial assistance in the purchase of a home within the City of Redwood City. These loans bear no interest and are secured by third deeds of trust on the property. No payments are due until five years after the date of purchase. This loan program is extended to City employees who meet the criteria of the program. As of June 30, 2017, one employee had a loan due to the City in the amount of \$31,322.

REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, debt service funds, and capital projects funds.

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general, special revenue, and debt service funds. Capital projects funds' budgets are adopted on a project length basis and are not presented here. As the Housing Legal Aid Society Fund was created after the February 1, 2012 dissolution of the former Redevelopment Agency and is currently under litigation, there is no adopted budget for this fund.

The City Manager submits a recommended operating budget in May each year to the City Council for the fiscal year commencing the following July 1, showing proposed expenditures by programs and the means of financing them.

The City Council conducts budget study sessions, which are open for public comment, before adopting the budget. Once the budget is adopted, expenditures may not legally exceed appropriations at program level except when the excess is attributable to a particular activity for which the City has been reimbursed. This is especially apparent in the Community Development Program where developers reimburse the City through sub-division fees and environmental impact report fees.

At the request of the department head through the City Manager, the City Council may, by resolution, transfer appropriations between sub-programs and funds. Any increase or decrease to the total appropriations provided for in the budget must also be carried through by resolution passed by the City Council. The City Manager may authorize the transfer of funds between object categories within a sub-program of a department. The adoption and administration of the Port of Redwood City budget, unless property tax revenues are requested, is exclusively under the control of the Board of Port Commissioners.

Budgeted amounts are as originally adopted, or as amended by the City Council during the fiscal year. Individual amendments were not material in relation to the original appropriations.

All unexpended appropriations lapse at the end of the fiscal year. Appropriations for capital projects or appropriations that are encumbered are re-appropriated and carried over in the following year's budget.

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
Fund balance, July 1	28,438,071	28,438,071	28,438,071	
Resources (inflows):				
Property taxes/special assessments	47,237,938	50,266,640	52,433,667	2,167,027
Sales and other taxes	44,657,817	44,410,305	43,966,255	(444,050)
Licenses and permits	2,886,000	3,316,000	2,806,816	(509,184)
Fines, forfeitures and penalties	704,000	689,000	822,066	133,066
Use of money and property	4,694,619	4,694,619	4,682,075	(12,544)
Intergovernmental	3,618,339	4,677,928	5,758,016	1,080,088
Charges for current services	15,568,456	16,469,228	18,101,567	1,632,339
Contributions		144,433	278,923	134,490
Other	1,199,077	1,199,077	773,303	(425,774)
Amounts available for appropriation	120,566,246	125,867,230	129,622,688	3,755,458
Charges to appropriations (outflows):				
Current Operations:				
City Council:				
City Council	340,779	340,779	323,447	17,332
Human Services Assistance	59,800	159,800	59,847	99,953
Total City Council	400,579	500,579	383,294	117,285
City Manager:				
Management/Policy execution/ Organizational Efficiencies	1,109,222	1,109,222	925,225	183,997
Communications/Community Engagement	1,018,277	1,018,277	1,039,045	(20,768)
Economic development	401,629	401,629	346,145	55,484
Total City Manager	2,529,128	2,529,128	2,310,415	218,713
City Attorney	1,833,705	1,833,705	1,579,927	253,778
City Clerk:				
City Clerk	719,599	742,080	717,582	24,498
Elections	66,791	96,791	53,309	43,482
Council support	35,357	35,357	67,512	(32,155)
Total City Clerk	821,747	874,228	838,403	35,825

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
	\$	\$	\$	\$
Community development:				
Planning	1,425,268	1,438,268	1,648,540	(210,272)
Strategic planning	736,498	736,498	822,106	(85,608)
Building regulation	2,802,999	3,262,999	2,554,115	708,884
Administration	305,747	305,747	1,038,038	(732,291)
General engineering	355,179	355,179	334,066	21,113
Subdivision engineering	515,752	515,752	524,298	(8,546)
Code enforcement	1,036,610	1,436,610	1,168,808	267,802
Redevelopment	709,046	809,046	977,550	(168,504)
Total Community Development	7,887,099	8,860,099	9,067,521	(207,422)
Finance:				
Financial services	1,497,559	1,510,759	1,546,051	(35,292)
Administrative support services	1,254,393	1,254,393	1,358,394	(104,001)
Public Financing Authority lease payments	744,678	744,678	771,053	(26,375)
Total Finance	3,496,630	3,509,830	3,675,498	(165,668)
Fire:				
Administration	1,151,712	1,181,069	1,180,955	114
Operations	19,046,641	19,457,160	19,383,098	74,062
San Carlos Fire	7,063,107	7,063,107	7,011,007	52,100
Prevention	1,076,272	1,063,455	987,891	75,564
Training	284,037	320,409	321,698	(1,289)
Emergency medical services	29,155	29,155	26,596	2,559
Emergency operations	131,757	213,220	206,509	6,711
Total Fire	28,782,681	29,327,575	29,117,754	209,821
Human Resources	1,525,132	1,527,632	1,413,384	114,248
Library:				
Administrative services unit	1,577,730	1,577,730	1,483,695	94,035
Downtown library	3,425,546	3,527,231	3,613,743	(86,512)
Literacy services unit	1,155,175	1,360,633	1,457,742	(97,109)
Neighborhood libraries and outreach	2,290,770	2,334,009	2,340,256	(6,247)
Total Library	8,449,221	8,799,603	8,895,436	(95,833)

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original \$	Final \$		
Parks, Recreation and Community Services:				
Human Services	1,403,556	1,554,106	1,548,858	5,248
Administration	960,445	1,034,217	1,115,755	(81,538)
Civic Cultural Commission	58,896	58,896	58,668	228
Landscape maintenance	4,832,202	4,832,202	4,794,297	37,905
Youth and teen services	2,743,130	2,806,130	2,935,660	(129,530)
Sports and aquatics	2,425,268	2,425,268	2,534,071	(108,803)
Special interest programming/marketing	1,640,867	1,685,300	1,937,590	(252,290)
Community services	1,691,609	1,691,609	1,720,053	(28,444)
Total Parks, Recreation and Community Services	15,755,973	16,087,728	16,644,952	(557,224)
Police:				
Administration	7,881,321	7,881,321	7,839,014	42,307
Records	1,158,185	1,158,185	1,000,142	158,043
Training	618,585	618,585	667,171	(48,586)
Property/Evidence	348,007	348,007	345,678	2,329
Police Activities League	128,235	128,235	101,286	26,949
Patrol services	24,132,544	24,274,544	22,558,950	1,715,594
Criminal investigation	5,391,571	5,391,571	6,312,753	(921,182)
Total Police	39,658,448	39,800,448	38,824,994	975,454
Public Works:				
Street system maintenance	296,932	296,932	303,344	(6,412)
Street cleaning	256,192	256,192	257,380	(1,188)
Sidewalk maintenance/Replacement	21,592	21,592	21,592	
Street tree maintenance	837,865	922,865	969,334	(46,469)
Downtown/Entry feature maintenance	31,889	31,889	32,224	(335)
Storm water collection/Disposal	16,566	16,566	17,268	(702)
Total Public Works	1,461,036	1,546,036	1,601,142	(55,106)
Reimbursement from Other Funds	(2,210,734)	(2,210,734)	(2,210,734)	
Total charges to appropriations	110,390,645	112,985,857	112,141,986	843,871
OTHER FINANCING SOURCES (USES)				
Transfers in	550,564	650,564	716,554	65,990
Transfers (out)	(10,685,762)	(13,968,962)	(14,262,818)	(293,856)
Total Other Financing Sources (Uses)	(10,135,198)	(13,318,398)	(13,546,264)	(227,866)
Fund balance, June 30	28,478,474	28,001,046	32,372,509	4,371,463

REQUIRED SUPPLEMENTARY INFORMATION

NOTE 2 – DEFINED BENEFIT PENSION PLANS

A. Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period

Miscellaneous Plan

Measurement Period ⁽¹⁾	2015-16	2014-15	2013-14
TOTAL PENSION LIABILITY			
Service Cost	\$ 4,988,704	\$ 4,787,766	\$ 4,962,237
Interest	20,902,896	19,792,491	18,925,939
Changes of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	2,720,291	(546,244)	-
Changes of Assumptions	-	(4,797,291)	-
Benefit Payments, Including Refunds of Employee Contributions	(13,150,802)	(12,621,036)	(11,534,695)
Net Change in Total Pension Liability	15,461,089	6,615,686	12,353,481
Total Pension Liability - Beginning	274,601,243	267,985,557	255,632,076
Total Pension Liability - Ending (a)	\$ 290,062,332	\$ 274,601,243	\$ 267,985,557
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	\$ 7,063,347	\$ 6,882,313	\$ 6,449,302
Contributions - Employee	2,605,290	2,372,657	2,592,457
Net Investment Income ⁽²⁾	1,020,359	4,413,116	29,955,563
Benefit Payments, Including Refunds of Employee Contributions	(13,150,802)	(12,621,036)	(11,534,695)
Other Changes in Fiduciary Net Position	(112,373)	(205,162)	-
Net Change in Fiduciary Net Position	(2,574,179)	841,888	27,462,627
Plan Fiduciary Net Position - Beginning	198,433,873	197,591,985	170,129,358
Plan Fiduciary Net Position - Ending (b)	\$ 195,859,694	\$ 198,433,873	\$ 197,591,985
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 94,202,638	\$ 76,167,370	\$ 70,393,572
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.52%	72.26%	73.73%
Covered Payroll	\$ 31,484,407	\$ 28,944,841	\$ 28,592,551
Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll	299.20%	263.15%	246.20%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Net of administrative expenses.

NOTE 2 – DEFINED BENEFIT PENSION PLANS, CONTINUED

A. Schedule of Changes in Net Pension Liability and Related Ratios During the Measurement Period, Continued

Safety Plan

Measurement Period ⁽¹⁾	2015-16	2014-15	2013-14
TOTAL PENSION LIABILITY			
Service Cost	\$ 7,609,467	\$ 7,620,719	\$ 6,630,333
Interest	24,274,395	22,992,406	21,880,004
Changes of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	2,056,832	210,529	-
Changes of Assumptions	-	(5,686,859)	-
Benefit Payments, Including Refunds of Employee Contributions	(16,758,122)	(15,054,516)	(14,361,985)
Net Change in Total Pension Liability	17,182,572	10,082,279	14,148,352
Total Pension Liability - Beginning	319,829,844	309,747,565	295,599,213
Total Pension Liability - Ending (a)	\$ 337,012,416	\$ 319,829,844	\$ 309,747,565
PLAN FIDUCIARY NET POSITION			
Contributions - Employer	\$ 11,288,655	\$ 9,993,967	\$ 7,791,669
Contributions - Employee	2,375,511	2,420,787	2,230,065
Net Investment Income ⁽²⁾	1,179,363	4,953,411	32,968,535
Benefit Payments, Including Refunds of Employee Contributions	(16,758,122)	(15,054,516)	(14,361,985)
Other Changes in Fiduciary Net Position	(132,896)	(245,450)	-
Net Change in Fiduciary Net Position	(2,047,489)	2,068,199	28,628,284
Plan Fiduciary Net Position - Beginning	218,060,352	215,992,153	187,363,869
Plan Fiduciary Net Position - Ending (b)	\$ 216,012,863	\$ 218,060,352	\$ 215,992,153
Plan Net Position Liability/(Asset) - Ending (a) - (b)	\$ 120,999,553	\$ 101,769,492	\$ 93,755,412
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.10%	68.18%	69.73%
Covered Payroll	\$ 25,867,584	\$ 25,330,626	\$ 21,679,799
Plan Net Pension Liability/(Asset) as a Percentage of Covered Payroll	467.77%	401.76%	432.46%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

(2) Net of administrative expenses.

NOTE 2 – DEFINED BENEFIT PENSION PLANS, CONTINUED

B. Schedule of Plan Contributions

Miscellaneous Plan

	2016-17	(1)	2015-16	2014-15
Actuarially determined contribution	\$ 7,428,605		\$ 6,923,087	\$ 6,799,358
Contribution in relation to the actuarially determined contributions	(7,428,605)		(6,923,087)	(6,799,358)
Contribution deficiency (excess)	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>
Covered payroll	34,756,799		31,484,407	28,944,841
Contributions as a percentage of covered payroll	21.37%		21.66%	23.49%

Safety Plan

	2016-17	(1)	2015-16	2014-15
Actuarially determined contribution	\$ 10,292,946		\$ 10,439,692	\$ 9,667,759
Contribution in relation to the actuarially determined contributions	(10,292,946)		(10,439,692)	(9,667,759)
Contribution deficiency (excess)	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>
Covered payroll	27,341,479		25,867,584	25,330,626
Contributions as a percentage of covered payroll	38%		40.36%	38.17%

(1) Historical information is required only for measurement periods for which GASB 68 is applicable.

Notes to Schedules

	Miscellaneous Plan	Safety Plan
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage of payroll	Level percentage of payroll
Remaining amortization period	21 Years as of valuation date	29 Years as of valuation date
Asset valuation method	15-year smoothed market	15-year smoothed market
Inflation	2.75%	2.75%
Salary increases	Varies by Entry Age and Service	
Payroll growth	3.00%	
Investment rate of return	7.50%, net of pension plan investment expense; including inflation	
Retirement age	The probabilities of retirement are based on the 2010	
Mortality	The probabilities of mortality are based on the 2010 CalPERS	

NOTE 3 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

A schedule of funding progress for the past three actuarial valuations is presented below.

City of Redwood City

Actuarial Valuation Date *	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll **	Unfunded Actuarial Liability as Percentage of Covered Payroll
2011	\$ 4,429,000	\$ 53,083,000	\$ 48,654,000	0.0%	\$ 44,961,408	108.2%
2013	\$ 11,001,000	\$ 56,177,000	\$ 45,176,000	19.6%	\$ 48,399,901	93.3%
2015	\$ 18,382,000	\$ 70,852,000	\$ 52,470,000	25.9%	\$ 51,466,341	102.0%

* Based on the most recent actuarial valuation available

** Annual payroll of active employees covered by the plan

Port of Redwood City

Actuarial Valuation Date *	Actuarial Asset Value	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll **	Unfunded Actuarial Liability as Percentage of Covered Payroll
7/1/2011	\$ -	\$ 334,371	\$ 334,371	0.0%	\$ 631,539	52.9%
7/1/2013	\$ -	\$ 349,824	\$ 349,824	0.0%	\$ 636,746	54.9%
7/1/2015	\$ -	\$ 565,987	\$ 565,987	0.0%	\$ 645,077	87.7%

* Based on the most recent actuarial valuation available

** Annual payroll of active employees covered by the plan



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2017*

GENERAL FUND

The general fund accounts for resources traditionally associated with governments that are not required to be accounted for in another fund. Library operations, whose expenditures must be approved by the Library Board, are accounted for as part of this fund along with the general governmental expenditures not accounted for in other funds.

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
COMPARATIVE BALANCE SHEET
JUNE 30, 2017 AND 2016

	2017	2016
	\$	\$
ASSETS		
Cash and investments available for operations	40,428,443	35,852,795
Receivables (net of allowance for uncollectibles):		
Taxes and assessments - current	6,269,171	9,141,396
Accounts	1,884,492	1,643,694
Loans	1,035,949	1,205,478
Accrued interest	640,653	279,016
Due from other governmental agencies	3,553,792	3,122,201
Due from other funds	373,981	
Prepaid expenditures	95,865	86,385
Total Assets	54,282,346	51,330,965
LIABILITIES		
Accounts payable	3,701,631	3,984,399
Accrued payroll	2,374,210	4,352,304
Deposits payable	8,930,525	7,720,787
Due to other funds	839,137	503,870
Unearned revenue	6,028,080	6,301,397
Accrued sick leave and vacation - current	36,254	30,137
Total Liabilities	21,909,837	22,892,894
FUND BALANCE		
Nonspendable:		
Loans	1,035,949	1,205,478
Inventory		
Prepaid items	95,865	86,385
Restricted for:		
Other purposes	96,338	96,338
Committed to:		
General plan	837,563	837,563
Assigned to:		
Other purposes	884,838	978,967
Unassigned:		
City Council directed minimum balance	18,279,679	22,644,769
Residual balance	11,142,277	2,588,571
Total Fund Balance	32,372,509	28,438,071
Total Liabilities and Fund Balance	54,282,346	51,330,965

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Budget	Actual	Variance with Final Budget	Budget	Actual	Variance with Final Budget
			Positive (Negative)			Positive (Negative)
REVENUES	\$	\$	\$	\$	\$	\$
Property taxes	50,266,640	52,433,667	2,167,027	43,718,163	47,851,873	4,133,710
Sales and other taxes	44,410,305	43,966,255	(444,050)	43,982,092	44,186,332	204,240
Licenses and permits	3,316,000	2,806,816	(509,184)	2,398,000	2,272,333	(125,667)
Fines, forfeitures and penalties	689,000	822,066	133,066	636,000	767,857	131,857
Uses of money and property	4,694,619	4,637,547	(57,072)	248,500	488,369	239,869
Net increases (decreases) in fair value of investments		44,528	44,528		81,346	81,346
Intergovernmental	4,677,928	5,758,016	1,080,088	5,416,470	5,475,525	59,055
Charges for current services	16,469,228	18,101,567	1,632,339	15,792,237	16,280,079	487,842
Other	1,343,510	1,052,226	(291,284)	808,362	1,031,302	222,940
Total revenues	125,867,230	129,622,688	3,755,458	112,999,824	118,435,016	5,435,192
EXPENDITURES						
Community development	8,860,099	9,067,521	(207,422)	8,346,775	8,330,099	16,676
Human services	1,713,906	1,608,705	105,201	1,512,878	1,524,187	(11,309)
Public safety	69,128,023	67,942,748	1,185,275	64,852,309	64,498,662	353,647
Transportation	1,241,389	1,294,270	(52,881)	321,249	290,747	30,502
Environmental support and protection	304,647	306,872	(2,225)	276,679	245,121	31,558
Leisure, cultural, and information services	23,333,225	23,991,530	(658,305)	23,128,264	23,131,471	(3,207)
Policy development and implementation	8,404,568	7,930,340	474,228	4,774,147	3,663,652	1,110,495
Total expenditures	112,985,857	112,141,986	843,871	103,212,301	101,683,939	1,528,362
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	12,881,373	17,480,702	4,599,329	9,787,523	16,751,077	6,963,554
OTHER FINANCING SOURCES (USES)						
Transfers in	650,564	716,554	65,990	520,993	527,271	6,278
Transfers (out)	(13,968,962)	(14,262,818)	(293,856)	(17,711,223)	(17,445,633)	265,590
Total Other Financing Sources (Uses)	(13,318,398)	(13,546,264)	(227,866)	(17,190,230)	(16,918,362)	271,868
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(437,025)	3,934,438	4,371,463	(7,402,707)	(167,285)	7,235,422
Fund balance at beginning of fiscal year		28,438,071			28,605,356	
Fund balance at end of fiscal year		32,372,509			28,438,071	

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF REVENUES COMPARED WITH BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	2017		Variance with Final Budget Positive (Negative)	2016 Actual
	Budget	Actual		
Property Taxes:	\$	\$	\$	\$
Property taxes - secured and unsecured	50,266,640	52,433,667	2,167,027	47,851,873
Total Property Taxes	50,266,640	52,433,667	2,167,027	47,851,873
Sales and Other Taxes:				
Sales tax	23,115,000	22,289,163	(825,837)	22,778,475
Franchises	1,831,600	1,904,813	73,213	1,893,634
Transient occupancy tax	6,864,770	6,552,893	(311,877)	6,451,477
Property transfer tax	675,000	809,638	134,638	946,259
Business license tax	2,370,800	2,581,968	211,168	2,483,708
Utility users tax	9,553,135	9,827,780	274,645	9,632,779
Total Sales and Other Taxes	44,410,305	43,966,255	(444,050)	44,186,332
Licenses and Permits:				
Building permits	3,310,000	2,802,609	(507,391)	2,268,773
Fire and other permits	6,000	4,207	(1,793)	3,560
Total Licenses and Permits	3,316,000	2,806,816	(509,184)	2,272,333
Fines, Forfeitures and Penalties:				
Parking fines	689,000	822,066	133,066	767,857
Total Fines, Forfeitures and Penalties	689,000	822,066	133,066	767,857
Uses of Money and Property:				
Right-of-way rent	4,127,619	4,127,619		
Rent and concessions	467,000	277,088	(189,912)	228,567
Interest income	100,000	232,840	132,840	259,802
Total Uses of Money and Property	4,694,619	4,637,547	(57,072)	488,369
Net Increase (Decrease) in Fair Value of Investments		44,528	44,528	81,346
Intergovernmental:				
Motor vehicle in lieu tax		58,256	58,256	33,020
Public safety sales tax	680,000	750,082	70,082	734,945
Police training allowance	10,000	10,198	198	26,841
Homeowners' property tax relief	175,000	179,590	4,590	178,179
State mandated programs grant		30,338	30,338	150,928
Grants - County, State, and Federal	3,412,928	4,301,664	888,736	3,944,820
Abandoned vehicle fees		219	219	
Port contribution	400,000	427,669	27,669	406,792
Total Intergovernmental	4,677,928	5,758,016	1,080,088	5,475,525
Charges for Current Services:				
Fire services	7,157,731	7,145,422	(12,309)	6,834,649
Police services	155,000	247,908	92,908	313,208
Plan checking	2,435,000	2,348,883	(86,117)	1,430,244
Garbage collections - net	2,518,591	2,370,984	(147,607)	2,409,618
Engineering services				
Planning services	565,000	696,512	131,512	591,745
Library fees		13,130	13,130	11,319
Recreation programs	2,612,056	3,666,710	1,054,654	3,141,864
Other current service charges	1,025,850	1,612,018	586,168	1,547,432
Total Charges for Current Services	16,469,228	18,101,567	1,632,339	16,280,079
Other:				
Contributions	144,433	278,923	134,490	431,924
Miscellaneous	1,199,077	773,303	(425,774)	599,378
Total Other	1,343,510	1,052,226	(291,284)	1,031,302
Total Revenue	<u>125,867,230</u>	<u>129,622,688</u>	<u>3,755,458</u>	<u>118,435,016</u>

CITY OF REDWOOD CITY, CALIFORNIA
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED WITH BUDGET (GAAP BASIS) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	2017			
	Budget	Actual	Variance with Final Budget Positive (Negative)	2016 Actual
Community Development:	\$	\$	\$	\$
Community planning	1,438,268	1,648,540	(210,272)	1,434,604
Strategic planning	736,498	822,106	(85,608)	205,272
Building regulation	3,262,999	2,554,115	708,884	2,577,558
Administration	305,747	1,038,038	(732,291)	882,614
General engineering	355,179	334,066	21,113	312,029
Subdivision engineering	515,752	524,298	(8,546)	434,695
Code enforcement	1,436,610	1,168,808	267,802	776,281
Redevelopment	809,046	977,550	(168,504)	1,707,046
Total Community Development	8,860,099	9,067,521	(207,422)	8,330,099
Human Services:				
Human services assistance program	159,800	59,847	99,953	34,800
Social services center	1,554,106	1,548,858	5,248	1,489,387
Total Human Services	1,713,906	1,608,705	105,201	1,524,187
Public Safety:				
Law enforcement	39,800,448	38,824,994	975,454	36,635,654
Fire safety	29,327,575	29,117,754	209,821	27,863,008
Total Public Safety	69,128,023	67,942,748	1,185,275	64,498,662
Transportation:				
Street system/sidewalk maintenance, repair	1,241,389	1,294,270	(52,881)	290,747
Total Transportation	1,241,389	1,294,270	(52,881)	290,747
Environmental Support and Protection:				
Street cleaning/storm water collection, disposal	304,647	306,872	(2,225)	400,055
Total Environmental Support and Protection	304,647	306,872	(2,225)	400,055
Leisure, Cultural, and Information Services:				
Parks and recreation	14,533,622	15,096,094	(562,472)	15,079,784
Information services	8,799,603	8,895,436	(95,833)	8,051,687
Total Leisure, Cultural, and Information Services	23,333,225	23,991,530	(658,305)	23,131,471
Policy Development and Implementation:				
Legislative/policy determination	340,779	323,447	17,332	325,363
Management/policy execution	2,529,128	2,310,415	218,713	1,737,727
Legislative services/records management	874,228	838,403	35,825	813,378
Financial services	1,510,759	1,546,051	(35,292)	1,574,113
Legal services	1,833,705	1,579,927	253,778	2,025,581
Human Resources	1,527,632	1,413,384	114,248	1,369,595
Other administrative support services	1,999,071	2,129,447	(130,376)	1,904,803
Less reimbursements from other funds	(2,210,734)	(2,210,734)		(6,086,908)
Total Policy Development and Implementation	8,404,568	7,930,340	474,228	3,663,652
Total Expenditures	112,985,857	112,141,986	843,871	101,838,873

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for revenue derived from specific taxes or other dedicated revenue sources (other than for major capital projects) that are restricted by law or administrative action to expenditures for specified purposes.

Special Gas Tax Street Improvement Fund – This fund accounts for revenue received from the State of California derived from gasoline taxes. These funds may only be used for street purposes as specified in the State of California Streets and Highway Code.

Transportation Grants Fund – This fund accounts for grants and developer contributions received for specific transportation projects.

Grants Fund – This fund accounts for grants received for specific purposes. These include funds received under the Housing and Community Development Act.

Traffic Safety Fund – This fund accounts for revenues received from traffic fines and used for traffic safety programs.

Transportation Fund – This fund accounts for the City's share of special sales tax for transportation. Expenditures from this fund may only be incurred on transportation-related programs.

Seaport Landscape Maintenance Fund – This fund accounts for funds to be provided by property owners in the Seaport Boulevard area for maintenance of landscaping on Seaport Boulevard.

Seaport Centre Maintenance Fund – This fund accounts for funds provided by property owners in the Seaport Centre area for the maintenance and repair of drains and sewer lines connecting the Centre facilities to the public facilities.

Redwood Shores Maintenance Fund – This fund accounts for funds collected from property owners in the Redwood Shores area for the maintenance of various public areas.

Redwood Shores Landscape Maintenance Fund – This fund accounts for funds collected from property owners for landscape maintenance of certain areas in Redwood Shores.

Supplemental Law Enforcement Services Fund – This fund accounts for funds from the State of California "Citizens Option for Public Safety" program.

Traffic Mitigation Fees Fund – This fund accounts for developer contributions received for general transportation projects.

Low and Moderate Income Housing Asset Fund – This fund accounts for the restricted and obligated balances (other than the Legal Aid Society balance) of the former redevelopment agency low and moderate income housing fund that were transferred to the City after the dissolution of the redevelopment agency on February 1, 2012.

Planning Cost Recovery Fund – This fund accounts for fees charged for reimbursement of the expenditures associated with processing planning applications related to major projects.

Community Benefits Fund – This fund accounts for funds committed by the City to enhance community programs.

SPECIAL REVENUE FUNDS (CONTINUED)

Housing Legal Aid Society Fund – This fund accounts for revenues previously deposited in the former redevelopment agency low and moderate income housing fund pursuant to an agreement with the Legal Aid Society to set aside general tax increment revenue for housing purposes. After the February 1, 2012 dissolution of the redevelopment agency, this fund was created to account for this accumulated balance.

DEBT SERVICE FUNDS

Debt service funds are used to account for the payment of interest and principal on general debt of the City and related entities.

Public Financing Authority 2013 Refunding Lease Fund – This fund accounts for a lease entered into to refund the 2003 Public Financing Authority bonds. This lease is secured by lease payment from the City.

CAPITAL PROJECTS FUNDS

Capital project funds are established to account for resources used for the acquisition and construction of capital facilities by the City except for those financed by the proprietary funds or special revenue funds. Funding for these projects is provided by the general fund and by special assessment districts. Currently the City has the following funds:

Facilities Fee Construction Fund – This fund derives its revenue from fees collected from the developers in the Redwood Shores area. Funds are used for improvements to roads, drainage, water, traffic lights, canals, etc. in the area.

Parks Impact and In-Lieu Fee Fund – This fund accounts for parks impact fees and Quimby Act in lieu fees charged to developers on new development projects, to enable the City to expand and improve its system of parks, parkland, and recreational facilities to provide services to future development.

Shores Transportation Improvement District Fund – This fund accounts for community facility district bonds that were issued and developer contributions that were received by the City to fund various transportation projects in the Redwood Shores area.

One Marina Community Facilities District Fund – This fund accounts for certain public infrastructure improvements within the One Marina district that are financed by community facilities district bonds, and developer contributions.

Art in Public Places Fund – This fund accounts for revenues and expenditures related to the Art in Public Places Ordinance.

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2017

	SPECIAL REVENUE FUNDS				
	Special Gas Tax Street Improvement Fund \$	Transportation Grants Fund \$	Grants Fund \$	Traffic Safety Fund \$	Transportation Fund \$
ASSETS					
Cash and investments available for operations	3,283,084	7,180,505	1,650,169	197,069	414,870
Cash and investments, restricted			110,940		
Receivables (net of allowance for uncollectibles):					
Taxes and assessments - current	152,442				119,571
Accounts				8,090	
Loans			3,416,221		
Accrued interest			197,854		
Due from other governmental agencies		809,265	765,721	47,708	
Prepaid items					
Investment in land held for redevelopment			2,410,000		
Total Assets	3,435,526	7,989,770	8,550,905	252,867	534,441
LIABILITIES					
Accounts payable	59,418	343,922	170,527	24,445	6,767
Deposits payable					
Due to other funds					
Unearned revenue					
Total Liabilities	59,418	343,922	170,527	24,445	6,767
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - interest			197,854		
Total Deferred Inflows of Resources			197,854		
FUND BALANCES					
Nonspendable:					
Prepaid items					
Restricted for:					
Community development			6,354,966		
Public safety				228,422	
Transportation		5,958,457			30,961
Environmental support and protection					
Leisure, cultural and information services			245,921		
Capital projects		1,687,391	863,335		496,713
Housing purposes					
Other purposes					
Committed to:					
Capital projects	992,787				
Community benefits					
Human services financial assistance			718,302		
Debt service					
Housing purposes					
Assigned to:					
Capital projects	2,383,321				
Unassigned:					
Total Fund Balances	3,376,108	7,645,848	8,182,524	228,422	527,674
Total Liabilities, Deferred Inflows of Resources and Fund Balances	3,435,526	7,989,770	8,550,905	252,867	534,441

SPECIAL REVENUE FUNDS

Seaport Landscape Maintenance Fund	Seaport Centre Maintenance Fund	Redwood Shores Maintenance Fund	Redwood Shores Landscape Mtc. Fund	Supplemental Law Enforcement Services Fund	Traffic Mitigation Fees Fund
\$	\$	\$	\$	\$	\$
566,722	1,921,117	1,385,916	48,461	121,296	4,775,613 4,070,028
					13,781
3,922					
<u>570,644</u>	<u>1,921,117</u>	<u>1,385,916</u>	<u>48,461</u>	<u>121,296</u>	<u>8,859,422</u>
443	99	46,329	8,949	35,234	227,803 11,088
<u>443</u>	<u>99</u>	<u>46,329</u>	<u>8,949</u>	<u>35,234</u>	<u>238,891</u>
3,922					
				86,062	4,072,058
565,255	1,448,883	584,576	39,512		
1,024	472,135	755,011			4,548,473
<u>570,201</u>	<u>1,921,018</u>	<u>1,339,587</u>	<u>39,512</u>	<u>86,062</u>	<u>8,620,531</u>
<u>570,644</u>	<u>1,921,117</u>	<u>1,385,916</u>	<u>48,461</u>	<u>121,296</u>	<u>8,859,422</u>

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2017

	SPECIAL REVENUE FUNDS				DEBT SERVICE FUND
	Low & Moderate Income Housing Asset Fund	Planning Cost Recovery Fund	Community Benefits Fund	Housing Legal Aid Society	Public Financing Authority 2013 Refunding Lease Fund
	\$	\$	\$	\$	\$
ASSETS					
Cash and investments available for operations	4,781,335	77,990	2,284,739	163,264	505
Cash and investments, restricted					
Receivables (net of allowance for uncollectibles):					
Taxes and assessments - current					
Accounts					
Loans	4,732,566				
Accrued interest	846,282				
Due from other governmental agencies					
Prepaid items					
Investment in land held for redevelopment	3,331,208				
Total Assets	13,691,391	77,990	2,284,739	163,264	505
LIABILITIES					
Accounts payable	500,634	81,012			
Deposits payable					
Due to other funds	373,981				
Unearned revenue				32,304	
Total Liabilities	874,615	81,012		32,304	
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - interest	846,283				
Total Deferred Inflows of Resources	846,283				
FUND BALANCES					
Nonspendable:					
Prepaid items				-	
Restricted for:					
Community development	9,258,570			130,960	
Public safety					
Transportation					
Environmental support and protection					
Leisure, cultural and information services					
Capital projects					
Housing purposes	844,008				
Other purposes					
Committed to:					
Capital projects					
Community benefits			2,284,739		
Human services financial assistance					
Debt service					505
Housing purposes	1,867,915				
Assigned to:					
Capital projects					
Unassigned:		(3,022)			
Total Fund Balances	11,970,493	(3,022)	2,284,739	130,960	505
Total Liabilities, Deferred Inflows of Resources and Fund Balances	13,691,391	77,990	2,284,739	163,264	505

CAPITAL PROJECTS FUNDS					
Facilities Fee Construction Fund	Parks Impact and In Lieu Fee Fund	Shores Transportation Improvement District Fund	One Marina Community Facilities District Fund	Art in Public Places Fund	Total Nonmajor Governmental Funds
\$	\$	\$	\$	\$	\$
423,592	19,765,742	594,700	1,232,954	1,623	50,871,266 4,180,968
					272,013 8,090 8,148,787 1,057,917 1,622,694 3,922 5,741,208
<u>423,592</u>	<u>19,765,742</u>	<u>594,700</u>	<u>1,232,954</u>	<u>1,623</u>	<u>71,906,865</u>
	283,857			250	1,789,689 11,088 373,981 32,304
	<u>283,857</u>			<u>250</u>	<u>2,207,062</u>
					1,044,137
					<u>1,044,137</u>
					3,922
					15,744,496 314,484 10,061,476 2,638,226 18,146,734 10,571,067 844,008 354,051
69,541	17,900,813 1,581,072	96,372			
354,051					
		498,328	1,232,954	1,373	2,725,442 2,284,739 718,302 505 1,867,915
					2,383,321 (3,022)
<u>423,592</u>	<u>19,481,885</u>	<u>594,700</u>	<u>1,232,954</u>	<u>1,373</u>	<u>68,655,666</u>
<u>423,592</u>	<u>19,765,742</u>	<u>594,700</u>	<u>1,232,954</u>	<u>1,623</u>	<u>71,906,865</u>

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	SPECIAL REVENUE FUNDS				
	Special Gas Tax Street Improvement Fund \$	Transportation Grants Fund \$	Grants Fund \$	Traffic Safety Fund \$	Transportation Fund \$
REVENUES					
Property taxes/special assessments					
Sales and other taxes					71,498
Licenses and permits					
Fines, forfeitures and penalties				167,545	
Use of money and property	(10,925)	45,826	47,151	(3,470)	42,738
Intergovernmental	1,704,348	1,046,718	1,125,115		1,714,942
Contributions		1,311,476			47,198
Charges for current services	44,097			175,951	
Other			479	4,532	
Total Revenues	1,737,520	2,404,020	1,172,745	344,558	1,876,376
EXPENDITURES					
Current Operations:					
Community development			697,670		148,343
Human services			100,000		
Public safety					
Transportation	2,353,760	382,954		1,636,048	1,480,655
Environmental support and protection	400,055	299,677	3,255		
Leisure, cultural and information services					
Policy development and implementation					251,673
Capital outlay	572,446	596,629	622		487,465
Debt service:					
Principal retirement					
Interest and fiscal charges					
Total Expenditures	3,326,261	1,279,260	801,547	1,636,048	2,368,136
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,588,741)	1,124,760	371,198	(1,291,490)	(491,760)
OTHER FINANCING SOURCES (USES)					
Transfers in	661,532			1,492,266	
Transfers (out)			(100,000)		
Total Other Financing Sources (Uses)	661,532		(100,000)	1,492,266	
Net change in fund balances	(927,209)	1,124,760	271,198	200,776	(491,760)
Fund balances - beginning	4,303,317	6,521,088	7,911,326	27,646	1,019,434
Fund balances - ending	3,376,108	7,645,848	8,182,524	228,422	527,674

SPECIAL REVENUE FUNDS

Seaport Landscape Maintenance Fund \$	Seaport Centre Maintenance Fund \$	Redwood Shores Maintenance Fund \$	Redwood Shores Landscape Maintenance Fund \$	Supplemental Law Enforcement Services Fund \$	Traffic Mitigation Fees Fund \$
212,438	186,948	899,520	242,482		
2,269	17,757	25,049 3,381	1,520	(6,128) 205,439	(44,841) 555,179
214,707	204,705	927,950	244,002	199,311	510,338
4,425	8,776			181,634	229,712
194,820	58,507	483,207	268,312		1,994,356
199,245	67,283	483,207	268,312	181,634	2,224,068
15,462	137,422	444,743	(24,310)	17,677	(1,713,730)
			32,197		
		(370,216)			
		(370,216)	32,197		
15,462	137,422	74,527	7,887	17,677	(1,713,730)
554,739	1,783,596	1,265,060	31,625	68,385	10,334,261
570,201	1,921,018	1,339,587	39,512	86,062	8,620,531

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	SPECIAL REVENUE FUNDS				DEBT SERVICE FUND
	Low & Moderate Income Housing Asset Fund \$	Planning Cost Recovery Fund \$	Community Benefits Fund \$	Housing Legal Aid Society \$	Public Financing Authority 2013 Refunding Lease Fund \$
REVENUES					
Property taxes/special assessments					
Sales and other taxes					
Licenses and permits					
Fines, forfeitures and penalties					
Use of money and property	129,602		7,916	12,079	700,106
Intergovernmental Contributions			1,321,067		
Charges for current services	863,438	573,120			
Other	367				505
Total Revenues	993,407	573,120	1,328,983	12,079	700,611
EXPENDITURES					
Current Operations:					
Community development	289,781	576,142		210	
Human services					
Public safety					
Transportation					
Environmental support and protection					
Leisure, cultural and information services					
Policy development and implementation					
Capital outlay	1,950				
Debt service:					
Principal retirement					676,920
Interest and fiscal charges					23,186
Total Expenditures	291,731	576,142		210	700,106
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	701,676	(3,022)	1,328,983	11,869	505
OTHER FINANCING SOURCES (USES)					
Transfers in	159,337				
Transfers (out)					
Total Other Financing Sources (Uses)	159,337				
Net change in fund balances	861,013	(3,022)	1,328,983	11,869	505
Fund balances - beginning	11,109,480		955,756	119,091	
Fund balances - ending	11,970,493	(3,022)	2,284,739	130,960	505

CAPITAL PROJECTS FUNDS					
Facilities Fee Construction Fund \$	Parks Impact and In Lieu Fee Fund \$	Shores Transportation Improvement District Fund \$	One Marina Community Facilities District Fund \$	Art in Public Places Fund \$	Total Nonmajor Governmental Funds \$
					1,541,388
					71,498
	1,022,714				1,022,714
					167,545
37,727	112,991	(9,248)	8,170	74	1,116,363
	107,250				6,462,372
				1,000	2,680,741
					1,656,606
					5,883
37,727	1,242,955	(9,248)	8,170	1,074	14,725,110
					1,725,347
					100,000
					181,634
					6,083,129
					1,439,521
	84,367				352,679
				37,440	289,113
	987,975				4,641,443
					676,920
					23,186
	1,072,342			37,440	15,512,972
37,727	170,613	(9,248)	8,170	(36,366)	(787,862)
				37,739	2,383,071
					(470,216)
				37,739	1,912,855
37,727	170,613	(9,248)	8,170	1,373	1,124,993
385,865	19,311,272	603,948	1,224,784		67,530,673
423,592	19,481,885	594,700	1,232,954	1,373	68,655,666

CITY OF REDWOOD CITY, CALIFORNIA
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	SPECIAL GAS TAX			TRANSPORTATION GRANTS FUND		
	STREET IMPROVEMENT FUND		Variance with Final Budget Positive (Negative)			Variance with Final Budget Positive (Negative)
	Budget	Actual		Budget	Actual	
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes/special assessments						
Sales and other taxes						
Licenses and permits						
Fines, forfeitures and penalties						
Use of money and property		(10,925)	(10,925)	51,000	45,826	(5,174)
Intergovernmental	1,631,525	1,704,348	72,823	15,139,148	1,046,718	(14,092,430)
Contributions				1,050,000	1,311,476	261,476
Charges for current services		44,097	44,097			
Other						
Total Revenues	1,631,525	1,737,520	105,995	16,240,148	2,404,020	(13,836,128)
EXPENDITURES						
Current operations:						
Community development						
Human services						
Public safety						
Transportation	2,544,184	2,353,760	190,424	7,963,155	382,954	7,580,201
Environmental support and protection	493,677	400,055	93,622	299,677	299,677	
Leisure, cultural and information services						
Policy development and implementation						
Capital outlay	3,855,016	572,446	3,282,570	11,290,667	596,629	10,694,038
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total Expenditures	6,892,877	3,326,261	3,566,616	19,553,499	1,279,260	18,274,239
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,261,352)	(1,588,741)	3,672,611	(3,313,351)	1,124,760	4,438,111
OTHER FINANCING SOURCES (USES)						
Transfers in	1,797,815	1,539,787	(258,028)			
Transfers (out)	(878,255)	(878,255)				
Total Other Financing Sources (Uses)	919,560	661,532	(258,028)			
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(4,341,792)	(927,209)	3,414,583	(3,313,351)	1,124,760	4,438,111
Funds not budgeted:						
Facilities Fee Construction Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Art in Public Places						
Fund balances - beginning		4,303,317			6,521,088	
Fund balances - ending		3,376,108			7,645,848	

There were no material changes between the original and final budgeted amounts.

GRANTS FUND			TRAFFIC SAFETY FUND			TRANSPORTATION FUND		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
						1,774,800	71,498	(1,703,302)
25,000	47,151	22,151	270,000	167,545	(102,455)			
1,175,000	1,125,115	(49,885)	(5,000)	(3,470)	1,530	5,000	42,738	37,738
							1,714,942	1,714,942
							47,198	47,198
			2,000	175,951	173,951			
	479	479		4,532	4,532			
1,200,000	1,172,745	(27,255)	267,000	344,558	77,558	1,779,800	1,876,376	96,576
2,919,059	697,670	2,221,389				171,792	148,343	23,449
	100,000	(100,000)						
			1,646,048	1,636,048	10,000	1,442,968	1,480,655	(37,687)
	3,255	(3,255)						
863,335	622	862,713				249,596	251,673	(2,077)
						899,799	487,465	412,334
3,782,394	801,547	2,980,847	1,646,048	1,636,048	10,000	2,764,155	2,368,136	396,019
(2,582,394)	371,198	2,953,592	(1,379,048)	(1,291,490)	87,558	(984,355)	(491,760)	492,595
(100,000)	(100,000)		1,384,147	1,492,266	108,119			
(100,000)	(100,000)		1,384,147	1,492,266	108,119			
(2,682,394)	271,198	2,953,592	5,099	200,776	195,677	(984,355)	(491,760)	492,595
	7,911,326			27,646			1,019,434	
	8,182,524			228,422			527,674	

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	SEAPORT LANDSCAPE MAINTENANCE FUND			SEAPORT CENTRE MAINTENANCE FUND		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes/special assessments	212,500	212,438	(62)	187,000	186,948	(52)
Sales and other taxes						
Licenses and permits						
Fines, forfeitures and penalties						
Use of money and property	4,000	2,269	(1,731)	15,000	17,757	2,757
Intergovernmental						
Contributions						
Charges for current services						
Other						
Total Revenues	216,500	214,707	(1,793)	202,000	204,705	2,705
Current operations:						
Community development	4,219	4,425	(206)	4,285	8,776	(4,491)
Human services						
Public safety						
Transportation						
Environmental support and protection	229,135	194,820	34,315	117,743	58,507	59,236
Leisure, cultural and information services						
Policy development and implementation	1,024		1,024	467,135		467,135
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total Expenditures	234,378	199,245	35,133	589,163	67,283	521,880
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(17,878)	15,462	33,340	(387,163)	137,422	524,585
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(17,878)	15,462	33,340	(387,163)	137,422	524,585
Funds not budgeted:						
Facilities Fee Construction Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Art in Public Places						
Fund balances - beginning		554,739			1,783,596	
Fund balances - ending		570,201			1,921,018	

There were no material changes between the original and final budgeted amounts.

REDWOOD SHORES MAINTENANCE FUND			REDWOOD SHORES LANDSCAPE MAINTENANCE FUND			SUPPLEMENTAL LAW ENFORCEMENT SERVICES FUND		
Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$	\$	\$	\$	\$	\$	\$
834,223	899,520	65,297	243,475	242,482	(993)			
11,000	25,049	14,049		1,520	1,520		(6,128)	(6,128)
3,700	3,381	(319)				125,000	205,439	80,439
848,923	927,950	79,027	243,475	244,002	527	125,000	199,311	74,311
						188,734	181,634	7,100
553,301	483,207	70,094	276,676	268,312	8,364			
755,011		755,011						
1,308,312	483,207	825,105	276,676	268,312	8,364	188,734	181,634	7,100
(459,389)	444,743	904,132	(33,201)	(24,310)	8,891	(63,734)	17,677	81,411
(338,564)	(370,216)	(31,652)	33,201	32,197	(1,004)			
(338,564)	(370,216)	(31,652)	33,201	32,197	(1,004)			
(797,953)	74,527	872,480		7,887	7,887	(63,734)	17,677	81,411
	1,265,060			31,625			68,385	
	1,339,587			39,512			86,062	

(Continued)

CITY OF REDWOOD CITY, CALIFORNIA
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	TRAFFIC MITIGATION FEES FUND			LOW AND MODERATE INCOME HOUSING ASSET FUND		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$
REVENUES						
Property taxes/special assessments						
Sales and other taxes						
Licenses and permits						
Fines, forfeitures and penalties						
Use of money and property	30,000	(44,841)	(74,841)	31,500	129,602	98,102
Intergovernmental	500,000	555,179	55,179			
Contributions						
Charges for current services				3,900,000	863,438	(3,036,562)
Other					367	367
Total Revenues	530,000	510,338	(19,662)	3,931,500	993,407	(2,938,093)
 Current operations:						
Community development				258,133	289,781	(31,648)
Human services						
Public safety						
Transportation	378,983	229,712	149,271			
Environmental support and protection						
Leisure, cultural and information services						
Policy development and implementation						
	5,421,272	1,994,356	3,426,916	695,050	1,950	
 Debt service:						
Principal retirement						
Interest and fiscal charges						
Total Expenditures	5,800,255	2,224,068	3,576,187	953,183	291,731	(31,648)
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(5,270,255)	(1,713,730)	3,556,525	2,978,317	701,676	(2,276,641)
 OTHER FINANCING SOURCES (USES)						
Transfers in				265,668	159,337	(106,331)
Transfers (out)						
Total Other Financing Sources (Uses)				265,668	159,337	(106,331)
 EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(5,270,255)	(1,713,730)	3,556,525	3,243,985	861,013	(2,382,972)
 Funds not budgeted:						
Facilities Fee Construction Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Art in Public Places						
Fund balances - beginning		10,334,261			11,109,480	
Fund balances - ending		<u>8,620,531</u>			<u>11,970,493</u>	

There were no material changes between the original and final budgeted amounts.

	PLANNING COST RECOVERY FUND			COMMUNITY BENEFITS FUND			HOUSING LEGAL AID SOCIETY		
	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)	Budget	Actual	Variance with Final Budget Positive (Negative)
	\$	\$	\$	\$	\$	\$	\$	\$	\$
				9,000	7,916	(1,084)	-	12,079	12,079
800,000	573,120	(226,880)	1,196,000	1,321,067	125,067				
800,000	573,120	(226,880)	1,205,000	1,328,983	123,983		12,079	12,079	
1,507,205	576,142	931,063					210	(210)	
1,507,205	576,142	931,063					210	(210)	
(707,205)	(3,022)	704,183	1,205,000	1,328,983	123,983		11,869	11,869	
			-	-		-	-		
(707,205)	(3,022)	704,183	1,205,000	1,328,983	123,983		11,869	11,869	
				955,756			119,091		
	(3,022)			2,284,739			130,960		

CITY OF REDWOOD CITY, CALIFORNIA
BUDGETED NON-MAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	PUBLIC FINANCING AUTHORITY			PARK IMPACT AND IN LIEU		
	2013 REFUNDING LEASE FUND		2013 REFUNDING LEASE FUND	FEE FUND		2013 REFUNDING LEASE FUND
	Budget	Actual		Budget	Actual	
	\$	\$	Variance with Final Budget Positive (Negative) \$	\$	\$	Variance with Final Budget Positive (Negative) \$
REVENUES						
Property taxes/special assessments						
Sales and other taxes						
Licenses and permits				2,050,000	1,022,714	(1,027,286)
Fines, forfeitures and penalties						
Use of money and property	700,219	700,106	(113)	165,000	112,991	(52,009)
Intergovernmental				107,250	107,250	
Contributions						
Charges for current services						
Other		505	505			
Total Revenues	700,219	700,611	392	2,322,250	1,242,955	(1,079,295)
Current operations:						
Community development						
Human services						
Public safety						
Transportation						
Environmental support and protection						
Leisure, cultural and information services				6,978,845	84,367	6,894,478
Policy development and implementation						
				2,510,976	987,975	1,523,001
Debt service:						
Principal retirement	676,920	676,920				
Interest and fiscal charges	23,299	23,186	113			
Total Expenditures	700,219	700,106	113	9,489,821	1,072,342	8,417,479
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES		505	505	(7,167,571)	170,613	7,338,184
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)						
Total Other Financing Sources (Uses)						
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES		505	505	(7,167,571)	170,613	7,338,184
Funds not budgeted:						
Facilities Fee Construction Fund						
Shores Transportation Improvement District						
One Marina Community Facilities District						
Art in Public Places						
Fund balances - beginning					19,311,272	
Fund balances - ending		505			19,481,885	

(Continued)

(Continued)

There were no material changes between the original and final budgeted amounts.

TOTALS		
Budget	Actual	Variance with Final Budget Positive (Negative)
\$	\$	\$
1,477,198	1,541,388	64,190
1,774,800	71,498	(1,703,302)
2,050,000	1,022,714	(1,027,286)
270,000	167,545	(102,455)
1,041,719	1,079,640	37,921
18,681,623	6,462,372	(12,219,251)
2,246,000	2,679,741	433,741
4,702,000	1,656,606	(3,045,394)
	5,883	5,883
32,243,340	14,687,387	(17,555,953)
4,864,693	1,725,347	(3,139,346)
	100,000	(100,000)
188,734	181,634	7,100
13,975,338	6,083,129	7,892,209
1,693,533	1,439,521	254,012
7,255,521	352,679	6,902,842
249,596	251,673	(2,077)
26,759,285	4,641,443	22,117,842
676,920	676,920	
23,299	23,186	113
55,686,919	15,475,532	33,932,695
(23,443,579)	(788,145)	22,655,434
3,480,831	3,223,587	(257,244)
(1,316,819)	(1,348,471)	31,652
2,164,012	1,875,116	(225,592)
(21,279,567)	1,086,971	22,429,842
	423,592	
	594,700	
	1,232,954	
	1,373	
	65,316,076	
	68,655,666	



*City of Redwood City
Comprehensive Annual Financial Report
June 30, 2017*

INTERNAL SERVICE FUNDS

Internal service funds are used to account for the financing of goods and services provided by one City department to others on a cost reimbursement basis.

Equipment Services Fund – This fund accounts for the costs of operation, maintenance, and replacement of automotive equipment used by other departments. Such costs are billed to the consuming departments at a rate that includes operation, maintenance, and an amount necessary to provide replacement of the equipment at a future date. Additional equipment is budgeted by the consuming department and is then transferred to the equipment services fund after purchase.

Self-Insurance Fund – This fund accounts for the City's total insurance program which includes, but is not limited to, workers' compensation, comprehensive automobile and general liability, marinas, and property and crime insurance. Included are administrative costs and costs associated with self-insurance and the purchase of excess insurance to adequately protect the City. User departments are charged for workers' compensation insurance at rates based on loss experience and on departmental budget size.

Internal Services Fund – This fund accounts for the costs of operation of the City's telephone/communications service, maintenance and repair of buildings, custodial services, and information technology services. The costs are billed to the user departments based on actual use by the departments.

Employee Benefits Fund – This fund is used to account for providing City workers with self-insured dental and vision benefits, unemployment insurance, and health insurance to retired City employees.

CITY OF REDWOOD CITY, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2017

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
ASSETS	\$	\$	\$	\$	\$
Current assets:					
Cash and investments available for operations	13,863,057	25,051,041	503,130	1,605,491	41,022,719
Receivables (net of allowance for uncollectibles):					
Accounts		61,658			61,658
Accrued interest	8,212				8,212
Due from other governmental agencies	41,797		240,056		281,853
Due from other funds	300,000				300,000
Inventory of supplies at cost	120,852				120,852
Deposits		535,000			535,000
Prepaid items and other assets	20,220		51,504		71,724
Total current assets	<u>14,354,138</u>	<u>25,647,699</u>	<u>794,690</u>	<u>1,605,491</u>	<u>42,402,018</u>
Noncurrent assets:					
Advances to other funds	1,500,000				1,500,000
Capital assets:					
Construction in progress	199,647				199,647
Equipment, net	<u>7,599,747</u>		<u>720,319</u>		<u>8,320,066</u>
Net capital assets	<u>7,799,394</u>		<u>720,319</u>		<u>8,519,713</u>
Total noncurrent assets	<u>9,299,394</u>		<u>720,319</u>		<u>10,019,713</u>
Total assets	<u>23,653,532</u>	<u>25,647,699</u>	<u>1,515,009</u>	<u>1,605,491</u>	<u>52,421,731</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - pension	245,600	103,245	1,934,144		2,282,989
Deferred pension contributions	<u>156,169</u>	<u>65,637</u>	<u>1,114,529</u>		<u>1,336,335</u>
Total deferred outflows of resources	<u>401,769</u>	<u>168,882</u>	<u>3,048,673</u>		<u>3,619,324</u>
LIABILITIES					
Current liabilities:					
Accounts payable	124,384	260,377	209,261	517	594,539
Insurance claims payable - current portion		4,674,166			4,674,166
Accrued sick leave and vacation - current portion	41,699		365,671		407,370
Unearned revenue					
Total current liabilities	<u>166,083</u>	<u>4,934,543</u>	<u>574,932</u>	<u>517</u>	<u>5,676,075</u>
Noncurrent liabilities:					
Insurance claims payable		19,096,327			19,096,327
Accrued sick leave and vacation	80,594		523,212		603,806
Net OPEB obligation	74,492	25,994	390,836		491,322
Net pension liability	<u>1,878,239</u>	<u>819,314</u>	<u>14,898,913</u>		<u>17,596,466</u>
Total noncurrent liabilities	<u>2,033,325</u>	<u>19,941,635</u>	<u>15,812,961</u>		<u>37,787,921</u>
Total liabilities	<u>2,199,408</u>	<u>24,876,178</u>	<u>16,387,893</u>	<u>517</u>	<u>43,463,996</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - pension actuarial	<u>26,127</u>	<u>11,941</u>	<u>378,879</u>		<u>416,947</u>
NET POSITION					
Invested in capital assets	7,799,394		720,319		8,519,713
Unrestricted	<u>14,030,372</u>	<u>928,462</u>	<u>(12,923,409)</u>	<u>1,604,974</u>	<u>3,640,399</u>
Total net position	<u>21,829,766</u>	<u>928,462</u>	<u>(12,203,090)</u>	<u>1,604,974</u>	<u>12,160,112</u>

CITY OF REDWOOD CITY, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Equipment Services Fund \$	Self Insurance Fund \$	Internal Services Fund \$	Employee Benefits Fund \$	Total \$
OPERATING REVENUES					
Charges for services	4,730,140	9,117,074	10,295,106	8,758,450	32,900,770
OPERATING EXPENSES					
Employee services	1,026,723	468,172	8,485,517	4,093,340	14,073,752
Maintenance	47,413	16,113	881,325		944,851
Utilities	19,312	2,696	10,073		32,081
Contractual services	20,766	1,230,415	55,691	3,078,733	4,385,605
Supplies and services	1,409,105	532,780	1,299,369		3,241,254
Depreciation	1,167,892		142,998		1,310,890
Insurance and claims	171,280	6,243,411	208,728	817,394	7,440,813
Total operating expenses	3,862,491	8,493,587	11,083,701	7,989,467	31,429,246
Operating Income (Loss)	867,649	623,487	(788,595)	768,983	1,471,524
NONOPERATING REVENUES (EXPENSES)					
Gain (loss) on disposal of capital assets	(12,553)		(5,734)		(18,287)
Investment earnings	138,076	76,141	2,367	38,800	255,384
Insurance recovery	53,088				53,088
Net Nonoperating Revenues (Expenses)	178,611	76,141	(3,367)	38,800	290,185
Net Income (Loss) Before Capital Contributions and Transfers	1,046,260	699,628	(791,962)	807,783	1,761,709
Capital contributions			172,178		172,178
Transfers in		1,000,000			1,000,000
Transfers (out)			(8,565)		(8,565)
Total Capital Contributions and Transfers		1,000,000	163,613		1,163,613
Change in net position	1,046,260	1,699,628	(628,349)	807,783	2,925,322
Net position - beginning	20,783,506	(771,166)	(11,574,741)	797,191	9,234,790
Net position - ending	21,829,766	928,462	(12,203,090)	1,604,974	12,160,112

CITY OF REDWOOD CITY, CALIFORNIA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Equipment Services Fund	Self Insurance Fund	Internal Services Fund	Employee Benefits Fund	Total
	\$	\$	\$	\$	\$
Cash flows from operating activities:					
Cash received from interfund services provided	4,709,860	9,278,842	10,244,955	8,758,450	32,992,107
Cash payments to suppliers for goods and services	(1,678,730)	(7,504,531)	(2,349,529)	(3,895,610)	(15,428,400)
Cash payments to employees for services	(987,197)	(456,724)	(8,248,378)	(4,093,340)	(13,785,639)
Net cash provided by (used in) operating activities	2,043,933	1,317,587	(352,952)	769,500	3,778,068
Cash flows from noncapital financing activities					
Insurance recovery	53,088				53,088
Transfers in		1,000,000			1,000,000
Transfers out			(8,565)		(8,565)
Advances to other funds	300,000				300,000
Contributions					
Net cash provided by (used in) non-capital financing activities	353,088	1,000,000	(8,565)		1,344,523
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(708,807)		(170,753)		(879,560)
Contributions			172,178		172,178
Proceeds from sale of capital assets					
Net cash used in capital and related financing activities	(708,807)		1,425		(707,382)
Cash flows from investing activities:					
Interest on investments	135,623	76,141	2,367	38,800	252,931
Net cash provided by investing activities	135,623	76,141	2,367	38,800	252,931
Net increase (decrease) in cash and cash equivalents	1,823,837	2,393,728	(357,725)	808,300	4,668,140
Cash and cash equivalents at beginning of year	12,039,220	22,657,313	860,855	797,191	36,354,579
Cash and cash equivalents at end of year	13,863,057	25,051,041	503,130	1,605,491	41,022,719
Reconciliation of Net Cash Flow from Operating Activities					
Operating income (loss)	867,649	623,487	(788,595)	768,983	1,471,524
Adjustments to reconcile operating income(loss) to net cash provided by operating activities:					
Depreciation	1,167,892		142,998		1,310,890
Change in assets and liabilities:					
Decrease (increase) in accounts receivable	1,620	161,768			163,388
Decrease (increase) in due from other governmental agencies	(21,900)		(50,151)		(72,051)
Decrease (increase) in inventory/prepaid expense/deposits	(14,766)	(5,000)	(3,522)		(23,288)
Increase (decrease) in vacation & sick leave payable	12,285		42,733		55,018
Increase (decrease) in accounts payable	3,912	(127,767)	109,179	517	(14,159)
Increase (decrease) in deferred outflows - pension	(245,600)	(103,245)	(1,934,144)		(2,282,989)
Increase (decrease) in deferred employer contributions	118,141	58,781	1,279,374		1,456,296
Increase (decrease) in deferred inflows - pension	(245,750)	(108,105)	(1,812,713)		(2,166,568)
Increase (decrease) in net pension liability	400,450	164,017	2,661,889		3,226,356
Increase (decrease) in insurance claims payable		653,651			653,651
Total adjustments	1,176,284	694,100	435,643	517	2,306,544
Net cash provided by (used in) operating activities	2,043,933	1,317,587	(352,952)	769,500	3,778,068
Noncash investing, capital and financing activities:					
Gain (loss) on disposal of equipment	(12,553)		(5,734)		(18,287)

AGENCY FUNDS

Agency funds are used to account for assets held by government in a trustee capacity or as an agent for an individual.

Employee Benefit Plans Fund – This fund is used to account for contributions to certain employee benefit categories established by the City under Section 125 of the Internal Revenue Code for the employees and their dependents.

Pacific Shores Community Facilities District Fund – This fund accounts for the Mello-Roos Pacific Shores Project special tax bonds that were issued to fund various transportation system improvements within the City's right-of-way in the Pacific Shores district.

Shores Transportation Improvement District Fund – This fund accounts for the Mello-Roos Shores Transportation Improvement special tax bonds that were issued to fund various transportation projects in the Redwood Shores area.

One Marina Community Facilities District Fund – This fund accounts for the Mello-Roos One Marina Project special tax bonds that were issued to fund certain public infrastructure improvements projects within the One Marina district.

Community Benefit Improvement District Fund – This fund accounts for the assessments collected on behalf of the Downtown Redwood City Community Benefit Improvement District which was established to enhance and support the City's Downtown business district.

CITY OF REDWOOD CITY, CALIFORNIA
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions	Withdrawals	Balance June 30, 2017
	\$	\$	\$	\$
EMPLOYEE BENEFIT PLANS				
ASSETS				
Cash and Investments, restricted				
Cafeteria Benefits Plan	42,539	323,550	(335,013)	31,076
Deposits	29,505			29,505
Total Assets	<u>72,044</u>	<u>323,550</u>	<u>(335,013)</u>	<u>60,581</u>
LIABILITIES				
Cafeteria Benefits Plan Payable	72,044	323,550	(335,013)	60,581
Total Liabilities	<u>72,044</u>	<u>323,550</u>	<u>(335,013)</u>	<u>60,581</u>
PACIFIC SHORES COMMUNITY FACILITIES DISTRICT				
ASSETS				
Cash and Investments, restricted	1,463,000	130	(1,447,800)	15,330
Total Assets	<u>1,463,000</u>	<u>130</u>	<u>(1,447,800)</u>	<u>15,330</u>
LIABILITIES				
Due to Bondholders	1,463,000	130	(1,447,800)	15,330
Total Liabilities	<u>1,463,000</u>	<u>130</u>	<u>(1,447,800)</u>	<u>15,330</u>
SHORES TRANSPORTATION IMPROVEMENT DISTRICT				
ASSETS				
Cash and Investments, restricted	1,349,796	779,802	(732,763)	1,396,835
Total Assets	<u>1,349,796</u>	<u>779,802</u>	<u>(732,763)</u>	<u>1,396,835</u>
LIABILITIES				
Due to Bondholders	1,349,796	779,802	(732,763)	1,396,835
Total Liabilities	<u>1,349,796</u>	<u>779,802</u>	<u>(732,763)</u>	<u>1,396,835</u>
ONE MARINA COMMUNITY FACILITIES DISTRICT				
ASSETS				
Cash and Investments, restricted	302,948	272,863	(125,389)	450,422
Total Assets	<u>302,948</u>	<u>272,863</u>	<u>(125,389)</u>	<u>450,422</u>
LIABILITIES				
Due to Bondholders	302,948	272,863	(125,389)	450,422
Total Liabilities	<u>302,948</u>	<u>272,863</u>	<u>(125,389)</u>	<u>450,422</u>
COMMUNITY BENEFIT IMPROVEMENT DISTRICT				
ASSETS				
Cash and Investments, restricted	88,051	899,039	(537,708)	449,382
Total Assets	<u>88,051</u>	<u>899,039</u>	<u>(537,708)</u>	<u>449,382</u>
LIABILITIES				
Due to Community Benefit Improvement District	88,051	899,039	(537,708)	449,382
Total Liabilities	<u>88,051</u>	<u>899,039</u>	<u>(537,708)</u>	<u>449,382</u>
TOTAL FOR ALL FUNDS				
ASSETS				
Cash and Investments, restricted	3,246,334	2,002,521	(3,053,284)	2,343,045
Deposits	29,505			29,505
Total Assets	<u>3,275,839</u>	<u>2,002,521</u>	<u>(2,753,261)</u>	<u>2,372,550</u>
LIABILITIES				
Due to Bondholders	3,115,744	1,052,795	(2,305,952)	1,862,587
Employee Benefit Plans Payable	72,044	323,550	(335,013)	60,581
Due to Community Benefit Improvement District	88,051	899,039	(537,708)	449,382
Total Liabilities	<u>3,275,839</u>	<u>2,275,384</u>	<u>(3,178,673)</u>	<u>2,372,550</u>

Statistical Section

This part of the City of Redwood City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Pages</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	126-133
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	134-137
Debt Capacity These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	138-142
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	143-145
Operating Information These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	146-148

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Schedule 1
CITY OF REDWOOD CITY, CALIFORNIA
NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$
Governmental activities					
Net investment in capital assets	156,560,228	161,627,155	169,093,206	169,197,701	185,512,524
Restricted	50,323,338	52,368,702	54,628,813	48,959,550	39,238,667
Unrestricted	63,104,332	49,292,416	37,166,449	42,990,998	48,138,559
Total governmental activities net position	<u>269,987,898</u>	<u>263,288,273</u>	<u>260,888,468</u>	<u>261,148,249</u>	<u>272,889,750</u>
Business-type activities					
Net investment in capital assets	78,785,990	81,617,178	90,877,809	101,835,656	107,036,885
Restricted	5,785,576	5,548,281	5,660,219	5,838,632	5,868,399
Unrestricted	66,030,719	55,230,314	64,022,824	65,532,636	69,695,347
Total business-type activities net position	<u>150,602,285</u>	<u>142,395,773</u>	<u>160,560,852</u>	<u>173,206,924</u>	<u>182,600,631</u>
Primary government					
Net investment in capital assets	235,346,218	243,244,333	259,971,015	271,033,357	292,549,409
Restricted	56,108,914	57,916,983	60,289,032	54,798,182	45,107,066
Unrestricted	129,135,051	104,522,730	101,189,273	108,523,634	117,833,906
Total primary government net position	<u>420,590,183</u>	<u>405,684,046</u>	<u>421,449,320</u>	<u>434,355,173</u>	<u>455,490,381</u>

Schedule 1 (Continued)
CITY OF REDWOOD CITY, CALIFORNIA
NET POSITION BY COMPONENT
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year				
2013	2014	2015	2016	2017
\$	\$	\$	\$	\$
190,190,522	184,624,589	184,443,023	191,852,192	192,119,780
43,957,061	49,268,810	57,862,400	60,812,081	59,815,017
48,015,241	60,038,520	(92,052,768)	(92,972,897)	(86,738,339)
<u>282,162,824</u>	<u>293,931,919</u>	<u>150,252,655</u>	<u>159,691,376</u>	<u>165,196,458</u>
110,901,151	117,927,502	125,259,418	132,569,634	142,830,042
6,637,669	6,553,008	5,741,555	5,662,466	6,227,197
<u>76,506,675</u>	<u>92,340,047</u>	<u>84,191,383</u>	<u>98,141,410</u>	<u>107,756,549</u>
<u>194,045,495</u>	<u>216,820,557</u>	<u>215,192,356</u>	<u>236,373,510</u>	<u>256,813,788</u>
301,091,673	302,552,091	309,702,441	324,421,826	355,707,344
50,594,730	55,821,818	63,603,955	66,474,547	61,099,810
<u>124,521,916</u>	<u>152,378,567</u>	<u>(7,861,385)</u>	<u>5,086,791</u>	<u>25,203,092</u>
<u>476,208,319</u>	<u>510,752,476</u>	<u>365,445,011</u>	<u>396,064,886</u>	<u>442,010,246</u>

Schedule 2
CITY OF REDWOOD CITY, CALIFORNIA
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year				
	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$
Expenses					
Governmental Activities:					
Community development	16,263,530	15,808,848	18,412,550	17,702,202	22,954,181
Human services	1,518,333	1,623,102	1,554,411	1,582,251	1,495,964
Public safety	45,450,681	48,500,457	46,093,823	46,022,760	50,621,439
Transportation	10,620,489	13,930,238	13,535,438	11,650,032	11,352,844
Environmental support and protection	2,010,545	2,890,119	4,124,316	2,919,735	2,327,751
Leisure, cultural and information services	20,994,657	23,947,621	22,168,928	21,547,087	21,681,720
Policy development and implementation	2,792,115	4,766,661	4,726,541	5,528,602	4,773,768
Interest on long term debt	3,251,324	2,986,613	2,762,933	2,551,146	1,616,333
Total governmental activities expenses	102,901,674	114,453,659	113,378,940	109,503,815	116,824,000
Business-type activities					
Water utility fund	22,594,685	21,595,698	20,702,048	21,889,834	28,680,794
Sewer utility fund	15,828,257	16,125,292	17,776,510	19,900,464	20,017,426
Parking fund	2,195,805	2,561,896	2,476,991	2,420,716	2,420,029
Port of Redwood City	3,937,037	3,896,043	4,038,336	4,251,855	4,739,397
Docktown Marina					
Total business-type activities expenses	44,555,784	44,178,929	44,993,885	48,462,869	55,857,646
Total primary government expenses	147,457,458	158,632,588	158,372,825	157,966,684	172,681,646
Program Revenues					
Governmental activities:					
Charges for services:					
Community Development	3,777,584	2,760,718	3,996,401	6,503,254	4,852,265
Public Safety	1,861,194	1,807,675	1,995,853	2,345,175	3,199,818
Transportation	522,453	298,955	304,275	256,929	404,042
Environmental support and protection	1,380,110	1,371,562	1,351,354	1,328,009	1,330,208
Leisure, cultural, and information services	2,515,117	2,508,597	2,430,818	2,632,930	2,843,954
Policy development and implementation	1,604,897	1,534,944	1,626,141	1,656,917	1,817,823
Operating grants and contributions	5,302,686	6,741,821	7,380,584	6,159,842	6,193,090
Capital grants and contributions	12,778,701	6,987,681	7,978,474	6,243,279	8,503,363
Total governmental activities program revenues	29,742,742	24,011,953	27,063,900	27,126,335	29,144,563
Business-type activities:					
Water utility fund	23,318,628	25,578,282	23,255,926	26,038,320	28,465,337
Sewer utility fund	16,818,581	20,259,668	22,241,030	24,156,749	26,898,440
Parking fund	1,098,340	840,414	1,005,328	1,100,304	1,267,531
Port of Redwood City	5,689,697	6,702,772	6,073,755	7,674,030	7,638,585
Docktown Marina					
Total business-type activities program revenues	46,925,246	53,381,136	52,576,039	58,969,403	64,269,893
Net (Expense)/Revenue					
Governmental activities	(73,158,932)	(90,441,706)	(86,315,040)	(82,377,480)	(87,679,437)
Business-type activities	2,369,462	9,202,207	7,582,154	10,506,534	8,412,247
Total primary government net expense	(70,789,470)	(81,239,499)	(78,732,886)	(71,870,946)	(79,267,190)
General Revenues and Other Changes in Net Position					
Governmental activities:					
Taxes:					
Property taxes	43,329,876	47,082,041	48,052,021	46,614,369	42,432,818
Sales taxes	18,136,670	15,552,681	15,023,882	15,671,238	16,998,443
Other taxes	18,636,208	18,325,098	18,034,397	18,440,213	19,595,982
Investment Earnings	5,371,665	2,036,661	1,629,298	1,042,032	579,394
Other	1,630,933	1,813,256	2,093,288	1,598,452	1,260,652
Gain (loss) on retirement of capital assets					
Transfers	(18,064,613)	(1,067,656)	(917,651)	(729,043)	(607,867)
Total governmental activities	69,040,739	83,742,081	83,915,235	82,637,261	99,420,938
Business-type activities:					
Property taxes	27,358	28,390	25,904	28,080	77,425
Investment Earnings	3,117,508	1,264,220	435,559	327,435	281,583
Other	713,444	27,537	2,885	17,324	14,585
Extraordinary item - pollution remediation		(19,796,522)			
Gain (loss) on retirement of capital assets					
Transfers	18,064,613	1,067,656	917,651	729,043	607,867
Total business-type activities	21,922,923	(17,408,719)	1,381,999	1,101,882	981,460
Total primary government	90,963,662	66,333,362	85,297,234	83,739,143	100,402,398
Change in Net Position					
Governmental activities	(4,118,193)	(6,699,625)	(2,399,805)	259,781	11,741,501
Business-type activities	24,292,385	(8,206,512)	8,964,153	11,608,416	9,393,707
Total primary government	20,174,192	(14,906,137)	6,564,348	11,868,197	21,135,208

Schedule 2 (Continued)
CITY OF REDWOOD CITY, CALIFORNIA
CHANGES IN NET POSITION
Last Ten Fiscal Years
(accrual basis of accounting)

Fiscal Year				
2013	2014	2015	2016	2017
\$	\$	\$	\$	\$
9,090,251	8,150,880	9,592,085	10,471,987	11,283,201
1,562,157	1,462,300	1,485,779	1,673,308	1,829,157
51,355,424	59,435,400	62,453,649	65,192,296	70,531,632
11,332,401	11,572,619	12,944,719	13,001,063	15,543,459
1,996,098	2,746,600	2,722,610	3,524,036	1,918,929
21,548,736	22,823,528	23,747,419	25,392,603	27,413,602
6,030,657	5,982,346	7,043,417	6,122,280	8,709,696
314,022	48,341	38,762	23,269	63,308
<u>103,229,746</u>	<u>112,222,014</u>	<u>120,028,440</u>	<u>125,400,842</u>	<u>137,292,984</u>
31,123,859	30,591,894	30,937,175	33,505,028	36,788,633
19,287,430	19,989,758	22,081,105	34,345,565	26,675,531
2,430,359	2,471,222	2,916,242	3,005,729	3,004,956
5,628,403	5,091,265	5,231,644	5,179,284	5,692,117
243,335	705,388	763,211	826,201	1,408,137
<u>58,713,386</u>	<u>58,849,527</u>	<u>61,929,377</u>	<u>76,861,807</u>	<u>73,569,374</u>
<u>161,943,132</u>	<u>171,071,541</u>	<u>181,957,817</u>	<u>202,262,649</u>	<u>210,862,358</u>
4,651,706	8,553,508	5,171,299	6,340,242	8,087,438
3,131,805	6,922,702	7,744,775	7,905,079	8,215,731
546,820	374,859	282,324		
1,335,544	1,417,353	1,456,889	1,460,797	1,541,388
2,827,087	3,074,537	3,553,925	3,090,945	3,534,018
1,780,367	1,871,774	1,736,648	1,775,752	4,906,365
6,716,207	7,072,772	7,721,851	7,755,830	8,524,425
12,658,933	9,505,357	17,492,948	12,592,165	7,354,555
<u>33,648,469</u>	<u>38,792,862</u>	<u>45,160,659</u>	<u>40,920,810</u>	<u>42,163,920</u>
33,202,194	36,271,106	37,082,113	38,227,757	38,495,923
28,100,341	25,692,258	29,837,033	45,533,365	37,294,965
1,366,984	1,503,519	2,019,961	2,401,924	6,891,197
6,262,660	6,824,474	6,721,955	6,862,662	7,131,948
493,262	665,819	681,115	663,658	693,355
<u>69,425,441</u>	<u>70,957,176</u>	<u>76,342,177</u>	<u>93,689,366</u>	<u>90,507,388</u>
(69,581,277)	(73,429,152)	(74,867,781)	(84,480,032)	(95,129,064)
10,712,055	12,107,649	14,412,800	16,827,559	16,938,014
<u>(58,869,222)</u>	<u>(61,321,503)</u>	<u>(60,454,981)</u>	<u>(67,652,473)</u>	<u>(78,191,050)</u>
38,379,963	41,708,668	44,546,153	48,033,490	52,616,638
19,240,290	20,781,613	22,372,756	23,513,420	24,825,685
20,335,928	21,612,376	23,364,156	24,200,427	24,299,061
301,171	992,221	1,055,417	1,424,919	1,242,098
1,069,894	1,205,727	1,277,511	199,510	332,294
	(3,359,063)	1,315,418		
(472,895)	2,314,350	(22,230)	(3,453,013)	(2,681,630)
<u>78,854,351</u>	<u>85,255,892</u>	<u>93,909,181</u>	<u>93,918,753</u>	<u>100,634,146</u>
104,081	104,814	123,954	157,417	213,553
151,041	499,586	586,705	742,410	606,423
4,792	4,132	2,536	755	658
	13,700,440			
472,895	(2,314,350)	22,230	3,453,013	2,681,630
<u>732,809</u>	<u>11,994,622</u>	<u>735,425</u>	<u>4,353,595</u>	<u>3,502,264</u>
<u>79,587,160</u>	<u>97,250,514</u>	<u>94,644,606</u>	<u>98,272,348</u>	<u>104,136,410</u>
9,273,074	11,826,740	19,041,400	9,438,721	5,505,082
11,444,864	24,102,271	15,148,225	21,181,154	20,440,278
<u>20,717,938</u>	<u>35,929,011</u>	<u>34,189,625</u>	<u>30,619,875</u>	<u>25,945,360</u>

Schedule 3
CITY OF REDWOOD CITY, CALIFORNIA
FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year		
	2008	2009	2010
	\$	\$	\$
General Fund			
Reserved	5,554,149	4,630,992	3,732,535
Unreserved	40,900,734	34,464,505	20,991,436
Total general fund	<u>46,454,883</u>	<u>39,095,497</u>	<u>24,723,971</u>
All Other Governmental Funds			
Reserved	25,925,282	25,660,144	26,067,203
Unreserved, reported in:			
Special revenue funds	24,369,952	28,419,218	32,706,733
Debt service funds	46,511	78,418	40,589
Capital projects funds	26,565,268	21,189,395	18,520,889
Total all other governmental funds	<u>76,907,013</u>	<u>75,347,175</u>	<u>77,335,414</u>
Total governmental funds	<u><u>123,361,896</u></u>	<u><u>114,442,672</u></u>	<u><u>102,059,385</u></u>
	Fiscal Year		
	2011	2012	2013
	\$	\$	\$
General Fund			
Nonspendable	5,522,056	1,902,685	1,785,184
Restricted			
Committed	864,057	551,640	370,927
Assigned	775,772	151,178	148,534
Unassigned	17,687,858	17,219,050	19,449,097
Total general fund	<u>24,849,743</u>	<u>19,824,553</u>	<u>21,753,742</u>
All Other Governmental Funds			
Nonspendable	16,740,323		
Restricted	39,829,153	39,468,697	43,969,746
Committed	22,014,259	24,806,534	22,494,438
Assigned	3,064,843	7,424,963	7,817,738
Unassigned	(3,181,518)		
Total all other governmental funds	<u>78,467,060</u>	<u>71,700,194</u>	<u>74,281,922</u>
Total Governmental Funds	<u><u>103,316,803</u></u>	<u><u>91,524,747</u></u>	<u><u>96,035,664</u></u>

Notes:

The City began to classify fund balances into specifically defined classifications when it implemented GASB Statement No. 54 in FY 2010-11.

Schedule 3 (Continued)
CITY OF REDWOOD CITY, CALIFORNIA
FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years
(modified accrual basis of accounting)

Fiscal Year			
2014	2015	2016	2017
\$	\$	\$	\$
1,608,733	1,387,892	1,291,863	1,131,814
	1,230	96,338	96,338
536,108	700,783	837,563	837,563
223,061	283,563	978,967	884,838
21,480,940	26,231,888	25,233,340	29,421,956
23,848,842	28,605,356	28,438,071	32,372,509
		105,702	124,395
49,268,810	55,913,000	59,678,286	58,674,542
29,788,888	34,613,371	22,446,882	34,219,577
8,128,032	8,060,682	14,270,412	5,230,911
			(3,022)
87,185,730	98,587,053	96,501,282	98,246,403
111,034,572	127,192,409	124,939,353	130,618,912

Schedule 4

CITY OF REDWOOD CITY, CALIFORNIA

CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Last Ten Fiscal Years

	Fiscal Year				
	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$
REVENUES					
Property taxes/special assessments	44,573,382	48,371,857	49,351,469	47,906,240	43,732,410
Sales and other taxes	34,567,051	31,674,430	30,964,483	31,575,135	34,231,492
Licenses and permits	1,557,547	902,723	875,019	1,097,906	1,266,183
Fines, forfeitures and penalties	977,774	921,566	1,216,604	1,404,168	1,313,826
Use of money and property	8,445,701	4,995,104	4,264,447	3,813,336	2,302,262
Intergovernmental	13,523,007	10,397,158	13,711,717	9,126,252	10,223,281
Contributions	1,190,376	540,186	829,561	1,850,469	3,971,547
Charges for current services	7,843,245	7,326,776	8,395,583	11,227,564	10,830,462
Other	1,166,364	2,173,942	1,608,439	1,028,902	750,414
Total Revenues	<u>113,844,447</u>	<u>107,303,742</u>	<u>111,217,322</u>	<u>109,029,972</u>	<u>108,621,877</u>
EXPENDITURES					
Current Operations:					
Community development	15,866,328	15,305,951	18,155,500	17,440,348	22,125,748
Human services	1,433,258	1,511,733	1,465,105	1,504,568	1,389,422
Public safety	44,390,736	46,713,987	45,500,450	45,470,647	49,175,285
Transportation	6,158,706	8,866,814	8,552,901	6,729,077	6,472,378
Environmental support and protection	1,958,690	2,863,738	4,152,609	2,916,577	2,260,457
Leisure, cultural and information services	19,236,180	21,873,848	20,479,455	19,876,261	19,585,039
Policy development and implementation	918,430	2,785,266	3,299,086	3,979,560	2,617,522
Capital outlay	17,326,293	9,894,551	5,025,308	4,902,938	7,665,302
Debt service:					
Principal retirement	4,067,321	3,747,321	14,657,321	3,182,321	3,275,000
Interest and fiscal charges	1,945,514	1,608,310	1,378,637	1,007,650	930,487
Bond issuance costs					
Total Expenditures	<u>113,301,456</u>	<u>115,171,519</u>	<u>122,666,372</u>	<u>107,009,947</u>	<u>115,496,640</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>542,991</u>	<u>(7,867,777)</u>	<u>(11,449,050)</u>	<u>2,020,025</u>	<u>(6,874,763)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	13,557,675	14,275,221	28,655,915	13,288,203	18,062,351
Transfers (out)	(14,139,291)	(15,326,668)	(29,590,152)	(14,050,840)	(18,655,801)
Sale of property				30	
Bond proceeds/Refunding Lease					
Sale of capital assets					
Total Other Financing Sources (Uses)	<u>(581,616)</u>	<u>(1,051,447)</u>	<u>(934,237)</u>	<u>(762,607)</u>	<u>(593,450)</u>
Extraordinary gain (loss)					<u>(4,323,843)</u>
NET CHANGE IN FUND BALANCES	<u>(38,625)</u>	<u>(8,919,224)</u>	<u>(12,383,287)</u>	<u>1,257,418</u>	<u>(11,792,056)</u>
Debt service as a percentage of non-capital expenditures	6.26%	5.09%	13.63%	4.10%	3.90%

Schedule 4 (Continued)
CITY OF REDWOOD CITY, CALIFORNIA
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Last Ten Fiscal Years

Fiscal Year				
2013	2014	2015	2016	2017
\$	\$	\$	\$	\$
39,709,199	43,092,377	45,973,909	49,312,670	53,975,055
37,072,870	39,970,312	43,307,531	44,186,332	44,037,753
1,897,584	2,561,642	1,467,814	7,151,286	4,189,195
1,198,611	887,309	878,334	983,449	989,611
2,476,647	1,771,829	1,918,899	2,164,743	6,115,750
10,505,927	10,835,761	12,416,110	13,265,046	12,243,780
7,743,498	8,301,860	11,363,481	2,296,073	3,559,664
10,411,028	15,345,006	16,420,416	16,900,849	19,791,531
557,739	623,242	708,967	621,247	788,639
111,573,103	123,389,338	134,455,461	136,881,695	145,690,978
8,595,743	7,864,788	9,479,762	10,320,807	10,987,811
1,462,092	1,347,136	1,400,276	1,624,187	1,708,705
49,368,709	56,115,246	61,713,585	65,020,500	68,186,718
6,452,755	6,714,370	8,685,224	9,099,717	11,241,321
1,959,881	2,601,280	2,525,916	2,360,169	2,160,598
19,778,480	20,789,647	22,013,436	23,537,162	24,507,866
5,470,098	3,598,453	5,202,537	4,259,132	8,440,654
10,502,338	5,310,292	6,162,302	14,730,024	8,365,803
5,880,000	324,742	656,858	666,814	676,920
326,059	31,755	43,348	74,696	61,958
67,252				
109,863,407	104,697,709	117,883,244	131,693,208	136,338,354
1,709,696	18,691,629	16,572,217	5,188,487	9,352,624
13,223,617	13,632,786	12,241,110	10,795,891	11,997,013
(13,782,396)	(17,325,507)	(14,448,618)	(18,237,434)	(15,670,078)
3,360,000		1,793,128		
2,801,221	(3,692,721)	(414,380)	(7,441,543)	(3,673,065)
4,510,917	14,998,908	16,157,837	(2,253,056)	5,679,559
6.25%	0.36%	0.63%	0.63%	0.58%

Schedule 5

CITY OF REDWOOD CITY, CALIFORNIA

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

Last Ten Fiscal Years

Fiscal Year	Real Property		Personal Property	Less:	Total Taxable	% Increase/	Effective
	State Assessed	Locally Assessed	Locally Assessed	Tax Exempt Property	Assessed Value	(Decrease) Over Prior Year	Direct Tax Rate*
	\$	\$	\$	\$	\$	%	%
2008	5,003,014	13,671,991,606	586,031,204	541,024,340	13,722,001,484	8.35	0.2439
2009	5,003,014	14,734,164,661	676,178,812	642,703,087	14,772,643,400	7.66	0.2350
2010	5,003,014	14,885,525,123	757,610,502	664,018,869	14,984,119,770	1.43	0.2397
2011	5,003,014	14,673,871,469	770,364,641	704,940,601	14,744,298,523	(1.60)	0.2373
2012	1,466,946	14,712,120,582	674,899,038	646,459,575	14,742,026,991	(0.02)	0.2030
2013	1,466,946	15,154,966,352	763,901,657	766,118,316	15,154,216,639	2.80	0.2101
2014	1,466,946	16,187,528,735	785,538,767	726,787,642	16,247,746,806	7.22	0.1921
2015	1,466,946	17,089,497,213	816,665,290	791,008,571	17,116,620,878	5.35	0.1920
2016	1,591,555	18,644,533,868	801,908,976	731,483,833	18,716,550,566	9.35	0.1944
2017	1,591,555	20,475,454,077	844,061,306	758,856,031	20,562,250,907	9.86	0.1930

Note: In 1978 the voters of the State of California passed Proposition 13 which limited basic property tax to a total maximum rate of 1% based upon the assessed value of the property being taxed. Each year, the assessed value of property may be increased by an "inflation factor" (limited to a maximum of 2%). With few exceptions, property is only reassessed at the time that it is sold to a new owner. At that point, the new assessed value is the purchase price. The estimated market value of taxable property is not available.

The amount shown above includes assessed value data for both the City and the Successor Agency to the former Redevelopment Agency.

* The direct tax rate calculation does not include the property tax amount that is shifted from local agencies by the State of California to the Educational Revenue Augmentation Fund used to support K-14 education.

Source: San Mateo County Assessor's records

Schedule 6

CITY OF REDWOOD CITY, CALIFORNIA

DIRECT AND OVERLAPPING PROPERTY TAX RATES

Last Ten Fiscal Years

(rate per \$100 of assessed values)

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Direct Rates										
City	0.2439	0.2350	0.2397	0.2373	0.2030	0.2101	0.1921	0.1920	0.1944	0.1930
County and All Others*	0.7561	0.7650	0.7603	0.7627	0.7970	0.7899	0.8079	0.8080	0.8056	0.8070
Total Direct Rate	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Overlapping Rates										
MidPeninsula Open Space**									0.0008	0.0006
Elementary School	0.0250	0.0229	0.0238	0.0249	0.0255	0.0256	0.0240	0.0230	0.0158	0.0461
High School	0.0205	0.0282	0.0277	0.0311	0.0358	0.0356	0.0313	0.0433	0.0434	0.0391
Community College	0.0171	0.0165	0.0182	0.0193	0.0199	0.0194	0.0194	0.0190	0.0250	0.0247
Total Overlapping Rate	0.0626	0.0676	0.0697	0.0753	0.0812	0.0806	0.0747	0.0853	0.0850	0.1105
Total Direct and Overlapping Rate	1.0626	1.0676	1.0697	1.0753	1.0812	1.0806	1.0747	1.0853	1.0850	1.1105

Source: San Mateo County Assessor's records (tax rate area 009-001)

* Elementary School, High School, Community College, MidPeninsula Open Space District, Bay Area Air Pollution, County Harbor District, Mosquito Abatement District, Sequoia Hospital District, and County Education tax.

** MidPeninsula Regional Open Space issued general obligation bonds through voter approved Measure AA in 2015-16.

Schedule 7

CITY OF REDWOOD CITY, CALIFORNIA

PRINCIPAL PROPERTY TAX PAYERS

Current Year and Nine Years Ago

Taxpayer	2017			2008		
	Taxable Assessed	Rank	Percentage of Total Taxable	Taxable Assessed	Rank	Percentage of Total Taxable
	Value		Assessed Value	Value		Assessed Value
	\$			\$		
Oracle Corporation	606,374,943	1	2.95%	792,850,520	2	5.78%
Google Inc	593,921,240	2	2.89%			
Hudson Towers at Shore Center LLC	543,619,821	3	2.64%			
Westport Office Park LLC	276,722,045	4	1.35%	426,478,265	3	3.11%
DWF IV Seaport Blvd	262,949,748	5	1.28%			
Slough Redwood City LLC	251,719,362	6	1.22%	369,025,205	4	2.69%
Electronic Arts Inc	212,965,907	7	1.04%			
Informatica Corp.	197,505,085	8	0.96%			
Redwood City Partners LLC	169,416,547	9	0.82%	151,058,902	8	1.10%
TGA 299 Franklin LLC	159,188,153	10	0.77%			
Pacific Shores Investors LLC				887,449,235	1	6.47%
Selco Service Corporation				353,828,010	5	2.58%
SPK Redwood Shores				301,820,040	6	2.20%
SRI Eight Pacific Shores LLC				269,463,600	7	1.96%
Irvine Co. LLC				244,382,313	8	1.78%
Metropolitan Life Insurance Co.				200,665,912	9	1.46%
Speyer Tishman/Archstone Smith				177,480,000	10	1.29%
	<u>3,274,382,851</u>		<u>15.92%</u>	<u>4,174,502,002</u>		<u>30.42%</u>

Source: San Mateo County Assessor via MuniServices, LLC. and the City's previous audited financials.

Schedule 8
CITY OF REDWOOD CITY, CALIFORNIA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy			Total Collections	
		Amount ¹	Percentage of Levy	Delinquent Tax Collections ²	Amount	Percentage of Levy
	\$	\$	%		\$	%
2008	23,599,098	23,230,333	98.44	NA	23,230,333	98.44
2009	25,185,881	24,732,667	98.20	NA	24,732,667	98.20
2010	25,402,023	25,081,429	98.74	NA	25,081,429	98.74
2011	25,027,079	24,734,718	98.83	NA	24,734,718	98.83
2012	25,004,405	24,713,562	98.84	NA	24,713,562	98.84
2013	25,724,570	25,478,547	99.04	NA	25,478,547	99.04
2014	27,363,041	27,345,209	99.93	NA	27,345,209	99.93
2015	28,944,353	28,862,898	99.72	NA	28,862,898	99.72
2016	31,236,465	31,170,596	99.79	NA	31,170,596	99.79
2017	33,650,661	33,580,370	99.79	NA	33,580,370	99.79

Source: Audited City financial records - general fund

¹ Amount collected is less than levy as refunds are deducted from the current year tax apportionment and tax roll adjustments are initiated by the County of San Mateo after the levy has been established.

² San Mateo County assesses properties and bills, collects, and distributes property taxes to all taxing entities including the City. Under State law, known as the Teeter Plan, the County remits the entire amount levied for secured property taxes and handles all delinquencies, retaining interest and penalties.

Schedule 9

CITY OF REDWOOD CITY, CALIFORNIA
RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

(amounts expressed in thousands, except per capita amount)

	Governmental Activities					Business-Type Activities				
	Revenue	Refunding	GID	Tax	Loans*	Revenue	Loans	Total	Per	Debt/
	Bonds	Lease	Bonds	Increment		Bonds		Primary	Capita	Personal
	\$	\$	\$	\$	\$	\$	\$	\$	\$	%
2008	22,493		170	45,998	212	81,981	1,903	152,757	1,977	4.95
2009	20,228			46,133	169	80,141	1,876	148,547	1,909	4.79
2010	9,807			43,423	127	78,236	1,848	133,441	1,698	4.37
2011	7,892			43,767	85	76,266	1,819	129,829	1,671	4.20
2012	5,882					84,217	1,789	91,888	1,174	2.94
2013		3,360				81,346	1,758	86,464	1,093	2.70
2014		3,035				80,393	424	83,852	1,038	2.51
2015		2,378				77,749		80,127	979	2.35
2016		1,712				74,814		76,526	890	1.72
2017		1,035				66,890		67,925	794	1.61

*Tax Increment Bonds and Loans were transferred from Governmental Funds to a Private Purpose Trust Fund in 2012.

Schedule 10
CITY OF REDWOOD CITY, CALIFORNIA
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
As of June 30, 2017

<u>Governmental Unit</u>	<u>Estimated Percentage Applicable¹</u> %	<u>Estimated Share of Direct and Overlapping Debt</u> \$
City Overlapping Debt		
Debt Repaid with Property Taxes		
San Mateo Community College District	10.757	65,812,724
Sequoia Union High School District	25.353	132,829,438
Belmont-Redwood Shores School District	43.309	28,982,951
Belmont-Redwood Shores School District School Facilities Improvement Distr.	93.192	20,236,643
Redwood City School District	62.293	53,392,126
San Carlos School District	1.246	1,501,755
Midpeninsula Regional Park District	8.732	3,729,052
Redwood City Redwood Shores Community Facilities District No. 99-1	100.000	8,595,000
Redwood City Community Facilities District 2010-1	100.000	4,350,000
TOTAL DEBT REPAID WITH PROPERTY TAXES		<u>319,429,689</u>
Other Debt		
San Mateo County General Fund Obligations	10.757	42,962,363
San Mateo County Board of Education Certificates of Participation	10.757	1,003,628
Midpeninsula Regional Park District General Fund Obligations	8.432	9,455,949
Menlo Park Fire Protection District Certificates of Participation	0.020	2,151
TOTAL OTHER DEBT		<u>53,424,091</u>
Total City Overlapping Debt		<u>372,853,780</u>
City Direct Debt		
City of Redwood City General Fund Obligations	100.000	1,034,666
Total City Direct Debt		<u>1,034,666</u>
Total Overlapping and Direct Debt		<u>373,888,446</u>

Source: California Municipal Statistics and City's Audited Financials

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Redwood City. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

¹ The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable assessed value that is within the government's boundaries and dividing it by the county's total taxable assessed value.

Schedule 11
CITY OF REDWOOD CITY, CALIFORNIA
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Debt Limit</u>	<u>Total Net Debt Applicable to Limit</u>	<u>Total Legal Debt Margin</u>	<u>Total Net Debt Applicable to Limit as % of Debt Limit</u>
	\$	\$	\$	%
2007-08	534,863,468		534,863,468	
2008-09	578,075,493		578,075,493	
2009-10	586,805,199		586,805,199	
2010-11	579,346,467		579,346,467	
2011-12	577,068,246		577,068,246	
2012-13	597,012,561		597,012,561	
2013-14	636,545,042		636,545,042	
2014-15	671,536,104		671,536,104	
2015-16	729,301,290		729,301,290	
2016-17	799,541,510		799,541,510	

Legal Debt Margin Calculation for FY 2016-17

Assessed value	20,562,250,907
Add back: exempt real property	<u>758,856,031</u>
Total assessed value	<u>21,321,106,938</u>
Debt limit (3.75% of total assessed value)	799,541,510
Debt applicable to limit:	
General obligation bonds	
Less: Amount set aside for repayment of general obligation debt	<u> </u>
Total net debt applicable to limit	<u> </u>
Legal debt margin	<u><u>799,541,510</u></u>

Note: Under state finance law, the city's outstanding general obligation debt should not exceed 15% of total assessed property value. However, the city has established a more conservative internal limit of not more than 3.75%. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

Schedule 12
CITY OF REDWOOD CITY, CALIFORNIA
PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years

Fiscal Year	Water Revenue Bonds					
	Gross	Less:	Net	Debt Service		Coverage
	Revenue	Operating	Available	Principal	Interest	Ratio
	\$	Expenses	Revenue	\$	\$	
2008	22,582,850	17,465,038	5,117,812	1,560,000	2,690,956	1.20
2009	23,403,532	17,304,434	6,099,098	1,620,000	2,754,920	1.39
2010	23,063,981	17,421,429	5,642,552	1,675,000	2,938,691	1.22
2011	26,004,880	18,597,779	7,407,101	1,730,000	2,930,765	1.59
2012	28,110,646	22,103,449	6,007,197	1,795,000	2,868,003	1.29
2013	33,167,501	23,321,874	9,845,627	1,865,000	2,802,852	2.11
2014	35,655,559	23,173,261	12,482,298	1,845,000	2,269,566	3.03
2015	35,323,680	25,430,020	9,893,660	1,905,000	2,943,480	2.04
2016	35,508,299	28,248,490	7,259,809	1,995,000	2,214,629	1.72
2017	36,752,635	31,411,452	5,341,183	2,080,000	2,352,256	1.21

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
Operating expenses do not include interest, depreciation, amortization expenses, or noncapitalized project costs.

*For transparency and consistency, Schedule 12 has been restated to reflect gross operating revenues and investment earnings per the Proprietary Funds Statements of Revenues, Expenses and Changes in Fund Net Position for all years listed above.

Schedule 12 (Continued)
CITY OF REDWOOD CITY, CALIFORNIA
PLEDGED-REVENUE COVERAGE
Last Ten Fiscal Years

Port Revenue Bonds						
Fiscal	Gross	Less:	Net	Debt Service		Coverage
<u>Year</u>	<u>Revenues</u>	<u>Operating</u>	<u>Available</u>	<u>Principal</u>	<u>Interest</u>	<u>Ratio</u>²
	\$	\$	\$	\$	\$	
2008	6,188,729	2,529,213	3,659,516	250,385	524,033	4.73
2009	5,967,743	2,516,939	3,450,804	266,528	512,090	4.43
2010	5,729,278	2,648,046	3,081,232	277,721	499,137	3.97
2011	5,820,715	2,561,439	3,259,276	288,969	485,389	4.21
2012	6,159,871	2,746,082	3,413,789	305,273	471,085	4.40
2013	6,262,660	2,703,564	3,559,096	644,144	875,483	2.34
2014	6,824,474	2,786,181	4,038,293	646,186	819,930	2.75
2015	6,721,955	3,033,231	3,688,724	710,341	807,953	2.43
2016*	6,779,863	2,823,939	3,955,924	772,130	630,193	2.82
2017	7,127,814	3,106,577	4,021,237	771,916	577,965	2.98

Tax Increment Bonds				
Property	Debt Service		Coverage	
<u>Tax</u>	<u>Principal</u>	<u>Interest</u>	<u>Ratio</u>	
<u>Increment</u>				
\$	\$	\$		
2008	8,416,294	1,210,000	988,415	3.83
2009	7,921,159	1,270,000	929,730	3.60
2010 ³	7,953,318	4,195,000	886,687	1.57
2011	7,552,777	1,225,000	632,713	4.07
2012 ⁴		1,265,000	585,975	
2013 ⁴		2,480,000	511,075	
2014 ⁴		2,895,000	385,481	
2015 ⁴		3,045,000	229,556	
2016 ⁴		3,142,669	292,144	
2017		1,889,861	1,615,139	

¹ Port operating expenses above exclude \$406,792 subvention to the City and depreciation.

² Debt service coverage is calculated using maximum annual debt service as required for the annual disclosure report.

³ In FY 2009-10, the 1997 Tax Increment Bonds were paid off resulting in additional principal payment of \$2,865,000.

⁴ As a result of the California Supreme Court upholding AB X1 26, Redevelopment Agencies were eliminated as of January 31, 2012. Consequently, all former tax increment revenue is retained by the County of San Mateo Controller's Office and deposited into the "Redevelopment Property Tax Trust Fund" (RPTTF) and is disbursed according to the provisions of AB X1 26 and AB 1484, the clean-up legislation that became law effective June 27, 2012. Under these laws the Successor Agencies to the Redevelopment Agencies now receive funding from the RPTTF to pay these types of debt obligations as the Redevelopment Agency is no longer in existence to receive tax increment revenue.

*2016 Port Operating Expenses were restated in FY 2017.

Schedule 13
CITY OF REDWOOD CITY, CALIFORNIA
DEMOGRAPHIC AND ECONOMIC STATISTICS
Last Ten Calendar Years

Calendar Year	Population	Personal Income (\$000)	Per Capita Personal Income	Unemployment Rate	Number of Water System Customers
		\$	\$	%	
2008	77,269	3,087,824	39,962	5.00	23,710
2009	77,819	3,098,753	39,820	8.90	23,718
2010	78,568	3,052,053	38,846	9.10	23,784
2011	77,712	3,091,772	39,785	8.70	23,972
2012	78,244	3,125,218	39,942	7.10	24,119
2013	79,074	3,204,632	40,527	5.40	24,296
2014	80,768	3,342,018	41,378	4.20	24,347
2015	81,838	3,408,940	41,655	3.00	24,472
2016	85,992	4,459,975	51,865	3.00	24,485
2017	85,601	4,206,433	49,140	2.70	24,508

Sources:

Population is provided by the State of California Department of Finance. Population numbers in this schedule reflect the Department of Finance's annual adjustments.

Personal income and per capita personal income is provided by United States Census Data via MuniServices, LLC and is adjusted for inflation.

The unemployment rate for the City of Redwood City is provided by the State of California Employee Development Department and is not seasonally adjusted.

The number of water system customers is provided by the City's utility billing system.

Schedule 14
CITY OF REDWOOD CITY, CALIFORNIA
PRINCIPAL EMPLOYERS
Current and Nine Years Ago

Employer	2017			2008		
	Employees*	Rank	% of Total City Employment	Employees**	Rank	% of Total City Employment
Oracle Corporation	6,581	1	13.54%	8,000	1	19.51%
County of San Mateo	2,052	2	4.22%	2,200	2	5.37%
Kaiser Foundation Hospitals	1,701	3	3.50%	1,800	4	4.39%
Electronic Arts	1,478	4	3.04%	1,826	3	4.45%
Sequoia Hospital	915	5	1.88%	1,154	5	2.81%
Box Inc.	870	6	1.79%			
Redwood City School District	751	7	1.55%	1,050	6	2.56%
Stanford Hospital & Clinics	750	8	1.54%			
Equinix	479	9	0.99%			
Sequoia Union High School District	442	10	0.91%	700	10	1.71%
Informatica				1,000	7	2.44%
OpenWave Systems				900	8	2.20%
Broad Vision				759	9	1.85%

Source: *As of 2015, data from City of Redwood City Business License Database; non-profit organizations' data was via published annual reports or direct inquiry to the organization.

**2008 Data from Redwood City Chamber of Commerce.

Schedule 15
CITY OF REDWOOD CITY, CALIFORNIA
FULL TIME EQUIVALENT EMPLOYEES BY FUNCTION/DEPARTMENT
Last Ten Fiscal Years

Function	Fiscal Year								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Community Development	71.63	73.48	72.68	71.53	69.33	62.63	64.76	56.98	64.31
Human Services	7.20	7.92	7.92	7.82	7.82	7.82	7.82	7.82	7.82
Public Safety*	203.42	204.32	194.57	178.50	180.34	181.84	207.00	210.00	213.00
Transportation	22.90	23.10	18.85	17.15	16.05	16.05	16.09	16.09	16.29
Environmental Support/Protection	8.25	8.25	7.95	5.95	5.85	3.15	3.55	3.71	4.71
Leisure/Cultural/Information Services	135.16	156.96	142.08	128.65	127.94	124.74	103.80	104.59	106.23
Policy Development/Implementation	63.57	65.54	63.94	59.52	60.42	59.57	80.90	83.69	87.05
Water	35.90	35.35	35.45	32.45	30.85	35.05	30.97	34.37	34.77
Sewer	15.20	16.20	16.20	16.20	15.70	18.40	17.88	18.62	18.92
Parking	5.47	5.55	5.45	5.35	5.65	5.65	5.65	5.65	5.65
Docktown Marina**								0.13	0.13
Port	11.00	10.00	10.00	10.00	10.00	10.00	9.00	9.00	8.00
Total	579.70	606.67	575.09	533.12	529.95	524.90	547.42	550.65	566.88

Department***	Fiscal Year
	2017
City Council	7.00
City Manager	7.49
City Attorney	6.83
City Clerk	4.41
Administrative Services	41.99
Community Development	70.31
Fire	93.00
Library	40.72
Parks, Recreation, Community Svcs	71.66
Police	128.00
Public Works	97.39
Port	8.00
	<u>576.80</u>

* Redwood City began providing fire services to the residents of San Carlos in FY 2013-14 as a result of a shared services agreement between the two cities.

**The City took over the management of Docktown Marina in FY 2012-13, and began supporting operations with FTE in 2013-14.

***City began to report FTE by Department in FY 2016-17.

Source: Redwood City Adopted Budget

Schedule 16
CITY OF REDWOOD CITY, CALIFORNIA
OPERATING INDICATORS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Community Development:										
Building permits *	2,143	2,038	2,003	2,191	1,972	2,320	2,549	2,650	3,493	3,310
Building inspections conducted	14,283	13,122	10,732	13,502	13,391	11,844	16,669	17,547	20,383	21,640
Public Safety:										
Police:										
Moving citations (per 1,000 population)	217	170	131	114	112	94	97	120	103	68
Fire:										
Emergency responses - all calls**	7,073	6,671	6,683	6,733	7,111	7,656	9,096	10,078	10,245	10,479
Leisure/Cultural/Information Services:										
Number of items in collection	336,339	329,296	324,672	295,444	326,251	332,776	299,673	292,781	277,520	273,391
Water:										
Average daily consumption (thousands of gallons)	10,465	9,962	9,193	9,337	9,446	9,402	9,910	10,401	7,507	7,729

*The number of permits issued in 2015 was inadvertently overstated by 252 in the 2015 financial report; the amount has been corrected in this year's report.

** Redwood City began providing fire services to the residents of San Carlos in FY 13-14 as a result of a shared services agreement between the two cities.

Sources: Various City departments

Schedule 17
CITY OF REDWOOD CITY, CALIFORNIA
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Public Safety:										
Police:										
Number of stations	1	1	1	1	1	1	1	1	1	1
Fire:										
Number of stations*	5	5	5	5	5	5	7	7	7	7
Transportation										
Miles of streets	155	155	155	155	155	155	155	155	155	155
Number of street lights**	8,500	8,500	8,500	8,500	4,512	4,512	5,035	5,055	5,076	5,076
Leisure/Cultural/Information Services										
Number of parks	37	23	23	24	24	24	24	25	25	25
Number of libraries	4	4	4	4	4	4	4	4	4	4
Number of recreation center facilities	5	5	5	5	5	5	5	5	5	5
Water										
Miles of water mains	264	264	264	264	264	264	262	262	262	262
Miles of recycled water system lines	13	15	15	15	15	15	17	17	18	18
Sewer										
Miles of sanitary sewers	185	193	193	193	193	193	196	198	198	198
Miles of storm sewers	103	129	129	129	129	129	130	133	133	133

Sources: Various city departments

Notes:

* In FY 2013-14 Redwood City entered into a shared services agreement with the City of San Carlos. Redwood City provides fire services to the residents of San Carlos out of the two fire stations located in San Carlos.

**In 2012 the Public Works Services division employed a consultant to create a physical inventory of street lights. Criteria was updated and applied for a more accurate count of the number of street lights in the City's right-of-way. Inventories were refined and lights were added through the LED conversion process in 2014.

Schedule 18
CITY OF REDWOOD CITY, CALIFORNIA
CONSTRUCTION VALUES
Last Ten Fiscal Years

Fiscal Year	Residential Construction		All Other Construction		Residences/Additions and Alterations		Other Buildings Additions/Alterations		Total Property Values
	Number of Units	Property Value	Number of Permits Issued	Property Value	Number of Permits Issued	Property Value	Number of Permits Issued	Property Value	
		\$		\$		\$		\$	\$
2008	33	10,698,818	14	38,772,000	1,002	24,882,578	291	79,925,295	154,278,691
2009	36	17,739,134	2	590,000	1,028	20,000,165	972	36,405,222	74,734,521
2010	39	15,495,398	5	6,048,354	1,098	21,065,615	861	26,436,017	69,045,384
2011	47	25,629,952	5	1,078,000	1,088	25,554,042	1,051	35,938,801	88,200,795
2012	200	40,914,805	22	402,509	912	21,119,778	1,011	64,738,238	127,175,330
2013	605	126,141,306	3	19,333,650	1,226	28,200,872	1,041	56,330,964	230,006,792
2014	426	82,816,188	5	94,930,847	1,270	30,617,300	1,213	73,184,001	281,548,336
2015	86	194,571,550	8	36,583,115	1,485	37,474,855	1,071	119,773,839	388,403,359
2016	120	133,448,208	14	44,186,444	1,762	51,966,358	1,597	116,225,763	345,826,773
2017	85	29,578,614	10	16,375,200	1,463	41,937,060	1,419	271,670,621	359,561,495

Source: Redwood City's Community Development Department



Building a Great Community Together



[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX K

Comprehensive Annual Financial Report for the City of San Carlos – Fiscal Year Ended June 30, 2017

[THIS PAGE INTENTIONALLY LEFT BLANK]



2016-2017

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2017



SAN CARLOS, CALIFORNIA

This Page Left Intentionally Blank

**CITY OF SAN CARLOS, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**Prepared by
CITY OF SAN CARLOS FINANCE DIVISION**

This Page Left Intentionally Blank

CITY OF SAN CARLOS
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017

Table of Contents

	<u>Page</u>
INTRODUCTORY SECTION:	
Letter of Transmittal	v
Directory of Officials	xii
The Residents of the City of San Carlos.....	xiii
Administrative Services.....	xiv
Certificate of Achievement for Excellence in Financial Reporting (GFOA)	xv
FINANCIAL SECTION:	
<i>Independent Auditor's Report on Basic Financial Statements</i>	1
<i>Management's Discussion and Analysis</i>	5
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Position.....	21
Statement of Activities	22
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	26
Reconciliation of the Governmental Funds – Balance Sheet with the Statement of Net Position	28
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	30
Reconciliation of the Net Change in Fund Balances – Total Governmental Funds with the Statements of Activities	32
Budgetary Comparison Statement by Department – General Fund	34

CITY OF SAN CARLOS
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017

Table of Contents

	<u>Page</u>
FINANCIAL SECTION (Continued):	
<i>Proprietary Funds:</i>	
Statement of Net Position	38
Statement of Revenues, Expenses and Changes in Net Position	39
Statement of Cash Flows	40
<i>Fiduciary Funds:</i>	
Statement of Fiduciary Net Position.....	42
Statement of Changes in Fiduciary Net Position	43
Notes to Basic Financial Statements.....	45
Required Supplementary Information:	
Schedule of the Proportionate Share of the Net Pension Liability – CalPERS Cost Sharing Plan	93
Schedule of Plan Contributions – CalPERS Cost Sharing Plan	94
Schedule of Changes in the Net Pension Liability and Related Ratios – PARS Longevity Recognition Plan	95
Schedule of Plan Contributions – PARS Longevity Recognition Plan	96
Schedule of Plan Contributions – Other Post-Employment Benefits	97
Schedule of Funding Progress – Other Post-Employment Benefits	97
Supplementary Information:	
Major Governmental Funds, Other than the General Fund:	
Capital Improvement – Budgetary Comparison Schedule	101
Housing – Budgetary Comparison Schedule	102
<i>Non-major Governmental Funds:</i>	
Combining Balance Sheet	104
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	108

CITY OF SAN CARLOS
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017

Table of Contents

	<u>Page</u>
FINANCIAL SECTION (Continued):	
<i>Budgetary Comparison Schedules – Special Revenue Funds:</i>	
NPDES.....	111
Police Grants	112
San Carlos Library Tenant.....	113
<i>Capital Project Funds</i>	
Equipment Replacement.....	114
Measure A.....	115
Gas Tax	116
Park Fee	117
Parking In-Lieu.....	118
<i>Debt Service Funds</i>	
San Carlos Library Bonds.....	119
<i>Internal Service Funds:</i>	
Combining Statements of Net Position	122
Combining Statements of Revenues, Expenses and Changes in Net Position	123
Combining Statements of Cash Flows.....	124
<i>Fiduciary Funds:</i>	
Combining Statement of Changes in Assets and Liabilities – Agency Funds.....	126
STATISTICAL SECTION:	
Net Position by Component – Last Ten Fiscal Years	130
Changes in Net Position – Last Ten Fiscal Years.....	132
Fund Balances of Governmental Funds – Last Ten Fiscal Years	136
Changes in Fund Balance of Governmental Funds – Last Ten Fiscal Years.....	138
Assessed and Estimated Actual Value of Taxable Property – Last Ten Fiscal Years.....	140

CITY OF SAN CARLOS
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2017

Table of Contents

	<u>Page</u>
STATISTICAL SECTION (Continued):	
Direct and Overlapping Property Tax Rates – Last Ten Fiscal Years	141
Top Ten Property Tax Payers – Current Year and Ten Years Ago	142
Property Tax Levies and Collections – Last Ten Fiscal Years	143
Ratio of Outstanding Debt by Type – Last Ten Fiscal Years	144
Ratio of General Bonded Debt Outstanding – Last Ten Fiscal Years	145
Pledged-Revenue Coverage – Sewer Fund – SVCW – 2008, 2009, 2014 and 2015 Financing Agreement – Last Seven Fiscal Years	146
Computation of Direct and Overlapping Debt	147
Computation of Legal Bonded Debt Margin	148
Demographic and Economic Statistics – Last Ten Fiscal Years	149
Principal Employers	150
Full Time Equivalent City Employees by Function – Last Ten Fiscal Years	151
Operating Indicators by Function/Program – Last Ten Fiscal Years	152
Capital Assets by Function/Program – Last Ten Fiscal Years	153



November 27, 2017

To the Members of the City Council and Residents of San Carlos:

It is the policy of the City of San Carlos to annually publish a complete set of financial statements presented in conformity with Generally Accepted Accounting Principles ("GAAP") and audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial statements of the City of San Carlos ("the City") for the fiscal year ended June 30, 2017.

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

The City's financial statements have been audited by Maze & Associates, a firm of certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year that ended June 30, 2017 are free of material misstatement. The independent audit involved: examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year that ended June 30, 2017 were fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

Profile of the Government

The City, incorporated in 1925, is located in the San Francisco Bay Area region of the State of California, which is considered to be one of the most expensive areas of the state and country in which to live. The area also is renowned worldwide for technological innovation as home to Silicon

Valley. The City currently occupies a land area of six square miles and serves a population of approximately 29,000. The City is a General Law city, and empowered to levy a transient occupancy tax on hotel/motel stays and a business registration fee on for-profit businesses within its boundaries. It also is empowered by State statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

The City has operated under the council-manager form of government since 1925. Policy-making and legislative authority are vested in a City Council consisting of the Mayor, selected by the Council, and four other Council Members. The City Council is responsible for, among other things, passing ordinances, adopting the budget, appointing advisory commissions/committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the various departments. The City Council is elected on a non-partisan, at large basis. Council Members serve four-year staggered terms, with two or three Council Members elected every two years. The Mayor and Vice-Mayor are selected from among the five Council Members to serve one-year terms.

The City provides a full range of services, including: police and fire; the construction and maintenance of highways, streets and other infrastructure; and recreational activities and cultural events.

Budget Process

The goals of the biennial budget process are to identify necessary and/or desirable service increase options and identify possible service reduction options, which are all combined to reach a balanced and sustainable budget. Each City department is provided with a base budget with certain inflationary increases and is given an opportunity to request additional funding if needed. The City Manager, Assistant City Manager, Administrative Services Director and the Financial Services Manager meet with each department individually to discuss and finalize the proposed budget recommendations. In the second year of the two-year budget cycle, departments are given another opportunity to review their projections and budgets and request additional funding if needed. Those recommendations are also reviewed by the City Manager and Administrative Services Director. The City Manager then presents the proposed biennial budget or mid-cycle review budget to the Council for review prior to the end of May every year. The Council holds a public hearing on the proposed budget and adopts a final budget by the end of June, the close of the City's fiscal year. The appropriated budget is prepared by fund, function/program (e.g., public safety) and department (e.g., Community Development). Department heads may make transfers of appropriations within a department. Transfers of appropriations between departments, but within the same fund, can be approved administratively (by the Administrative Services Director or City Manager).

Transfers between funds require the approval of the City Council. Budget-to-actual comparisons are presented in the supplementary section of the accompanying financial statements for each individual governmental fund for which an appropriated annual budget has been adopted.

Economic Condition and Outlook

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment of which the City operates.

Local Economy

The unemployment rate in San Mateo County has decreased from 3.3% in 2016 to 2.9% in 2017. The San Carlos unemployment rate is at the same level as the County at 2.9%. This compares with

an unemployment rate of 4.9% for California and 4.4% for the nation during the same period. As of June 2017, there were an estimated 434,900 jobs in the County, an increase of 4,000 jobs from a year earlier. According to the California Employment Development Department, the total number of jobs located in the West Bay counties of San Francisco and San Mateo expanded by 8,900, to a total of 1,007,300 between June 2016 and June 2017.

The National Association of Realtors released a report that shows the national median existing home price of \$263,800 in June 2017. This number reflects an increase of 6.8% from June 2016. However, the median sales price of existing homes in San Carlos is \$1,680,000; a 9.2% increase from the same period a year ago.

Unemployment and real estate markets reflect a local economy that is expanding and as such we expect continued solid growth that will over time translate into higher municipal revenues.

State Budget Overview

The Fiscal Year 2017-18 budget reflects the State's continuing concern about the dangers of overspending and the pending recession that will likely follow the last eight years of economic expansion. After four years of balanced budgets with small budget surpluses, this year's budget projects a \$1.6 billion deficit for the fiscal year that started July 1, 2017.

State revenues are still growing and projected to grow. However, the trajectory of that growth is declining and the budget lays out some tough choices to rein in spending in the face of the deficit and lower growth. The state's Rainy Day Fund will receive more funding this year, but it will be only at 66% of its required balance.

Several factors make State budgeting in California challenging. Although the State has the most progressive tax structure in the nation, that in turn results in more volatility because of the reliance on capital gains. Income, sales and corporation taxes comprise the "big three" revenue sources for California. This year there is more uncertainty resulting from the impacts of unknown changes that continue to be made by the Trump Administration. The State budget cannot fully account for how new federal policies will impact California.

Important issues for California cities include the allocation of \$2.8 billion in transportation funds under Senate Bill (SB) 1 and the cannabis trailer bill, SB 94, which reconciled existing medical marijuana law with recently enacted Proposition 64. Negotiations about long-term water conservation are ongoing, with a number of policy bills moving forward, but none yet in place. In addition, the State budget does not include meaningful funding for affordable housing to address our region's housing crisis. This issue is expected to remain open and the topic of intense debate throughout the remainder of the year.

Sales Tax

Sales tax is a critical revenue source as it accounts for approximately 27.7% of total general fund revenues. Local general sales tax in fiscal year 2017 was \$10.8 million, an 8.4% increase as compared to the fiscal year 2016 amount of \$9.9 million. The increase reflects stable economic growth and increased amount of online purchases. Based on the latest sales tax data, sales tax growth will be higher in the coming year. Receipts from fuel/service stations, building and construction, and restaurant sales categories continue to show solid gains, reflecting the rising household income and the increased spending on home improvements, fuel consumption, and dining. The acceleration in online shopping for merchandise shipped from out-of-state makes the

countywide use tax allocation one of the larger components of sales and use tax gains for the City and is expected to increase in the upcoming year.

Property Tax

According to the information from our independent third-party consultant, while the median existing home prices have increased by 9.2% from 2017, the inventory of homes available for sale remains low, keeping the growth at a moderate level. The gross assessed values of properties in San Carlos have increased by 9.1% in 2017 as compared to a 7.8% increase countywide. Property tax increased by \$0.7 million compared to the prior year due to the increase in assessed values.

Financial Policies

In June 2008, the City Council approved financial policies formalizing long standing practices that had been used in the past to prepare the budget. The policies were established to ensure that the City's finances are managed in a manner that will: (1) continue to provide for the delivery of quality services; (2) maintain and enhance service delivery as the community grows in accordance with the General Plan; (3) guarantee a balanced budget annually assuring that the City is always living within its means; and (4) establish reserves necessary to meet known and unknown future obligations. These financial policies are reviewed and updated as needed every two years as part of the biennial budget process.

Financial Control

The Finance Division of the City is responsible for establishing and maintaining an appropriate internal control structure surrounding the safeguarding of assets and the reliability of financial records for preparing the financial statements in conformity with GAAP and maintaining asset accountability. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. We believe the City's systems of internal accounting controls adequately safeguard assets and provide reasonable assurance that financial transactions are properly recorded.

Cash Management

In accordance with the Municipal Code of the City and under authority granted by the City Council, the City Administrative Services Director is responsible for investing the unexpended cash in the City Treasury. The investment of the funds of the City of San Carlos is directed to the goals of safety, liquidity, and yield. The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53601 through 53659.

The primary objective of the investment policy of the City of San Carlos is the Safety of Principal. Investments shall be placed in those securities as outlined by type and maturity sector in the City's Investment Policy. Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. The City's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with State and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change to give the City the optimum combination of necessary liquidity and optimal yield based on cash flow projections.

Risk Management

Comprehensive general liability coverage is secured through the Association of Bay Area Governments (“ABAG”) Plan (“Plan”), a non-profit public benefits corporation established to provide liability insurance, claims, risk management, and legal defense services to participating members. Cities contract with the Plan through a liability coverage agreement that is very similar to a comprehensive general liability, commercial auto, and public officials' errors and omissions policies. The Plan provides \$5,000,000 of general and automobile liability coverage per occurrence and \$25,000,000 excess liability coverage per occurrence (providing a total of \$30,000,000 per occurrence) and is responsible for paying claims in excess of the City's \$100,000 deductible.

For Workers' Compensation coverage, the City participates in the Cities Group, created by a joint powers agreement to provide Workers Compensation coverage of up to \$10,000,000 per occurrence in excess of \$1,500,000 for safety officers and \$1,000,000 for miscellaneous employees. The Group acts as administrator, claim adjuster, and provider of other risk management services as required by State law. Each member of the Group pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the Group. Additional information concerning the City's participation in risk pools for liability and Workers' Compensation is provided in Note 12 to the financial statements.

Long-term Financial Planning and Major Initiatives

Long-term Financial Planning

The City Council and City management continue to emphasize “structural balance” in the City's financial planning. The City has established economic reserves to meet future opportunities and unexpected changes and has structurally aligned its revenues and expenditures to provide for a sustainable financial balance. To that end, the City has taken the following steps over the years:

- Budget revenues conservatively and expenditures at full cost;
- Maintain the condition of City facilities and infrastructure to optimize the use and minimize future repair/replacement costs;
- Maintain a highly motivated, talented, and well-trained workforce to serve the needs of the community;
- Retain municipal ownership of commercial properties and use ground leases to diversify the City's revenue stream;
- Secure outside funding and/or low-cost debt financing, and set aside City resources to pay for capital improvement program projects; and
- Limit the growth of on-going expenses for City services to a financially sustainable level.

Major Events and Initiatives

Highlights of the City's major events and initiatives that were completed or in progress as of June 30, 2017 or soon after the year-end are as follows:

In September 2016, the City launched a free commuter shuttle service. This service runs to/from the Caltrain station to various stops on the east side to serve businesses during the morning and afternoon commute hours. This shuttle is generously funded by a two-year grant through the San Mateo County Transportation Authority Measure A Local Shuttle Program and partnerships between the City and Commute.org, Nugen, Natera, Novartis and the Sutter Health Palo Alto Medical Foundation.

The City is currently in the design process to convert the Holly Street/Highway 101 Interchange from a four-quadrant cloverleaf design into ramps with signalized intersections and construct a new pedestrian and bicycle overcrossing. The goal is to increase vehicle safety and capacity, while also reducing pedestrian and bicycle conflicts. Funding for this project has been raised through Measure A Highway funds, Transportation Development Act Article III Pedestrian and Bicycle funds, Bicycle Pedestrian Improvement Program funds, Bike Path Program funds, Active Transportation Program funds, and funds from the City's Traffic Mitigation Fee and Successor Agency 2007 bond proceeds.

The City completed a project to remove over 7,000 cubic yards of sediment accumulated over 25 years from the Holly Street East and West channels and Belmont and Cordilleras Creeks. This project maximized flow capacity for runoff and prevented flooding of the east part of the city.

Park Maintenance staff responded to the call to reduce water consumption in City parks by creating a water savings bank that resulted in a 30% water reduction. Staff also focused on eliminating unnecessary decorative turf areas, substituting drought resistant plantings and modifying irrigation systems from spray to drip operation.

Construction on four large developments began during this past fiscal year:

- The Wheeler Plaza development began in March 2017. This project will bring 109 condominium housing units to San Carlos along with 196 dedicated parking spaces. The project will also consist of a two-level public parking structure with 252 public parking spaces that will include electric vehicle charging stations and covered bicycle parking – resulting in an increase of 65 parking spaces in the Downtown. 10,000 new square feet of commercial space along San Carlos Avenue will also be added, in addition to a downtown plaza with public access. The project is estimated to be completed in Fall 2018.
- The Marriott Residence Inn and Suites development began in May 2016 at the Landmark Site close to the Holly/101 Interchange. The hotel will include 204 guest rooms, with associated surface parking and site landscaping. The entire project is expected to be completed by December 2017.
- The San Carlos Transit Village development began in May 2016. The San Carlos Transit Village will include 202 residential multi-family housing units (10% of which will be below-market rate housing), in addition to a small amount of commercial, office, and retail space. The project will be one of the first major mixed-use transit-oriented developments adjacent to a Caltrain station on the peninsula.
- The Honda Dealership construction began in April 2016 at 775 Industrial Way. The project proposes to develop an inventory parking lot and showroom and is expected to be completed in early 2018.

The City has approved an application from Windy Hill Property Ventures for a new Class A office complex on Industrial Road at the corner of Bransten Road, called Meridian 25. The project will include demolition of existing industrial buildings and construction of two new office buildings with landscaping, space for outdoor amenities, bicycle parking spaces, and a six-level parking structure that can accommodate approximately 1,510 vehicles. Construction is anticipated to begin Summer 2018.

In June 2017, the City Council approved the Hilton Garden Inn Hotel Project at 1091 Industrial Road. The seven-story hotel includes a lobby with guest dining services, offices, and utility rooms on the first floor, five small meeting rooms on the second floor, guest rooms on the third floor, guest rooms

and a pool with fitness facilities on the fourth floor and guest rooms on floors five, six, and seven. The development includes 162 guest rooms with an attached four-level (above grade) parking structure. Construction is anticipated to begin in April 2018.

Financial Awards and Acknowledgements

The Government Finance Officers Association ("GFOA") awarded a *Certificate of Achievement for Excellence in Financial Reporting* to the City for its Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2016. This was the 23rd consecutive year that the City has received this prestigious award. To be awarded a Certificate of Achievement, the City published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

This report represents the culmination of months of work by dedicated staff in the Administrative Services Department-Finance Division. Special thanks go to Financial Services Manager, Carrie Tam, Senior Accountants Tammy Mak and Paul Harris, Accounting Technicians Hannah Li and Karen Cao, Administrative Assistant Melissa Keefe, City Treasurer Michael Galvin, and the audit staff at Maze & Associates. Credit also must be given to City Council for its unfailing support for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,



Jeff D. Maltbie
City Manager



Rebecca Mendenhall
Administrative Services Director

City of San Carlos

Directory of Officials

June 30, 2017

CITY COUNCIL

Bob Grassilli, Mayor
Matthew Grocott, Vice Mayor
Cameron Johnson, Councilmember
Mark Olbert, Councilmember
Ron Collins, Councilmember

CITY CLERK

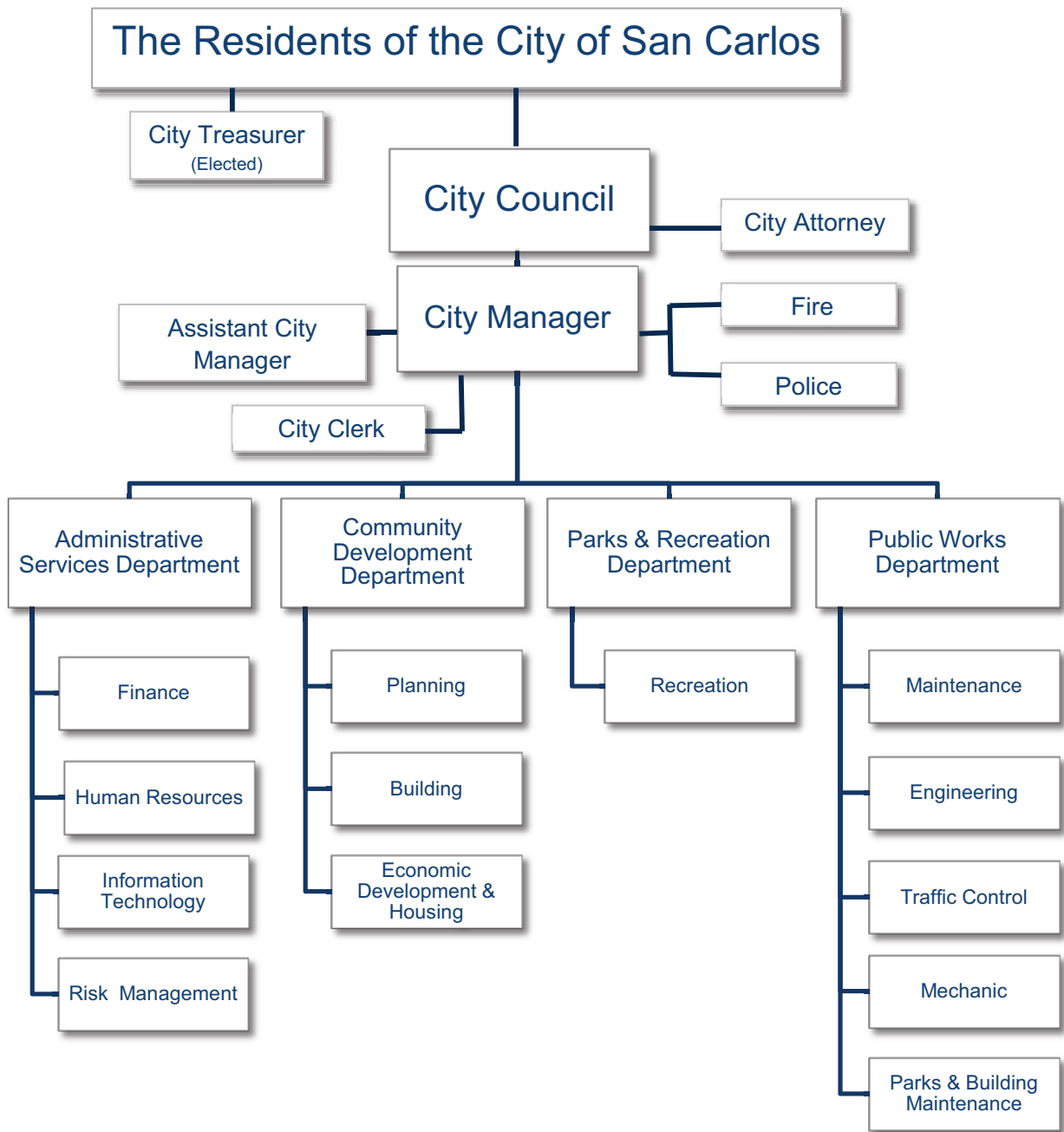
Crystal Mui, City Clerk/Community Relations Director

CITY TREASURER

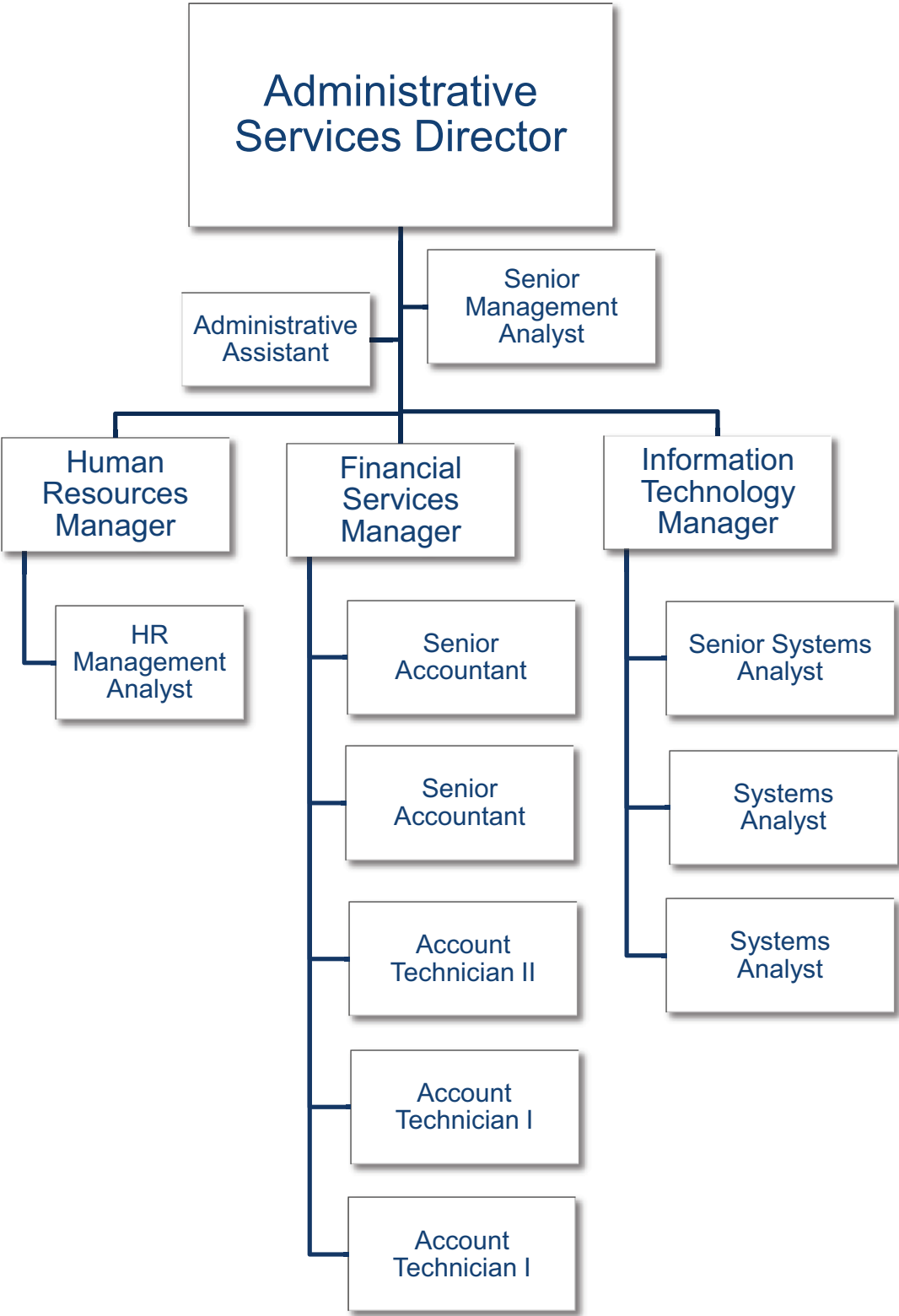
Michael J. Galvin, City Treasurer

ADMINISTRATION

Jeff Maltbie, City Manager
Tara Peterson, Assistant City Manager
Gregory J. Rubens, City Attorney
Greg Rothaus, Police Chief
Rebecca Mendenhall, Administrative Services Director
Amy Newby, Parks & Recreation Director
Jay Walter, Public Works Director
Al Savay, Community Development Director
Stan Maupin, Fire Chief



Administrative Services





Government Finance Officers Association

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

Presented to

**City of San Carlos
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

This Page Left Intentionally Blank

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of San Carlos, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of San Carlos, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons listed in the Table of Contents as part of the basic financial statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
October 26, 2017

This Page Left Intentionally Blank

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City's Comprehensive Annual Financial Report presents an overview and analysis of the City's financial activities for the fiscal year ending June 30, 2017. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

FINANCIAL HIGHLIGHTS

City-wide:

- Total City assets increased by \$12.9 million to \$269.3 million, of which \$222.1 million represented governmental assets and \$47.2 million represented business-type assets.
- City deferred outflows related to pension increased by \$4.2 million to \$9.2 million, of which \$8.1 million represented governmental deferred outflows related to pension and \$1.1 million represented business-type deferred outflows related to pension.
- Total City liabilities increased by \$5.1 million to \$60.5 million, of which \$54.4 million were governmental liabilities and \$6.1 million were business-type liabilities.
- City deferred inflows related to pension decreased by \$0.3 million to \$1.8 million, of which \$1.7 million were governmental deferred inflows related to pension and \$0.1 million were business-type deferred inflows related to pension.
- The City's assets and deferred outflows of resources exceeded the liabilities and deferred inflows by \$216.2 million (net position), which increased by \$12.3 million. Of this amount, \$33.8 million represents unrestricted net position, which may be used to meet the government's ongoing obligations to residents and creditors.
- City-wide revenues were \$65.9 million, of which \$49.0 million were generated by governmental activities that decreased by \$2.1 million, and \$16.9 million were generated by business-type activities.
- City-wide expenses were \$50.9 million, of which \$41.3 million were incurred by governmental activities and \$9.6 million were increased by business-type activities.
- Loss on the sale of capital assets incurred by governmental activities was \$2.7 million.

Fund Level:

- Governmental funds increased by \$8.7 million to \$68.4 million. Of this amount, \$2.7 million, or 3.9%, was unassigned fund balance and available for spending at the City's discretion.
- Governmental Fund revenues were \$49.0 million, a decrease of \$2.4 million from the prior year.
- Governmental Fund expenditures were \$40.9 million, a decrease of \$14.7 million from the prior year.
- Enterprise Fund net position increased by \$6.6 million to \$42.1 million. Of this amount, \$14.4 million, or 34.1%, was unassigned fund balance and available for spending at the City's discretion.

- Enterprise Fund operating revenues were \$16.8 million in fiscal year 2017 compared to \$16.8 million in the prior year.
- Enterprise Fund operating expenditures were \$11.4 million, a decrease of \$0.2 million from \$11.6 million from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts: 1) introductory section; 2) management's discussion and analysis (this section); 3) basic financial statements; 4) required supplementary information; 5) optional section that presents combining statements for non-major governmental funds and internal service funds; and 6) statistical section.

The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the City government, reporting the City's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services, like public safety, were financed in the *short term* and what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates like businesses, such as the sewer system.
 - *Fiduciary fund* statements provide information about fiduciary relationships – like the agency funds of the City – in which the City acts solely as *agent* or *trustee* for the benefit of others, to whom the resources belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that provides additional financial and budgetary information.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of the MD&A explains the structure and contents of each of the statements.

Figure A-1
City of San Carlos Comprehensive Annual Financial Report (CAFR)

Comprehensive Annual Financial Report (CAFR)	Introductory Section	Introductory Sections			
	Financial Section	Management's Discussion and Analysis			
		Government-wide Financial Statements	Fund Financial Statements		
		Statement of Net Position	Governmental Funds	Proprietary Funds	Fiduciary Funds
			Balance Sheet	Statement of Net Postion	Statement of Fiduciary Net Postion
			Reconciliation of the Governmental Funds Balance Sheet		
		Statement of Activities	Statement of Revenues, Expenditures and Changes in Fund Balance	Statement of Revenues, Expenses and Changes in Fund Net Position	Statement of Changes in Fiduciary Net Position
			Reconciliation of the Net Changes in Fund Balances	Statement of Cash Flows	
		NOTES TO THE FINANCIAL STATEMENTS			
		REQUIRED SUPPLEMENTARY INFORMATION			
		INFORMATION ON INDIVIDUAL NON-MAJOR FUNDS AND OTHER SUPPLEMENTARY INFORMATION			
	Statistical Section	STATISTICAL SECTION			

Reporting the City as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the City as a whole. One of the most important questions asked about the City's finances is: "Is the City, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and deferred outflows of resources and liabilities and deferred inflows of resources 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 taken into account regardless of when cash is received or paid.

These two statements report the City's net position and the changes in it. One can think of the City's net position – the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources – as one way to measure the City's financial health, or *financial position*. Over time, *increases and decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. One will need to consider other non-financial factors, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall health* of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City's services into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here. Sales taxes, property taxes, state subventions and other revenues finance most of these activities.
- Business-type activities – The City charges a fee to customers to help cover all or most of the cost of the services.

Reporting the City's Most Significant Funds

The **fund financial statements** provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, City Council establishes many other funds to help control and manage money for particular purposes or to show that the City is meeting administrative responsibilities for using certain taxes, grants or other money. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting approaches.

- *Governmental funds* – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current 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 helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship or differences between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* are described in the reconciliation that follows the fund financial statements.

- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – 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. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities reported in the government-wide statements, but provide more detail and additional information, such as cash flows, for proprietary funds. Internal service funds (the other component of proprietary funds) are used to report activities that provide supplies and services for the City's other programs and activities.

Reporting the City's Fiduciary Responsibilities

The City is an agent for certain assets held for, and under the control of, other organizations and individuals. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency Funds include: the Pulgas Drainage Assessment District Special Tax Bonds; the City/County Association of Governments of San Mateo County; and the South Bayside Waste Management Authority (SBWMA). The Private Purpose Trust Fund is used to report resources held in trust for the Successor Agency of the former Redevelopment Agency (RDA).

Government-Wide Statement Summaries

Net position may over time serve as a useful indicator of a City's financial position. The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$216.2 million at June 30, 2017.

Net Position

Table 1 below reflects the City's net position as of June 30, 2017 and June 30, 2016:

Table 1
City's Comparative Statement of Net Position
June 30, 2017 and 2016
(Amounts in Millions)

	Governmental Activities		Business - Type Activities		All Government		Total % Change
	2017	2016	2017	2016	2017	2016	
Current and other assets	\$ 78.3	\$ 68.9	\$ 19.5	\$ 20.8	\$ 97.8	\$ 89.7	9.0%
Capital assets	143.8	144.9	27.7	21.8	171.5	166.7	2.9%
Total Assets	222.1	213.8	47.2	42.6	269.3	256.4	5.0%
Deferred outflows related to pension	8.1	4.3	1.1	0.7	9.2	5.0	84.0%
Total deferred outflow	8.1	4.3	1.1	0.7	9.2	5.0	84.0%
Current and other liabilities	7.9	6.4	1.3	3.2	9.2	9.6	-4.2%
Long-term obligations	46.5	41.3	4.8	4.5	51.3	45.8	12.0%
Total Liabilities	54.4	47.7	6.1	7.7	60.5	55.4	9.2%
Deferred inflows related to pension	1.7	1.9	0.1	0.2	1.8	2.1	-14.3%
Total deferred inflow	1.7	1.9	0.1	0.2	1.8	2.1	-14.3%
Net Position:							
Net investment in capital assets	\$ 139.8	\$ 140.6	\$ 27.7	\$ 21.8	\$ 167.5	\$ 162.4	3.1%
Restricted	14.9	13.6	-	-	14.9	13.6	9.6%
Unrestricted	19.4	14.3	14.4	13.6	33.8	27.9	21.1%
Total Net Position	\$ 174.1	\$ 168.5	\$ 42.1	\$ 35.4	\$ 216.2	\$ 203.9	6.0%

The largest portion of the net position (77.5%) reflects the City's \$167.5 million investment in capital assets less any capital-related outstanding debt. Capital assets are the aggregated value of land, buildings and improvements that are used to provide services. Their value is reported net of related debt because the funds to repay the debt come from other sources. The City's capital assets cannot be sold and used to liquidate liabilities. This portion for the net position increased by \$5.1 million, or 3.1%, over the prior year mainly because of the addition in capital assets associated with the construction projects that were underway, such as the Sewer Capacity Assurance Improvements and the Sewer System Network Updates.

Another portion of the City's net position is subject to external restrictions, such as debt covenants, grantor's stipulations, or enabling legislation, on how they may be used. As of June 30, 2017, the restricted assets were 6.9%, or \$14.9 million, of the total net position. Of this amount, \$9.6 million is restricted for low and moderate income housing, \$1.4 million for capital projects such as street repair and maintenance and \$0.7 million for debt service. The remaining amount relates to Police grants and the Park In-Lieu fees.

The unrestricted net position of \$33.8 million represents the remaining balance of the net position. Included in this portion of the net position is \$6.7 million associated with the investment in the Silicon Valley Clean Water (SVCW) joint venture under the business-type activities; this amount is not readily available for day-to-day operational spending. The remaining portion of the unrestricted net position may be used to meet the City's ongoing and unexpected expenses, including sewer expenses, facility and infrastructure improvements, pension-related liabilities, property acquisition and emergency repairs and replacement.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole and for its separate governmental and business-type activities. The City reported positive balances in these categories for the prior fiscal year as well.

Statement of Activities and Changes in Net Position

The City's net position increased by \$12.3 million to \$216.2 million during the current fiscal year as indicated in the Statement of Activities and Changes in Net Position (see Table 2 below).

Table 2
Statement of Activities and Changes in Net Position
June 30, 2017 and 2016
(Amounts in Millions)

	Governmental Activities		Business-Type Activities		All Government		% change
	2017	2016	2017	2016	2017	2016	
Program Revenues:							
Charges for Services	\$ 8.7	\$ 9.9	\$ 16.8	\$ 16.8	\$ 25.5	\$ 26.7	-4.5%
Operating Grants & Contributions	2.1	1.7	-	-	2.1	1.7	23.5%
Capital Grants & Contributions	2.4	4.3	-	-	2.4	4.3	-44.2%
General Revenues:							
Property Taxes	12.8	12.1	-	-	12.8	12.1	5.8%
Other Taxes	16.9	15.9	-	-	16.9	15.9	6.3%
Other General Revenues	6.1	7.2	0.1	0.1	6.2	7.3	-15.1%
Total Revenues	\$ 49.0	\$ 51.1	\$ 16.9	\$ 16.9	\$ 65.9	\$ 68.0	-3.1%
Program Expenses:							
General Government	\$ 6.3	\$ 6.0	\$ -	\$ -	\$ 6.3	\$ 6.0	5.0%
Community Development	4.7	4.1	-	-	4.7	4.1	14.6%
Public Safety	18.3	17.4	-	-	18.3	17.4	5.2%
Public Works	8.0	8.3	-	-	8.0	8.3	-3.6%
Parks & Recreation	3.9	2.4	-	-	3.9	2.4	62.5%
Sewer Operations	-	-	9.6	14.1	9.6	14.1	-31.9%
Interest Expenses	0.1	0.3	-	-	0.1	0.3	-73.3%
Total Expenses	\$ 41.3	\$ 38.5	\$ 9.6	\$ 14.1	\$ 50.9	\$ 52.6	-3.3%
Inc/(Dec) in Net Position before transfers and extraordinary gain	\$ 7.7	\$ 12.6	\$ 7.3	\$ 2.8	\$ 15.0	\$ 15.4	-2.5%
Loss on Sale of Capital Assets	(2.7)	-	-	-	(2.7)	-	n/a
Transfers	0.6	0.6	(0.6)	(0.6)	-	-	0%
Change in Net Position	\$ 5.6	\$ 13.2	\$ 6.7	\$ 2.2	\$ 12.3	\$ 15.4	-20.0%
Beginning Net Position	\$ 168.5	\$ 160.0	\$ 35.4	\$ 34.1	\$ 203.9	\$ 194.1	5.0%
Restatement of Net Position	-	(4.7)	-	(0.9)	-	(5.6)	-100.0%
Ending Net Position	\$ 174.1	\$ 168.5	\$ 42.1	\$ 35.4	\$ 216.2	\$ 203.9	6.0%

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Net Position summarized in Table 2.

As of June 30, 2017, the City's total net position was \$216.2 million. This is an increase of \$12.3 million, or 6.0%, from the prior year. The changes in net position are explained in the following paragraphs. Total revenue of all government-wide activities was \$65.9 million, a decrease of \$2.1 million, or 3.1%, while the total expense of all government-wide activities decreased by \$1.7 million, or 3.3%, to \$50.9 million.

Governmental Activities

Net position in the governmental activities totaled \$174.1 million, an increase of \$5.6 million, or 3.3%, from the prior year.

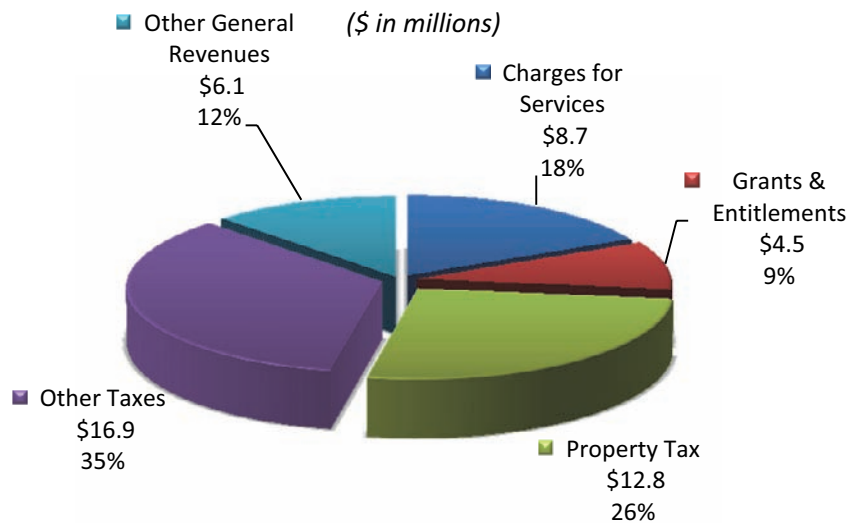
Total revenue for the City's governmental activities before extraordinary gain and transfers decreased by \$2.1 million, or 4.1%, to \$49.0 million. Total governmental activity expenses increased by \$2.8 million, or 7.2%, to \$41.3 million. The loss on the sale of a capital asset was \$2.7 million and transfers into governmental activities from the sewer fund were \$0.6 million.

As shown in the Statement of Activities, the amount that taxpayers ultimately financed for these activities through City taxes was \$29.7 million, as some of the cost was paid by those who directly benefited from the programs (\$8.7 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$4.5 million), or by other general revenues (\$6.1 million).

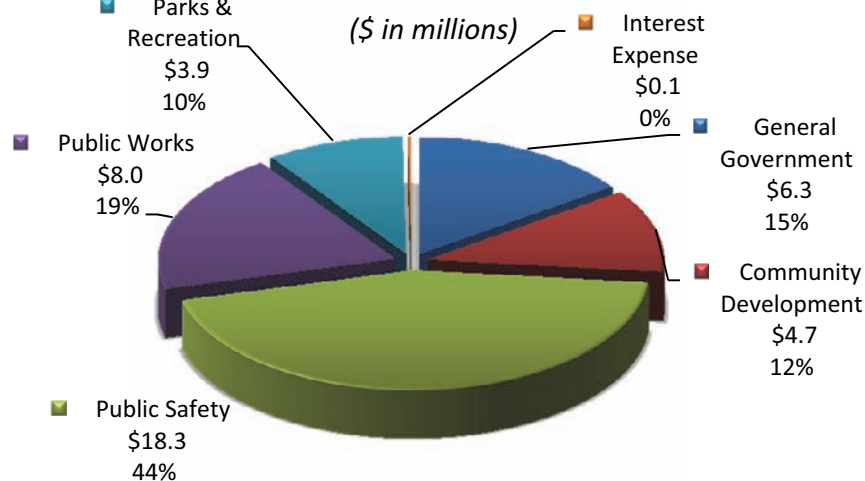
The reasons for significant changes in the revenues and expenses of the City's governmental activities are as follows:

- Property taxes increased by \$0.8 million, or 6.2%, to \$12.8 million due to the increase in the assessed value for properties.
- Sales taxes increased by \$0.9 million, or 8.1%, to \$11.6 million in comparison with the prior year mainly due to the stable economic growth and the revenue from new large building and construction retail businesses in the city.
- Charges for Services decreased by \$1.2 million, or 12.1%, to \$8.7 million, mainly from decreased revenues related to building plan checks and permits, encroachment permits and traffic impact mitigation fees collected on large scale development projects, such as the Transit Village and the Landmark Hotel, which began in the prior fiscal year. Revenue related to development activities can fluctuate from year to year depending on the timing of large construction projects and when developers pull their permits. The development-related decreases were offset by increases in recreation class revenue.
- Capital Grants and Contributions decreased by \$1.9 million, or 44.2%, to \$2.4 million, due to several grants received in the prior year from the California Department of Transportation for the San Carlos Streetscape and Pedestrian Improvement Phase 1, El Camino Landscaping and Lighting and East Side Community/Transit Connectivity projects. These projects were completed in the prior year. During the previous fiscal year, the City of Redwood City contributed to the Storm Drain Maintenance project but no external funding was received in the current fiscal year.
- Operating Grants and Contributions increased by \$0.4 million, or 23.5%, to \$2.1 million, due to an increase in the below market rate housing fee from several new construction projects for condominiums.
- Other general revenues decreased by \$1.1 million, or 15.3%, from the prior year. The decrease is primarily a result of one-time revenue received in the prior year associated with the extension of a lease agreement with the Inns of America in the amount of \$0.8 million and \$0.3 million for a digital billboard.
- Governmental expenses totaled \$41.3 million in the fiscal year 2016-17, an increase of \$2.8 million from the prior year's expenses of \$38.5 million. The increase is mainly associated with increases in Other Post-Employment Benefits (OPEB) and increases in pension expenses primarily in the Parks and Recreation, Community Development and Public Works departments, and increases in costs for contracted services for public safety.
- Governmental activities included a loss on the sale of a capital asset in the amount of \$2.7 million. This transaction was part of a Development Agreement and as such a property in the downtown was sold to developers for \$1 to encourage additional housing and economic development. The sale will result in a long term benefit to the City and the region. A more detailed explanation of the loss on the sale of capital assets can be found in Note 5A.

Revenues by Source for Governmental Activities



Expenses for Governmental Activities



Business-Type Activities

Business-type activities' total net position for fiscal year 2016-17 was \$42.1 million, an increase of \$6.7 million, or 18.9%, from the prior year.

The change in net position for fiscal year 2016-17 is \$6.7 million. Although there was no sewer rate increase this year, the net position went up due to lower sewer infrastructure repair and maintenance expenses from the timing of capital improvement projects. The City's investment in SVCW was also adjusted to reflect a net increase in the investment of \$1.7 million, which was primarily due to the increase in the pass-through amounts for large scale development capacity. Every year the City adjusts this investment based on the City's proportion of financial activity in SVCW.

The unrestricted portion of the ending net position includes \$6.7 million in investment in the SVCW joint venture that is not readily available for day-to-day operational spending. As of June 30, 2017, SVCW has a balance of \$130.4 million in long-term debt that it reports in its financial statements. Of that amount, the City's share of the obligation is approximately \$22.5 million. Since the City reports the SVCW joint venture as net investment, this obligation is not directly reported in the City's financial statements as long-term debt. More information can be found in Note 13C to the Financial Statements.

Financial Analysis of the City's Funds

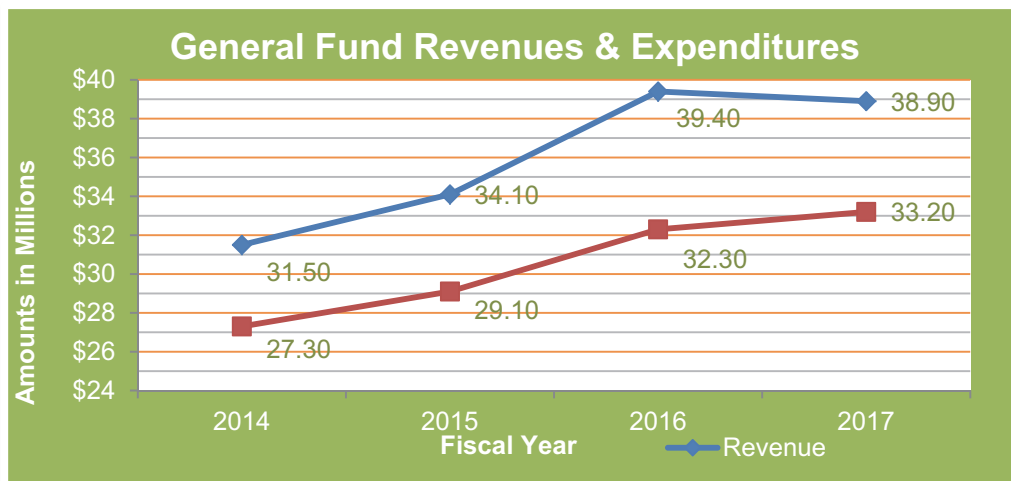
As noted earlier, the City uses fund accounting to provide proper financial management of the City's resources and to demonstrate compliance with finance-related legal requirements.

Governmental Funds

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance in the General Fund was \$32.1 million, representing an increase of \$2.4 million, or 8.1%, higher than the fiscal year 2015-16 fund balance of \$29.6 million. This increase is explained in the following paragraphs.

Governmental funds' total revenues were \$8.1 million higher than the total expenditures. The General Fund revenues this year were \$38.9 million, a decrease of \$0.5 million, or 1.2%, from the prior year. The General Fund expenditures totaled \$33.2 million, a decrease of \$8.1 million, or 19.6%, from prior year expenditures of \$41.3 million. The prior year expenditures included a loan payoff of \$9.0 million related to the Landmark Hotel.

As a comparison, the increase in revenue between the fiscal years 2015 and 2016 was 15.5%, and the increase in expenditures was 41.9%. The previous year's one-time loan payoff made up the majority of the difference in expenditures. When the loan payment is excluded, the total expenditures in the previous year would be \$32.3 million, or an increase of \$0.9 million compared to the current year's amount of \$33.2 million. The following chart shows the revenues and expenses over the years:



General Fund Actual Revenues (Amounts in Millions)				
	FY 14	FY 15	FY 16	FY 17
Total Revenues	\$ 31.5	\$ 34.1	\$ 39.4	\$ 38.9
Dollar Change	N/A	\$ 2.6	\$ 5.3	\$ (0.5)
Percentage Change	N/A	8.3%	15.5%	-1.3%

Significant changes in the revenues of the City's General Fund from the prior year are as follows:

- Property taxes increased by \$0.7 million, or 7.1%, due to a general increase in the assessed property values
- Sales tax increased by \$0.8 million, or 8.4%, in comparison with the prior year mainly because of economic growth and the opening of large building and construction retail businesses in the city.
- Revenues from other agencies have decreased by \$0.2 million, or 87.6%, since in the previous year. The City received a one-time reimbursement totaling \$0.2 million from the State for mandated costs incurred during the 1990s through 2004.
- Charges for services decreased by \$0.3 million, or 7.2%. In the previous year, there were development fees collected for several major new commercial and residential developments, including the Transit Village and Landmark Hotel projects, which are currently underway.
- Use of Money and Property decreased by \$1.0 million, or 36.1%. The decrease is primarily a result of one-time payments of \$0.75 million to extend a lease agreement with the Inns of America and \$0.3 million for a digital billboard received in the prior year.
- Revenues from Licenses and Permits decreased by \$0.6 million, or 23.7%. Similar to the reason for the decrease in the charges for services, fees collected in the prior year for building, electrical, plumbing, encroachment and mechanical permits were higher due to the on-set of several large projects. Those projects are currently under construction.
- Business Registration increased by \$0.1 million, or 13.6%, due to an increased effort to collect delinquent business registration fees.
- Vehicle In-Lieu increased by \$0.2 million, or 6.9%, compared to the prior year due to higher assessed values on properties. In May 2004, Gov. Schwarzenegger proposed a swap of city and county vehicle license fees revenues for additional property tax share as a part of a state-local budget agreement. Each year, a portion of this revenue increases in proportion to the growth in assessed value.
- Other general revenues decreased by \$0.3 million, or 16.5%, from the prior year. The decrease is primarily a result of a previous year one-time rebate payment from the San Mateo County Sheriff's Office and a receipt of interest payment for the Association of Bay Area Governments (ABAG) loan from the developer of the Landmark property.

General Fund Actual Expenditures				
(Amounts in Millions)				
	FY 14	FY 15	FY 16	FY 17
Total Expenditures	\$ 27.3	\$ 29.1	\$ 32.3 *	\$ 33.2
Dollar Change	N/A	\$ 1.8	\$ 3.2	\$ 0.9
Percentage Change	N/A	6.6%	11.0%	2.8%

*General Fund actual expenditures for Fiscal Year 2016 excludes repayment of ABAG loan.

Significant changes in the expenditures of the City's General Fund from the prior year are as follows:

- General Government expenditures have decreased slightly by \$0.1 million, or 1.7%. The decrease is primarily associated with the one-time relocation payments made to the Landmark property tenants in the previous year.

- Community Development expenditures rose by \$0.1 million, or 3.1%, as a result of new and filled positions that were vacant in the prior year and increases in professional services for contractors to assist with economic development and planning projects. This cost increase was offset by fees collected from developers.
- Public Safety expenditures are \$0.5 million, or 2.8%, higher than the previous year. The primary reason for the change is contract increases for fire, police and dispatch services.
- Public Works expenditures have increased by \$0.4 million, or 10.3%. The majority of the increase is associated with professional services related to plan review and surveys performed by contractors in the Engineering Division and additional costs related to park maintenance.

Capital Improvement Fund – This fund has a fund balance of \$16.5 million at the close of fiscal year 2016-17, which represents an increase of \$4.2 million from the prior year. The primary reason for the increase in the fund is the decrease in capital project expenses. Last year, there were some large capital projects, such as the Adult Community Center Renovation Project, the Replacement of the City Hall Cooling Tower, Storm Drain Maintenance and the El Camino Real Landscaping and Lighting Project. Capital projects this fiscal year were deferred to future fiscal years as it has become difficult to find contractors to perform services. There was also a transfer of \$3.4 million this year compared to a \$2.5 million transfer from the General Fund to the Capital Improvement Fund in the previous year to fund capital projects. Revenue from other agencies decreased since there were fewer grant reimbursements this year compared to the previous fiscal year for capital projects. Licenses and permits or traffic impact mitigation fees also decreased compared to the prior year due to fewer large scale development projects in the current fiscal year.

Housing Capital Projects Fund – This fund is used to account for affordable housing-related financial activities. As of June 30, 2017, it has a fund balance of \$9.6 million, which is restricted for housing purposes. The fund balance increased by \$0.5 million compared to the prior year due to additional revenue received related to the Housing In-Lieu fees for the construction of two residential condominiums.

Other Governmental Funds – The total fund balance of \$10.2 million for the Other Governmental Funds for this fiscal year increased by \$1.6 million mainly because of fewer expenditures on construction projects such as the Annual Street Resurfacing and Traffic Marking and Striping projects. The delay of the purchase of the fire engine in the Equipment Replacement Fund also contributed to the increase of fund balances.

Major Enterprise Fund – The City's proprietary fund statements provide the same type of information found in the government-wide financial statements. The Sewer Fund is the only enterprise fund reported in the proprietary funds Statement of Revenues, Expenses and Changes in Fund Net Position.

The Sewer Fund's total net position at the end of the fiscal year was \$42.1 million, an increase of \$6.7 million, or 18.9%. The revenues in the Sewer Fund of \$16.8 million remained consistent compared to the previous fiscal year as there was no increase in the sewer rates. The positive change in net position is largely a result of the timing of large capital infrastructure expenses.

Also, as stated previously, the City recorded an adjustment in the investment in SVCW during this fiscal year of \$1.7 million. More detail on the investment can be found in Note 13C. Included in the \$42.1 million ending net position is \$6.7 million in investment in the SVCW joint venture that is not readily available for day-to-day operational spending.

Internal Service Funds – The City uses internal service funds to account for risk management, including worker's compensation, general liability and property insurance. The Longevity Benefits Fund is used to account for other post-employment benefits (OPEB) for retired employees.

General Fund Budgetary Highlights

The final General Fund budget differs from the original adopted budget by \$0.5 million mainly because of amendments approved by City Council during the year. The increase in budgeted expenditures consisted of the following changes:

- Increase in the Community Development budget by \$0.3 million. The primary reasons for the changes are: (1) professional services for an amendment to the Strategic Zoning Ordinance to address development standards in the Single-Family, Downtown Core and Mixed-Use Neighborhood Zoning Districts, and for the creation, membership and appointment process of an ad hoc House Size Advisory Committee (HSAC); (2) carry forward of funds for consulting fees to provide construction oversight and communication services; and (3) lease expense for the SAMTRANS parking lot to help alleviate parking issues in the Downtown Core.
- Increase in the Public Works budget by \$0.1 million for professional services for management of the Open Space vegetation to remove fallen trees and reduce the chance of fires during peak seasons.
- Increase in the transfer out from the General Fund to the Capital Projects Fund by \$0.1 million for the Highlands Park Playground Renovation and Restroom Replacement project.

Major deviations between the final budget of the General Fund and its actual operating results were as follows:

Total revenues were greater than the final budget by \$2.2 million, or 5.9%. The City's policy is to budget conservatively. Revenues are estimated using accepted standards and estimates provided by the State, other governmental agencies and outside consultants.

- Property taxes exceeded budget by \$1.4 million, or 14.7%. The increases reflect higher secured tax rolls and property transfer activities.
- Sales taxes were greater than the budget by \$0.7 million, or 7.3%, due to the stable economic growth and revenue received from new large building and construction retail businesses in the city.
- Vehicle In-Lieu exceeded budget by \$0.4 million, or 17.4%, due to higher assessed property values.
- Business registration exceeded budget by \$0.1 million, or 9.6%, due to increased efforts on collecting delinquent business registrations fees.
- Other revenue exceeded budget by \$0.2 million, or 17.0%, due to increases in cost reimbursements mainly from the County of San Mateo for the Successor Agency fees and from the joint power authorities.
- Franchise fee revenue exceeded budget by \$0.1 million, or 5.5%, due to increases in solid waste rates and utilities.
- Transient occupancy taxes were less than budget by \$0.4 million, or 19.3%, because of the delay in the completion of construction of the new Marriott Residence Inn and Suites Hotel (formerly known as the Landmark Hotel).
- Use of money and property revenues were less than budget by \$0.3 million, or 14.2%, due to the timing of a new digital billboard that was expected to be completed this fiscal year.
- Current charges for services were less than budget by \$0.2 million, or 5.1%, due to the timing of development fees for large construction projects that were expected to begin or be completed in this fiscal year. As noted previously, the timing of these projects can vary depending on the developer.
- License and permits slightly exceeded the budget by \$0.1 million, or 2.6%, due to new residential and commercial building projects and renovations of existing properties.

Total expenditures were under budget by \$3.8 million, or 10.4%.

- Salaries and benefits were under budget by \$1.5 million, or 10.3%, due to the salary and benefit savings realized from vacant positions during the fiscal year.
- Operating expenditures were under budget by \$2.2 million, or 9.1%, primarily in professional services due to the delays in the start and completion of certain projects and major developments, and cost savings from fuel, contracted public safety services and legal services.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for government and business-type activities amounts to \$171.5 million as of June 30, 2017. The investment in capital assets includes land, buildings, machinery and equipment, park facilities, roads and streets. The total increase in capital assets for fiscal year 2016-17 is \$4.8 million, or 2.9%. The increase relates to the current year capital assets additions. The increase is offset by the increase in depreciation and retirement of capital assets.

Capital Assets							
June 30, 2017 and 2016							
(Amounts in Millions)							
	Governmental Activities		Business Type Activities		All Government		% Change
	2017	2016	2017	2016	2017	2016	
Land and other assets not being depreciated	\$ 71.0	\$ 71.4	\$ 0.2	\$ 0.2	\$ 71.2	\$ 71.6	-0.6%
Facilities, infrastructure and equipment, net of depreciation	72.8	73.5	27.5	21.6	100.3	95.1	5.5%
Total	\$ 143.8	\$ 144.9	\$ 27.7	\$ 21.8	\$ 171.5	\$ 166.7	2.9%

For the government-wide statement of net position presentation, all depreciable capital assets are depreciated from the acquisition date to the end of the current fiscal year.

Governmental fund financial statements record capital asset purchases as expenditures. Ongoing infrastructure projects are accounted for in construction-in-progress. Additional information about the City's capital assets can be found in Note 5 to the financial statements.

Long-Term Obligations

At the end of the fiscal year 2016-17, the City had total outstanding long-term obligations of \$3.9 million, a decrease of 7.1%, due to the pay down of the bond.

Outstanding Long-Term Obligations			
June 30, 2017 and 2016			
(Amounts in Millions)			
	Governmental Activities		% Change
	2017	2016	
2015 GO Refunding Bond	3.9	4.2	-7.1%
Total	\$ 3.9	\$ 4.2	-7.1%

In February 2015, the Standard & Poor's Rating Services has affirmed its "AAA" rating, with a stable outlook, on the City's General Obligation debt. As of June 30, 2017, the City's general obligation limit is \$333 million, 3.75%, of total assessed valuation subject to taxation. With outstanding debt of \$3.9 million subject to the legal debt limit, the City is not at risk of exceeding its legal debt limit.

Additional information on the City's long-term debt can be found in Note 7 to the accompanying financial statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic factors were considered in developing the fiscal year 2017-18 budget:

- Revenue Projections: The overall growth of the General Fund revenue is projected to be approximately 11.7% higher than the fiscal year 2016-17 revised budget based on the steady expansion of the local economy, the increased construction and remodeling activities and the upward property tax and sales tax trends. The City is also expected to receive a tentative settlement from the Pacific Gas and Electric Company for Natural Gas Transmission Line #147. The settlement money received will be placed into a restricted fund to be used toward future community benefit projects. Additional information about the settlement can be found in Note 14D.
- Expenditures: The overall General Fund expenditure is budgeted to be 4.2% higher than in the fiscal year 2016-17. The salary and benefits expenditure increases are based on the known Memorandum of Understanding (MOU) provisions negotiated with bargaining groups and increases in pension costs. CalPERS agencies that participate in the pension fund have been informed by CalPERS that pension costs will be increasing significantly due to the decrease in the discount rate. There is also a projected increase to operating experiences in professional services for known contract arrangements and anticipated needs for utilities, office and field program supplies, equipment leases, facilities maintenance programs and training.
- Capital Improvement Project Funds: An update of the five-year Capital Improvement Plan was included as part of the fiscal year 2016-18 budget process and revised during the review of the mid-year budget. Changes to the existing project budget and the addition of new projects totaling \$6.5 million were approved. The new projects include projects such as: (1) Pedestrian Enhancement at Arroyo/Cedar and Hemlock/Orange Pathway; (2) Rail Corridor South of Arroyo Avenue Landscape Improvement; (3) Traffic Study – General Plan Environmental Impact Report Traffic Update; (4) City Hall Dog Park Dust Control; (5) Arguello Park Play Area Surfacing; (6) Guardrail Installation at 7 Winding Way; (7) Cashiering System Replacement; (8) Chilton Park Master Plan; (9) Permit Management and Inspection Coordination Application (TrakIt) Upgrade; and (10) Fuel Station Upgrade.
- Sewer Rate Adjustments: Per City Council's decision during the wastewater rate setting discussions in 2016, there will be a 5% sewer rate increase in fiscal year 2017-18. The revenues are used to fund capital improvements and the City's share of the SVCW's sewer treatment plant improvements.

Contacting the City's Financial Management

This financial report is designed to provide our residents, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions about this report or additional financial information can be obtained by contacting the Administrative Services Department at:

City of San Carlos
Administrative Services Department
600 Elm Street
San Carlos, CA 94070
(650) 802-4128

CITY OF SAN CARLOS

STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position and the Statement of Activities summarize the entire City's financial activities and financial position.

The Statement of Net Position reports the difference between the City's total assets and deferred outflows of resources and the City's total liabilities and deferred inflows of resources, including all the City's capital assets and all its long-term debt. The Statement of Net Position summarizes the financial position of all of the City's Governmental Activities in a single column, and the financial position of all of the City's Business-Type Activities in a single column; these columns are followed by a Total column that presents the financial position of the entire City.

The City's Governmental Activities include the activities of its General Fund, along with all its Special Revenue, Capital Projects and Debt Service Funds. Since the City's Internal Service Funds service these Funds, their activities are consolidated with Governmental Activities, after eliminating inter-fund transactions and balances. The City's Business-Type Activities include all its Enterprise Fund activities.

The Statement of Activities reports increases and decreases in the City's net position. It is also prepared on the full accrual basis, which means it includes all the City's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, deferred outflows/inflows of resources, available revenues and measurable expenditures.

The Statement of Activities presents the City's expenses first, listed by program, and follows these with the expenses of its business-type activities. Program revenues – that is, revenues which are generated directly by these programs – are then deducted from program expenses to arrive at the net expense of each governmental and business-type program. The City's general revenues are then listed in the Governmental Activities or Business-type Activities column, as appropriate, and the Change in Net Position is computed and reconciled with the Statement of Net Position.

Both these Statements include the financial activities of the City and San Carlos Housing Authority, which is legally separate but is a component unit of the City because it is controlled by the City, which is financially accountable for the activities of these entities.

This Page Left Intentionally Blank

CITY OF SAN CARLOS

STATEMENT OF NET POSITION

JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments	\$ 72,884,773	\$ 12,298,405	\$ 85,183,178
Receivables:			
Accounts	2,164,531	543,676	2,708,207
Notes	1,328,772	-	1,328,772
Down payment assistance loan program	729,290	-	729,290
Prepaid items	380,712	-	380,712
Property held for resale	732,986	-	732,986
Net OPEB asset - healthcare	21,540	3,219	24,759
Investment in SVCW	-	6,680,080	6,680,080
Capital assets, not being depreciated:			
Land	62,344,159	153,734	62,497,893
Rights of way	2,413,714	-	2,413,714
Construction in progress	6,244,921	37,431	6,282,352
Capital assets, net of depreciation	72,831,789	27,549,138	100,380,927
Total Assets	222,077,187	47,265,683	269,342,870
Deferred Outflows of Resources:			
Deferred pension related items	8,134,623	1,064,462	9,199,085
Total Deferred Outflows of Resources	8,134,623	1,064,462	9,199,085
Liabilities:			
Accounts payable and accrued liabilities	3,687,210	1,223,338	4,910,548
Accrued benefits	47,878	-	47,878
Deposits payable	2,662,639	-	2,662,639
Unearned revenue	434,531	-	434,531
Non-Current Liabilities:			
Due within one year	1,006,103	37,287	1,043,390
Due in more than one year	4,332,849	24,858	4,357,707
Net pension liability	42,198,906	4,810,091	47,008,997
Total Liabilities	54,370,116	6,095,574	60,465,690
Deferred Inflows of Resources:			
Deferred pension related items	1,749,146	134,144	1,883,290
Total Deferred Inflows of Resources	1,749,146	134,144	1,883,290
Net Position:			
Net investment in capital assets	139,749,356	27,740,303	167,489,659
Restricted for:			
Public safety	220,910	-	220,910
Parks and recreation	2,947,624	-	2,947,624
Public works	1,424,405	-	1,424,405
Debt Service	739,933	-	739,933
Housing	9,580,579	-	9,580,579
Unrestricted	19,429,741	14,360,124	33,789,865
Total Net Position	\$ 174,092,548	\$ 42,100,427	\$ 216,192,975

See Notes to Financial Statements

CITY OF SAN CARLOS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General government	\$ 6,329,346	\$ 1,297,282	\$ -	\$ -
Public safety	18,375,585	618,102	130,684	-
Community development	4,700,675	3,618,051	683,805	-
Parks and recreation	3,858,835	1,630,102	38,529	932,032
Public works	7,978,435	1,502,215	1,240,562	1,484,784
Interest on long-term debt	81,837	-	-	-
Total Governmental Activities	41,324,713	8,665,752	2,093,580	2,416,816
Business-type Activities:				
Sewer	9,663,209	16,793,613	-	-
Total Business-type Activities	9,663,209	16,793,613	-	-
Total Primary Government	\$ 50,987,922	\$ 25,459,365	\$ 2,093,580	\$ 2,416,816

General revenues:

Taxes:

Property taxes, levied for general purpose

Transient occupancy taxes

Sales taxes

Franchise taxes

Motor vehicle in lieu - unrestricted

Use of money and property

Loss on sale of capital assets

Miscellaneous

Transfers**Total general revenues and transfers**

Change in Net Position

Net Position, beginning of the year

Net Position, end of the Year

See Notes to Financial Statements

Net (Expenses) Revenues and Changes In Net Position Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (5,032,064)	\$ -	\$ (5,032,064)
(17,626,799)	-	(17,626,799)
(398,819)	-	(398,819)
(1,258,172)	-	(1,258,172)
(3,750,874)	-	(3,750,874)
(81,837)	-	(81,837)
(28,148,565)	-	(28,148,565)
-	7,130,404	7,130,404
-	7,130,404	7,130,404
(28,148,565)	7,130,404	(21,018,161)
12,867,544	-	12,867,544
1,570,815	-	1,570,815
11,574,662	-	11,574,662
3,792,976	-	3,792,976
2,933,877	-	2,933,877
2,271,719	91,733	2,363,452
(2,686,318)	-	(2,686,318)
867,468	-	867,468
573,900	(573,900)	-
33,766,643	(482,167)	33,284,476
5,618,078	6,648,237	12,266,315
168,474,470	35,452,190	203,926,660
\$ 174,092,548	\$ 42,100,427	\$ 216,192,975

See Notes to Financial Statements

This Page Left Intentionally Blank

FUND FINANCIAL STATEMENTS

Only individual major funds are presented in the Fund Financial Statements, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the City. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND – The primary fund of the City used to account for all revenue and expenditures not legally restricted as to use. A broad range of municipal activities are provided through this fund including City Manager, City Attorney, Administrative Services, City Clerk, Community Development, Public Safety, Public Works, and Parks and Recreation.

CAPITAL IMPROVEMENT CAPITAL PROJECTS FUND – This fund is used to account for major capital projects not provided for in one of the other capital projects funds.

HOUSING CAPITAL PROJECTS FUND – This fund is used to account for development fees that must be used to finance affordable housing for City residents and the housing activities assumed by the City when the former Redevelopment Agency was dissolved.

CITY OF SAN CARLOS

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

		Capital Projects Funds	
	General	Capital Improvement	Housing
Assets:			
Cash and investments	\$ 35,872,092	\$ 16,798,559	\$ 8,239,784
Receivables:			
Accounts	1,924,075	169,397	506
Notes	-	-	1,328,772
Down payment assistance loan program	-	-	729,290
Prepaid items	380,712	-	-
Property held for resale	-	-	732,986
Total Assets	\$ 38,176,879	\$ 16,967,956	\$ 11,031,338
Liabilities, Deferred Inflows, of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,878,028	\$ 436,367	\$ 39,914
Accrued benefits	47,878	-	-
Deposits payable	2,658,710	-	3,929
Unearned revenues	434,531	-	-
Total Liabilities	6,019,147	436,367	43,843
Deferred Inflows of Resources:			
Unavailable revenues	105,052		1,406,916
Total Deferred Inflows of Resources	105,052		1,406,916
Fund Balances:			
Nonspendable:			
Prepaid items	380,712	-	-
Restricted for:			
Public Safety	-	-	-
Parks and recreation	-	-	-
Public works	-	-	-
Debt service	-	-	-
Housing	-	-	9,580,579
Committed to:			
General government	-	-	-
Community development	-	-	-
Capital projects	-	16,531,589	-
Emergency reserve	4,440,000	-	-
Strategic property acquisition	7,691,795	-	-
Assigned to:			
Unfunded liabilities	7,750,000	-	-
Facility/infrastructure improvements	7,591,500	-	-
Emergency reserve	1,500,000	-	-
Unassigned	2,698,673	-	-
Total Fund Balances	32,052,680	16,531,589	9,580,579
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 38,176,879	\$ 16,967,956	\$ 11,031,338

See Notes to Financial Statements

CITY OF SAN CARLOS

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	Other Governmental Funds	Total Governmental Funds
Assets:		
Cash and investments	\$ 10,484,985	\$ 71,395,420
Receivables:		
Accounts	32,941	2,126,919
Notes	-	1,328,772
Down payment assistance loan program	-	729,290
Prepaid items	-	380,712
Property held for resale	-	732,986
Total Assets	\$ 10,517,926	\$ 76,694,099
Liabilities, Deferred Inflows, of Resources, and Fund Balances:		
Liabilities:		
Accounts payable and accrued liabilities	\$ 283,649	\$ 3,637,958
Accrued benefits	-	47,878
Deposits payable	-	2,662,639
Unearned revenues	-	434,531
Total Liabilities	283,649	6,783,006
Deferred Inflows of Resources:		
Unavailable revenues	26,864	1,538,832
Total Deferred Inflows of Resources	26,864	1,538,832
Fund Balances:		
Nonspendable:		
Prepaid items	-	380,712
Restricted for:		
Public Safety	220,910	220,910
Parks and recreation	2,947,624	2,947,624
Public works	1,424,405	1,424,405
Debt service	739,933	739,933
Housing	-	9,580,579
Committed to:		
General government	1,665,665	1,665,665
Community development	144,636	144,636
Capital projects	3,064,240	19,595,829
Emergency reserve	-	4,440,000
Strategic property acquisition	-	7,691,795
Assigned to:		
Unfunded liabilities	-	7,750,000
Facility/infrastructure improvements	-	7,591,500
Emergency reserve	-	1,500,000
Unassigned	-	2,698,673
Total Fund Balances	10,207,413	68,372,261
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 10,517,926	\$ 76,694,099

See Notes to Financial Statements

CITY OF SAN CARLOS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Fund balances of governmental funds	\$ 68,372,261
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	143,834,583
Long-term debt and compensated absences that have not been included in governmental fund activity	
Bonds payable	(4,085,227)
Compensated absences	(656,555)
Net Pension Liability and other deferred items	
Proportionate share of net pension liability	(42,198,906)
Deferred outflows related to pensions	8,134,623
Deferred inflows related to pensions	(1,749,146)
Governmental funds report all OPEB contributions as expenditures, however, in the statement of net position any excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as a asset or a liability.	
Healthcare	21,540
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.	(39,625)
Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.	1,538,832
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. These assets and liabilities of the internal service funds must be added to the statement of net position.	920,168
Net Position of Governmental Activities	\$ 174,092,548

See Notes to Financial Statements

This Page Left Intentionally Blank

CITY OF SAN CARLOS

**STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

		Capital Projects Funds	
	General	Capital Improvement	Housing
Revenues:			
Sales taxes	\$ 10,770,655	\$ -	\$ -
Property taxes	11,180,073	1,265,089	-
Transient occupancy taxes	1,570,815	-	-
Franchise taxes	1,939,372	1,853,604	-
Vehicle in-lieu	2,933,877	-	-
Business registration	881,239	-	-
Licenses and permits	2,064,023	548,935	-
From other agencies	21,875	1,257,306	-
Charges for services	3,943,020	-	-
Fines and forfeitures	255,632	-	-
Use of money and property	1,748,894	16,024	146,263
Other revenue	1,564,912	320,562	683,805
Total Revenues	38,874,387	5,261,520	830,068
Expenditures:			
Current:			
General government	4,827,190	-	-
Community development	3,870,050	-	376,843
Public safety	17,734,826	-	-
Public works	3,933,084	3,928,979	-
Parks and recreation	2,816,465	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total Expenditures	33,181,615	3,928,979	376,843
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,692,772	1,332,541	453,225
Other Financing Sources (Uses):			
Transfers in	597,400	3,361,518	-
Transfers out	(3,848,709)	(473,500)	-
Total Other Financing Sources (Uses)	(3,251,309)	2,888,018	-
Net Change in Fund Balances	2,441,463	4,220,559	453,225
Fund Balances, Beginning of Year	29,611,217	12,311,030	9,127,354
Fund Balances, End of Year	\$ 32,052,680	\$ 16,531,589	\$ 9,580,579

See Notes to Financial Statements

CITY OF SAN CARLOS

**STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017**

	Other Governmental Funds	Total Governmental Funds
Revenues:		
Sales taxes	\$ 804,007	\$ 11,574,662
Property taxes	422,382	12,867,544
Transient occupancy taxes	-	1,570,815
Franchise taxes	-	3,792,976
Vehicle in-lieu	-	2,933,877
Business registration	-	881,239
Licenses and permits	17,079	2,630,037
From other agencies	1,474,613	2,753,794
Charges for services	9,600	3,952,620
Fines and forfeitures	-	255,632
Use of money and property	283,915	2,195,096
Other revenue	1,044,648	3,613,927
Total Revenues	4,056,244	49,022,219
Expenditures:		
Current:		
General government	13,025	4,840,215
Community development	3,769	4,250,662
Public safety	92,839	17,827,665
Public works	1,068,780	8,930,843
Parks and recreation	-	2,816,465
Capital outlay	1,887,675	1,887,675
Debt service:		
Principal	250,000	250,000
Interest and fiscal charges	99,485	99,485
Total Expenditures	3,415,573	40,903,010
Excess (Deficiency) of Revenues Over (Under) Expenditures	640,671	8,119,209
Other Financing Sources (Uses):		
Transfers in	1,887,191	5,846,109
Transfers out	(950,000)	(5,272,209)
Total Other Financing Sources (Uses)	937,191	573,900
Net Change in Fund Balances	1,577,862	8,693,109
Fund Balances, Beginning of Year	8,629,551	59,679,152
Fund Balances, End of Year	\$ 10,207,413	\$ 68,372,261

See Notes to Financial Statements

CITY OF SAN CARLOS

**RECONCILIATION OF THE NET CHANGE IN FUND BALANCES –
TOTAL GOVERNMENTAL FUNDS
WITH THE STATEMENT OF ACTIVITIES
JUNE 30, 2017**

Net change in fund balances - total governmental funds	\$	8,693,109

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 those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay		4,340,819
Depreciation expense		(2,235,331)
Retirement of capital assets		(3,199,373)

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of principal long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal repaid on bonds		250,000
Premium on debt obligations		14,523

Pension expense related to the proportionate share of net pension liability is recorded on the economic resources basis of accounting and, therefore, employer cash contributions are added back to fund balance.		(2,408,106)

Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period.		3,125

Compensated absences expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(99,708)

Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB as expenditures, however in the statement of activities only the ARC is an expense.		13,538

Revenues reported as unavailable revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.		20,789

Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds are reported with governmental activities.		224,693

Change in net position of governmental activities	\$	5,618,078

See Notes to Financial Statements

This Page Left Intentionally Blank

CITY OF SAN CARLOS

**BUDGETARY COMPARISON STATEMENT BY DEPARTMENT
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 10,037,700	\$ 10,037,700	\$ 10,770,655	\$ 732,955
Property taxes	9,744,600	9,744,600	11,180,073	1,435,473
Transient occupancy taxes	1,947,000	1,947,000	1,570,815	(376,185)
Franchise taxes	1,837,500	1,837,500	1,939,372	101,872
Vehicle in lieu	2,500,000	2,500,000	2,933,877	433,877
Business registration	804,100	804,100	881,239	77,139
Licenses and permits	2,011,200	2,011,200	2,064,023	52,823
From other agencies	48,800	48,800	21,875	(26,925)
Charges for current services	3,856,200	4,156,200	3,943,020	(213,180)
Fines and forfeitures	258,400	258,400	255,632	(2,768)
Use of money and property	2,038,900	2,038,900	1,748,894	(290,006)
Other revenue	1,212,300	1,337,235	1,564,912	227,677
Total Revenues	36,296,700	36,721,635	38,874,387	2,152,752
Expenditures:				
Current				
General government:				
City Council	275,500	275,500	146,036	129,464
City Manager	1,308,700	1,419,635	1,240,057	179,578
City Clerk	443,600	443,600	360,803	82,797
Administrative Services	3,187,800	3,181,143	2,885,265	295,878
General government	67,300	67,300	60	67,240
City Treasurer	17,800	17,800	1,609	16,191
City Attorney	347,400	347,400	193,360	154,040
Total general government	5,648,100	5,752,378	4,827,190	925,188
Community development:				
Administration	512,100	530,100	503,636	26,464
Economic development	919,700	958,238	682,387	275,851
Building	1,658,600	1,658,600	1,418,514	240,086
Planning	1,258,300	1,756,455	1,265,513	490,942
Total community development	4,348,700	4,903,393	3,870,050	1,033,343
Public safety:				
Police patrol	5,700	5,700	4,985	715
Police investigation	46,700	46,700	43,818	2,882
Police administration	8,678,700	8,698,621	8,150,895	547,726
Fire	9,062,300	9,011,500	8,890,480	121,020
Communications	638,400	644,900	644,648	252
Total public safety	18,431,800	18,407,421	17,734,826	672,595

See Notes to Financial Statements

CITY OF SAN CARLOS

**BUDGETARY COMPARISON STATEMENT BY DEPARTMENT
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive (Negative)
	Original	Final		
Public works:				
Public works	1,139,800	1,139,800	891,323	248,477
Garage	102,000	102,000	45,908	56,092
Street maintenance	174,500	174,500	160,872	13,628
Park maintenance	1,727,500	1,802,500	1,670,734	131,766
Traffic control	309,200	309,200	253,915	55,285
Building maintenance	917,600	968,400	910,332	58,068
Total public works	4,370,600	4,496,400	3,933,084	563,316
Parks and recreation:				
Administration	519,200	563,276	490,200	73,076
Recreation	2,905,800	2,905,800	2,326,265	579,535
Total parks and recreation	3,425,000	3,469,076	2,816,465	652,611
Total Expenditures	36,224,200	37,028,668	33,181,615	3,847,053
Excess (Deficiency) of Revenues Over Expenditures	72,500	(307,033)	5,692,772	5,999,805
Other Financing Sources (Uses):				
Transfers in	573,900	573,900	597,400	23,500
Transfers (out)	(3,669,900)	(3,769,900)	(3,848,709)	(78,809)
Total Other Financing Sources (Uses)	(3,096,000)	(3,196,000)	(3,251,309)	(55,309)
Net Change in Fund Balance	<u>\$ (3,023,500)</u>	<u>\$ (3,503,033)</u>	2,441,463	<u>\$ 5,944,496</u>
Beginning Fund Balance			29,611,217	
Ending Fund Balance			<u>\$32,052,680</u>	

See Notes to Financial Statements

This Page Left Intentionally Blank

MAJOR PROPRIETARY FUND

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

The concept of major funds extends to Proprietary Funds.

Budget versus actual comparisons regarding proprietary funds that are major funds are not presented.

SEWER ENTERPRISE FUND – This fund is used to account for sewage treatment, transmission, major replacements and improvements to the City's sewer system.

CITY OF SAN CARLOS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Business-Type Activities – Enterprise Fund Sewer	Governmental Activities – Internal Service Funds
Assets:		
Current Assets:		
Cash and investments	\$ 12,298,405	\$ 1,489,353
Receivables:		
Accounts receivable	543,676	37,612
Net OPEB Asset - Healthcare	3,219	-
Total Current Assets	12,845,300	1,526,965
Noncurrent:		
Investment in SVCW	6,680,080	-
Capital assets, net:		
Land	153,734	-
Construction in process	37,431	-
Depreciable capital assets, net	27,549,138	-
Total Noncurrent Assets	34,420,383	-
Total Assets	47,265,683	1,526,965
Deferred Outflows of Resources:		
Deferred pension related items	1,064,462	-
Total Deferred Outflows of Resources	1,064,462	-
Liabilities:		
Current:		
Accounts payable	1,223,338	9,627
Compensated absences	37,287	-
Claims payable	-	347,170
Total Current Liabilities	1,260,625	356,797
Noncurrent:		
Compensated absences	24,858	-
Claims payable	-	250,000
Net Pension Liability	4,810,091	-
Total Noncurrent Liabilities	4,834,949	250,000
Total Liabilities	6,095,574	606,797
Deferred Inflows of Resources:		
Deferred pension related items	134,144	-
Total Deferred Inflows of Resources	134,144	-
Net Position:		
Net investment in capital assets	27,740,303	-
Unrestricted	14,360,124	920,168
Total Net Position	\$ 42,100,427	\$ 920,168

See Notes to Financial Statements

CITY OF SAN CARLOS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities – Enterprise Fund Sewer	Governmental Activities – Internal Service Funds
Operating Revenues:		
Charges for services	\$ 16,793,613	\$ 870,178
Cost reimbursements	-	955,000
Total Operating Revenues	16,793,613	1,825,178
Operating Expenses:		
Salaries and benefits	1,556,584	-
Sewer operations	6,728,543	-
Insurance premiums	-	432,703
Claims expense	-	1,194,382
Depreciation expense	694,679	-
Miscellaneous	2,376,200	29,486
Total Operating Expenses	11,356,006	1,656,571
Operating Income (Loss)	5,437,607	168,607
Nonoperating Revenues (Expenses):		
Investment income	91,733	12,201
Grants	-	43,885
Increase in Investment in Sewer Authority	1,692,797	-
Total Nonoperating Revenues (Expenses)	1,784,530	56,086
Income (Loss) Before Transfers	7,222,137	224,693
Transfers (out)	(573,900)	-
Change in net position	6,648,237	224,693
Net position, beginning of the year	35,452,190	695,475
Net position, end of the year	\$ 42,100,427	\$ 920,168

See Notes to Financial Statements

CITY OF SAN CARLOS

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017**

	Business-Type Activities – Enterprise Fund Sewer	Governmental Activities – Internal Service Funds
Cash Flows From Operating Activities:		
Cash received from customers and users	\$ 16,334,574	\$ -
Cash received/(paid to) interfund service provided	-	1,820,328
Cash paid to suppliers for goods and services	(11,085,745)	(488,156)
Cash paid to employees for services	(1,626,816)	-
Claims paid	-	(1,171,108)
Net Cash Provided (Used) by Operating Activities	3,622,013	161,064
Cash Flows From Non-Capital Financing Activities:		
Transfers (out)	(573,900)	-
From other agencies	-	43,885
Net Cash Provided (Used) by Non-Capital Financing Activities	(573,900)	43,885
Cash Flows from Capital and Related Financing Activities:		
Acquisition of capital assets	(6,596,631)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(6,596,631)	-
Cash Flows from Investing Activities:		
Interest received	91,733	12,201
Net Cash Provided (Used) by Investing Activities	91,733	12,201
Net Increase (Decrease) in Cash and Cash Equivalents	(3,456,785)	217,150
Cash and Cash Equivalents at Beginning of Year	15,755,190	1,272,203
Cash and Cash Equivalents at End of Year	\$ 12,298,405	\$ 1,489,353
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 5,437,607	\$ 168,607
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	694,679	-
Change in assets and liabilities:		
Receivables, net	(459,039)	(4,850)
Net OPEB asset	(1,462)	-
Accounts payable	(1,981,002)	(25,967)
Claims payable	-	23,274
Compensated absences	(13,095)	-
Net pension liability and deferred outflows/inflows of resources	(55,675)	-
Net Cash Provided (Used) by Operating Activities	\$ 3,622,013	\$ 161,064
Non-Cash Investing, Capital and Financing Activities:		
Investment in joint venture	\$ 1,692,797	

See Notes to Financial Statements

FIDUCIARY FUNDS

Fiduciary Funds are presented separately from the Government-wide and Fund Financial Statements.

Agency funds account for assets held by the City as an agent for individuals, government entities and non-public organizations. These include the following:

AGENCY FUNDS – Agency funds are used to account for assets held by the City as an agent for individuals, private organizations and other governments. The financial activities of these funds are excluded from the Entity-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

SUCCESSOR AGENCY OF THE FORMER RDA PRIVATE PURPOSE TRUST FUND – This fund is used to account for the activities related to the dissolution of the former San Carlos Redevelopment Agency.

CITY OF SAN CARLOS

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Agency Funds	Private- Purpose Trust Fund Successor Agency of the Former RDA
Assets:		
Cash and investments	\$ 36,849,600	\$ 1,137,553
Cash and investments with fiscal agent	6,364,259	2,524,647
Receivables:		
Accounts receivable	8,523,189	-
Interest receivable	36,178	-
Prepaid items	720	-
Capital assets:		
Capital assets, not being depreciated	-	281,676
Total Assets	\$ 51,773,946	3,943,876
Liabilities:		
Accounts payable and accrued liabilities	\$ 7,618,247	209,041
Due to members	41,990,765	-
Deposits payable	1,233,640	-
Interest payable	919,504	-
Due to assessment district bondholders	11,790	-
Long-term liabilities		
Due in one year	-	575,659
Due in more than one year	-	14,959,247
Total Liabilities	\$ 51,773,946	15,743,947
Net Position:		
Held in trust for other purposes		(11,800,071)
Total Net Position		\$ (11,800,071)

See Notes to Financial Statements

CITY OF SAN CARLOS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Private– Purpose Trust Fund
	Successor Agency of the Former RDA
Additions:	
Taxes	\$ 1,608,179
Use of money and property	10,190
Other revenue	12,358
Total Additions	1,630,727
Deductions:	
Administrative expenses	217,130
Loss on sale of property	2,637,240 *
Interest expense	894,074
Depreciation expense	11,559
Total Deductions	3,760,003
Change in Net Position	(2,129,276)
Net Position - Beginning of the Year	(9,670,795)
Net Position - End of the Year	\$ (11,800,071)

* See Note 5(a) for more information

See Notes to Financial Statements

This Page Left Intentionally Blank

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The **City of San Carlos** ("City") is a general-law city that operates under the Council-Manager form of government, with five elected Council members served by a full time City Manager and staff. The City provides many services, including public safety, streets and roads, parks and recreation and planning and community development. The accounting policies of the City conform to generally accepted accounting principles as applicable to governments. The financial statements include the City and its component units, entities for which the City is financially accountable. Blended component units, although legally separate entities, are in substance part of the City's operations and data from these units are combined with data of the City. Their financial activities have been aggregated and merged (termed "blending") with those of the City in the accompanying financial statements.

The **San Carlos Housing Authority** ("Housing Authority") is a separate government entity whose purpose is to provide housing to low and moderate income families within certain areas of the city. The Housing Authority is controlled by the City and has the same governing board as the City, which also performs all accounting and administrative functions for the Housing Authority. The Housing Authority is financially dependent on the City. The financial activities of the Housing Authority have been included in these financial statements.

Separate statements for the Housing Authority are not prepared.

b. Basis of Presentation

The City's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government ("City") and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. All fiduciary activities are reported only in the fund financial statements. Eliminations have been made to minimize the double counting of internal activities; however, inter-fund services provided and used are not eliminated in the process of consolidation. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include, (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category - governmental, proprietary and fiduciary are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues and expenses, such as charges for services and salaries and benefits, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues and expenses, such as investment earnings and interest expense, result from non-exchange transactions or ancillary activities.

c. Major Funds

The City's major governmental and business-type funds are identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column.

Major funds are defined as funds that have either assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund – is the primary fund of the City that is used to account for all revenues and expenditures of the City not legally restricted as to use. A broad range of municipal activities are provided through this fund including City Council, City Manager, City Attorney, Administrative Services, City Clerk, Community Development, Public Safety, Public Works, and Parks and Recreation.

Capital Improvement Capital Projects Fund – is used to account for major capital projects not provided for in one of the other capital projects funds.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Housing Capital Projects Fund – is used to account for development fees that must be used to finance affordable housing for City residents and the housing activities assumed by the City when the former Redevelopment Agency was dissolved.

The City reports the following major enterprise funds in the accompanying financial statements:

Sewer Enterprise Fund – is used to account for sewage treatment, transmission, major replacements and improvements to the City's sewer system.

The City also reports the following fund types:

Internal Service Fund – The funds account for worker's compensation, general liability and other post-employment benefits; all of which are provided to other departments on a cost-reimbursement basis.

Fiduciary Funds – agency funds are used to account for assets held by the City as an agent for 1988 Special Tax Bonds Assessment Districts, City/County Association of Governments of San Mateo County (C/CAG) and South Bayside Waste Management Authority (SBWMA). Private-purpose trust funds are used to account for the assets and liabilities of the former Redevelopment Agency and the allocated revenue to pay estimated installment payments of enforceable obligations until the obligations of the former Redevelopment Agency are paid in full and assets have been liquidated. All fiduciary funds, including agency funds, use the accrual, rather than the modified accrual, basis of accounting.

The financial activities of these funds are excluded from the Government-wide financial statement, but are presented in separate Fiduciary Fund financial statements.

d. Basis of Accounting

The Government-wide, proprietary fund and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Those revenues susceptible to accrual are property, sales and use, transient occupancy, franchise and gas taxes, intergovernmental revenues, grants and interest revenue. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until collected.

Non-exchange transactions are those in which the City gives or receives value without directly receiving or giving equal value in exchange and includes taxes, grants, entitlements and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

e. Property Taxes and Sewer Charges

Revenue is recognized in the period for which the tax and assessment is levied. The County of San Mateo levies, bills and collects property taxes and sewer charges for the City; the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above, generally within 60 days.

f. Assets, Deferred Inflows/Outflows, Liabilities and Fund Balance Net Position

Investments

For financial reporting purposes, investments are adjusted to their fair value. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. Some investments are valued on an unamortized cost basis. For these investments, there is no material difference from fair value.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of change in value because of changes in interest rates. Cash equivalents also represent the proprietary fund's share in the cash and investment pool of the City. Cash equivalents have an original maturity date of three months or less from the date of purchase. For purposes of the statement of cash flows, the entire balance of cash and investments on the combined balance sheet for the proprietary funds is considered cash and cash equivalents.

Prepaid Items

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. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The City's policy is to capitalize all assets with costs exceeding the \$5,000 threshold and a useful life of more than one year. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets:

Building and Improvements	10 - 50 years
Equipment	5 - 10 years
Infrastructure and Sewer System Network	75 - 100 years

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements' of net position and the governmental fund balance sheet report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category, which is deferred outflows relating to the net pension obligation reported in the statements' of net position. These outflows are the result of contributions made after the measurement period, which are expensed in the following year, and of adjustments due to the difference in proportions and the difference between actual contributions made and the proportionate share of the risk pool's total contributions.

In addition to liabilities, the statements' of net position and the governmental balance sheet report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. 1) Deferred inflows relating to the net pension obligation reported in the Government-wide statement of net position. These inflows are the result of the net difference between projected and actual earnings on pension plan investments and differences in proportions. This amount is deferred and amortized straight-line over a five-year period. 2) Governmental funds report unavailable revenues from the following sources: cost reimbursements; charge for services; and revenues from housing loans. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Compensated Absences

Compensated absences comprise unpaid vacation that is accrued as earned. All employees who hold full-time regular positions are entitled to 12 working days of vacation pay upon successful completion of their first year of continuous service. The accrual rate increases as length of service exceeds four years. Maximum accumulation of vacation is two years of vacation accrual. Upon termination or retirement, full-time employees are entitled to receive compensation at their current base salary for all unused vacation leave. The City's liability for compensated absences is recorded in the statements' of net position. The compensated absences are reported in governmental funds only if they are matured. The liability for compensated absences is determined annually. For governmental funds, the portion expected to be permanently liquidated is recorded as fund liabilities.

Compensated absences are liquidated by the fund that has recorded the liability, primarily the General Fund.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

In Government-wide financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting (see Note 10) and the required supplementary information (RSI) section immediately following the Notes to Financial Statements, regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

In general, the City recognizes a net pension liability, which represents the City's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by the California Public Employees' Retirement System (CalPERS). The net pension liability is measured as of the City's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows/inflows or resources relating to pensions and pension expense, information about the fiduciary net position of the City's pension plan with CalPERS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

In the fund financial statements, governmental funds report the following fund balance classifications:

Nonspendable includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted includes amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority; City Council. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a Council resolution.

Assigned includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The City Manager is authorized to assign amounts to a specific purpose, which was established by City Council resolution.

Unassigned includes the residual amounts that have not been restricted, committed, or assigned to specific purposes.

The City Council adopts and amends committed fund balance amounts through resolution. The City Council authorizes assigned amounts for specific purposes pursuant to the policy-making powers granted through resolution.

Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance. To calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position

Net position is the excess of all the City's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net position is divided into three captions. These captions apply only to net position, which is determined only at the Government-wide level, and are described below:

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net investment in capital assets describes the portion of net position that is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements and funds restricted to low and moderate income purposes.

Unrestricted describes the portion of net position that is not restricted to use.

Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. To calculate the amounts to report as restricted net position and unrestricted net position in the Government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

g. Budgets and Budgetary Accounting Policies

The City adopts a biennial operating budget on or before June 30 for the ensuing fiscal year for the General Fund, all Special Revenue Funds and all Debt Service Funds. Expenditures for the Capital Projects Funds are budgeted and managed on a project length basis and budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements. The City follows a budgeting process in which the City's plans and objectives are outlined and budgeted. This work program is reviewed with the City Council to determine the priority and timing of plans and objectives. Revisions are made to the work program, which in its final form, is adopted by the City Council as an operating budget, effective July 1 for the ensuing fiscal year. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various funds.

City Council may amend the budget by resolution during the fiscal year. The City Manager may transfer appropriations from one program, activity, or object to another within the same department or between departments. However, transfers of appropriations that change total fund appropriations must be approved by the City Council. Expenditures that exceed appropriations at the fund level must be approved by the City Council. Budgets are adopted on a basis consistent with generally accepted accounting principles.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

i. Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

The City pools cash from all sources and all funds except cash and investments held by trustees so that it can be invested at the maximum yield consistent with safety and liquidity, while individual funds can make expenditures at any time.

a. Policies

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the City's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the City's name and places the City ahead of general creditors of the institution.

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. To increase security, the City employs the trust department of a bank as the custodian of certain City managed investments, regardless of their form.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

b. Classification

Cash and investments as of June 30, 2017 are classified in the following financial statements as follows:

Statement of Net Position:	
Cash and investments	\$ 85,183,178
Subtotal	<u>85,183,178</u>
Fiduciary Funds:	
Cash and investments	37,987,153
Cash and investments with fiscal agent	<u>8,888,906</u>
Subtotal	<u>46,876,059</u>
Total cash and investments	<u><u>\$ 132,059,237</u></u>

Cash and investments as of June 30, 2017 consist of the following:

Cash on hand	\$ 9,150
Deposits with financial institutions	5,461,585
Investments	<u>126,588,502</u>
Total cash and Investments	<u><u>\$ 132,059,237</u></u>

c. Investments Authorized by the California Government Code and the City's Investment Policy

The following table identifies the investment types that are authorized for the City by the California Government Code (or the City's Investment Policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's Investment Policy, where more restrictive) that address interest rate risk, credit risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of bond indentures of the City, rather than the general provisions of the California Government Code or the City's Investment Policy.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
State of California Local Agency Investment Fund	Upon Demand	N/A	\$65 million per account	N/A
San Mateo County Investment Pool	Upon Demand	N/A	As permitted by County Treasurer, currently no limit	N/A
U.S. Treasury Bonds, Notes and Bills	5 Years	N/A	100%	N/A
U.S. Government Agency and Federal Agency Securities	5 Years	N/A	100%	N/A
Bankers Acceptances	180 Days	N/A	40%	(A), (B)
Commercial Paper	270 Days	A	25%	(A), (B)
Negotiable Certificates of Deposit	5 Years	N/A	30%	(A), (B)
Time Certificates of Deposit - Banks or Savings and Loans	5 Years	N/A	30%	(A), (B)
Medium Term Corporate Notes	5 Years	A	30%	(A), (B)

(A) 5% of outstanding paper of issuing corporation

(B) 5% of the portfolio in one corporation

d. Investments Authorized by Debt Agreements

The City must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the City fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with City resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Minimum Credit Quality
Securities of the U.S. government or its agencies	None
Time certificates of deposit	None
Bankers acceptances	None
Commercial paper	A1
California Local Agency Investment Fund	None
Repurchase agreements	None
Small Business Administration loans	None
Money market funds	AA-m (1), AAA-m (2)
Negotiable certificates of deposit	None
Investment agreement	None
Tax-exempt obligations	AAA
Medium-term notes	AAA (1)

(1) SBWMA Series 2009A Bond

(2) San Carlos RDA 2007 TAB Series A & B

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

e. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City's investment policy is to hold investments to maturity to mitigate the interest rate risk. Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity or earliest call date:

Investment Type	12 Months or less	Total
San Mateo County Investment Pool	\$ 66,560,193	\$ 66,560,193
California Local Agency Investment Fund	51,140,250	51,140,250
California Asset Management Program	1,077,789	1,077,789
Money market mutual funds	7,810,270	7,810,270
Total Investments	<u>\$ 126,588,502</u>	126,588,502
Cash in bank and cash on hand		5,470,735
Total Cash and Investments		<u>\$ 132,059,237</u>

f. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, by Standard and Poor's, as of June 30, 2017 for each investment type:

Investment Type	AAAm	Total
Money market mutual funds	\$ 7,810,270	\$ 7,810,270
Totals	<u>\$ 7,810,270</u>	7,810,270
Not rated:		
California Local Agency Investment Fund		51,140,250
San Mateo County Investment Pool		66,560,193
California Asset Management Program		1,077,789
Total Investments		126,588,502
Cash in bank and cash on hand		5,470,735
Total Cash and Investments		<u>\$ 132,059,237</u>

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

g. Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2017:

Investment Type	Exempt	Total
Investments by Fair Value:		
California Local Agency Investment Pool	\$ 51,140,250	\$ 51,140,250
San Mateo County Investment Pool	66,560,193	66,560,193
Total Investments at Fair Value	<u>\$ 117,700,443</u>	<u>117,700,443</u>
Investments Measured at Net Asset Value:		
California Asset Management Program		1,077,789
Investments Measured at Amortized Cost:		
Money market mutual funds		<u>7,810,270</u>
Total Investments		126,588,502
Cash in banks		<u>5,470,735</u>
Total Cash and Investments		<u>\$ 132,059,237</u>

Both the California Local Agency Investment Fund and the San Mateo County Investment Pool are external investment pools measured at fair value, and exempt in the fair value hierarchy under GASB 72.

h. Local Agency Investment Fund

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain State funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills and corporations. At June 30, 2017, these investments have an average maturity of 194 days.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 – CASH AND INVESTMENTS (Continued)

i. San Mateo County Investment Fund

The City is a voluntary participant in the San Mateo County Investment Fund (SMCIF) that is regulated by California Government Code Section 53600 under the oversight of the Treasurer of the County of San Mateo. The City reports its investment in SMCIF at the fair value amount provided by SMCIF. The balance available for withdrawal is based on the accounting records maintained by SMCIF, which are recorded on an amortized cost basis. Included in SMCIF's investment portfolio are U.S. Treasury Notes, obligations issued by agencies of the U.S. Government, LAIF, corporate notes, commercial paper, collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. The City reports its investments in SMCIF at the fair value amounts provided by SMCIF, which is the same as the value of the pool share.

j. California Asset Management Program

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by a Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code.

The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2017, the fair value approximated was the City's cost.

NOTE 3 – DOWN PAYMENT ASSISTANCE LOAN (DAL) PROGRAM RECEIVABLE

The City's Redevelopment Agency previously offered first time home buyers, who qualified as having low and moderate income, loans for use as a down payment on the purchase of a home. The loans bore an interest rate of 3% and were secured by second deeds of trust on the underlying property. No payments are due until five years after the date of purchase, at which time the buyer has the option of converting the loan into shared equity in the property or extending the loan for an additional 10-years with monthly payments and a balloon payment for the unpaid balance at the end of the 10-year term. On February 1, 2012, this receivable was transferred to the City when it took over the housing function of the Redevelopment Agency upon dissolution. At June 30, 2017, the City has recorded a receivable totaling \$301,355 for loans given out to six buyers, consisting of \$248,795 in principal and \$52,560 in accrued interest.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 – DOWN PAYMENT ASSISTANCE LOAN (DAL) PROGRAM RECEIVABLE
(Continued)

On April 27, 2009, the City Council approved revisions to the terms of DAL for the first time home buyer program. Payments are deferred for the term of the loan. Homeowners of units other than a Below Market Rate unit and/or any unit subject to a resale restriction agreement will be required to pay shared appreciation in addition to the repayment of principal and accrued interest at the time the DAL Program loan repayment is due. Interest rate and loan term remain unchanged. At June 30, 2017, the City has recorded a receivable totaling \$427,935 for loans given out to seven buyers, consisting of \$350,300 in principal and \$77,635 in accrued interest.

NOTE 4 – INTERFUND TRANSACTIONS

a. Transfers Between Funds

The purpose of the majority of transfers is to move resources from one fund to another. Less often, a transfer may be made to open or close a fund.

Transfers between funds during the fiscal year ended June 30, 2017 were as follows:

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Sewer Enterprise Fund	\$ 573,900 (A)
General Fund	Capital Improvement Fund	23,500 (B)
Capital Improvement Fund	General Fund	3,136,709 (B)
Capital Improvement Fund	Non-Major Governmental Fund	350,000 (B)
Non-Major Governmental Fund	General Fund	712,000 (B)
Non-Major Governmental Fund	Capital Improvement Fund	450,000 (B)
Non-Major Governmental Fund	Non-Major Governmental Fund	600,000 (B)
Total Interfund Transfers		<u>\$ 5,846,109</u>

(A) Sewer right of way

(B) Capital projects

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 – CAPITAL ASSETS

Capital assets of Governmental Activities as of June 30, 2017 consisted of the following:

	Balance at June 30, 2016	Additions	Retirements	Transfers	Balance at June 30, 2017
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 62,857,214	\$ -	\$ (513,055)	\$ -	\$ 62,344,159
Rights of way	2,413,714	-	-	-	2,413,714
Construction in progress	6,126,382	2,765,580	-	(2,647,041)	6,244,921
Total non-depreciable assets	71,397,310	2,765,580	(513,055)	(2,647,041)	71,002,794
Capital assets being depreciated:					
Buildings and improvements	36,565,548	587,394	(3,140,217) (A)	4,816,964	38,829,689
Equipment	5,800,215	335,467	(33,938)	6,489	6,108,233
Infrastructure	69,024,320	652,378	-	(2,176,412)	67,500,286
Total capital assets being depreciated	111,390,083	1,575,239	(3,174,155)	2,647,041	112,438,208
Less accumulated depreciation for:					
Buildings	(14,822,848)	(1,065,822)	458,433	-	(15,430,237)
Equipment	(4,226,675)	(281,118)	29,404	-	(4,478,389)
Infrastructure	(18,809,402)	(888,391)	-	-	(19,697,793)
Total accumulated depreciation	(37,858,925)	(2,235,331)	487,837	-	(39,606,419)
Net capital assets being depreciated	73,531,158	(660,092)	(2,686,318)	2,647,041	72,831,789
Capital assets, net	\$ 144,928,468	\$ 2,105,488	\$ (3,199,373)	\$ -	\$ 143,834,583

a. Loss on Sale of Capital Assets

Pursuant to Health and Safety Code (HSC) section 34181 (f), the City of San Carlos Successor Agency Oversight Board approved the sale of property to the Developer of the Wheeler Plaza Project for \$1.

The City of San Carlos entered into Disposition and Development Agreement with Silverstone Development – Northern California, LLC (Developer) for the development of Wheeler Plaza Project. Pursuant to the Agreement, the Developer acquired the property from the City and the Successor Agency to construct the multi-story mixed-use building. The Agreement provides for the conveyance back to the City of a separate condominium space following completion of construction of the Parking Garage. The Project will be of substantial benefit to the City, the regional community and all of the affected taxing entities.

As a result, loss on sale of capital assets in the amount of \$2,686,318 and \$2,637,240 are recognized in the Governmental Statement of Activities and Fiduciary Statement of Changes in Net Position, respectively.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 – CAPITAL ASSETS (Continued)

b. Depreciation

Depreciation expense was charged to governmental functions based on the use of the related assets. The amounts allocated to each function or program as follows:

Governmental Activities:

General Government	\$ 292,425
Public Safety	47,792
Public Works	1,079,856
Community Development	99,378
Parks and Recreation	715,880
Total Governmental Activities	<u>\$ 2,235,331</u>

c. Business Activities

	Balance at June 30, 2016	Additions	Balance at June 30, 2017
Business-type Activities:			
Capital assets not being depreciated:			
Land	\$ 153,734	\$ -	\$ 153,734
Construction in progress	-	37,431	37,431
Total non-depreciable assets	<u>153,734</u>	<u>37,431</u>	<u>191,165</u>
Capital assets being depreciated:			
Equipment	1,499,318	-	1,499,318
Sewer network system	26,896,725	6,559,200	33,455,925
Total capital assets being depreciated	<u>28,396,043</u>	<u>6,559,200</u>	<u>34,955,243</u>
Less accumulated depreciation for:			
Equipment	(855,677)	(169,281)	(1,024,958)
Sewer network system	(5,855,749)	(525,398)	(6,381,147)
Total accumulated depreciation	<u>(6,711,426)</u>	<u>(694,679)</u>	<u>(7,406,105)</u>
Net capital assets being depreciated	<u>21,684,617</u>	<u>5,864,521</u>	<u>27,549,138</u>
Capital assets, net	<u>\$ 21,838,351</u>	<u>\$ 5,901,952</u>	<u>\$ 27,740,303</u>

Depreciation expense of \$694,679 was charged to the Sewer Enterprise Fund as of June 30, 2017.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 6 – PROPERTY HELD FOR RESALE

Property held for resale is stated at the lower of historical cost or net realizable value (equal to agreed-upon sales price if a disposition and development agreement has been reached with a developer).

In October 2009, the Redevelopment Agency purchased a low income housing unit property. On February 1, 2012, this property was transferred to the City when it took over the housing function of the Redevelopment Agency upon dissolution. The unit is being held for future resale to an individual who is eligible for the low income housing program.

In December 2016, the City Council authorized the City to purchase a below market rate (BMR) unit with available funds from the Low and Moderate Income Housing Fund. The unit is being held for future resale or for rental to a qualified income restricted household.

The City has two properties held for resale. The properties are reported in governmental activities in the Statement of Net Position as Property Held for Resale. The carrying value at June 30, 2017 was:

Property Name	Property Address	Amount
Housing Unit	633 Elm St #305, San Carlos	\$ 354,999
Housing Unit	633 Elm St #405, San Carlos	377,987
Total Value		<u>\$ 732,986</u>

NOTE 7 – LONG-TERM DEBT

The City's debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One Year
Governmental Activities					
Compensated absences	\$ 556,847	\$ 427,970	\$ (328,262)	\$ 656,555	\$ 393,933
Claims liability	573,896	385,196	(361,922)	597,170	347,170
2015 Refunding General Obligation Bonds	4,190,000	-	(250,000)	3,940,000	265,000
Bond Premiums	159,750	-	(14,523)	145,227	-
Total Governmental Activities	<u>\$ 5,480,493</u>	<u>\$ 813,166</u>	<u>\$ (954,707)</u>	<u>\$ 5,338,952</u>	<u>\$ 1,006,103</u>

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 – LONG-TERM DEBT (Continued)

a. 2015 Refunding General Obligation Bonds

The 2015 Refunding Bonds were issued under a resolution adopted by the City Council on February 9, 2015 to refinance the City's outstanding City of San Carlos 2005 General Obligation Refunding Bonds, which were issued on December 20, 2005 in the aggregate principal amount of \$8,115,000. The 2005 General Obligation Bonds were refunded with the issuance of the 2015 General Obligation Bonds.

The 2015 Refunding Bonds are general obligations of the City payable solely from ad valorem property taxes levied by the City and collected by the County. The total principal and interest remaining to be paid on the bonds is \$3,940,000 and \$483,500, respectively. Principal and interest paid for the current fiscal year and total ad valorem property tax revenues were \$348,850 and \$422,382, respectively.

The total cash flow savings including the application of the excess tax revenues of \$1,483,637 were \$2,498,038 and the net present value of the savings resulted in an economic gain of \$777,443. The refunding resulted in a \$19 savings for the average residential homeowner, which reduces the GO Bond tax from \$47 to \$28. Estimated savings will change over time with the growth in the City's assessed value but is estimated to average \$17 for the 11 years that a 2015 GO Bond tax rate is required. Total estimated savings to the average residential homeowner is \$182.

Interest on Refunding Bonds accrues from the date of delivery and is payable semi-annually on February 1 and August 1, commencing August 1, 2015, and ranging from 3% to 2%. Principal payments are due annually on August 1.

Annual debt service requirements for the 2015 Refunding General Obligation Bonds are shown below:

For the Year Ending June 30	Principal	Interest	Total
2018	\$ 265,000	\$ 91,125	\$ 356,125
2019	290,000	82,800	372,800
2020	320,000	73,650	393,650
2021	365,000	63,375	428,375
2022	390,000	52,050	442,050
2023 - 2027	2,310,000	120,500	2,430,500
Total	<u>\$ 3,940,000</u>	<u>\$ 483,500</u>	<u>\$ 4,423,500</u>

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 8 – COMPENSATED ABSENCES

The changes in compensated absences for the year ending June 30, 2017 are as follows:

	Balance June 30, 2016	Additions	Retirements	Balance June 30, 2017	Due Within One year
Governmental Activities:					
Compensated absences	\$ 556,847	\$ 427,970	\$ (328,262)	\$ 656,555	\$ 393,933
Total Governmental Activities	<u>\$ 556,847</u>	<u>\$ 427,970</u>	<u>\$ (328,262)</u>	<u>\$ 656,555</u>	<u>\$ 393,933</u>
Business-Type Activities:					
Compensated absences	\$ 75,240	\$ 53,455	\$ (66,550)	\$ 62,145	\$ 37,287
Total Business-type Activities	<u>\$ 75,240</u>	<u>\$ 53,455</u>	<u>\$ (66,550)</u>	<u>\$ 62,145</u>	<u>\$ 37,287</u>

NOTE 9 – FUND BALANCES

a. Fund Balance

Detailed classifications of the City's Fund Balances, as of June 30, 2017 are below:

Fund Balance Classifications	General Fund	Capital Project Funds		Other Governmental Funds	Total
		Capital Improvement	Housing		
Nonspendable:					
Inventory and prepaids	\$ 380,712	\$ -	\$ -	\$ -	\$ 380,712
Total Nonspendable Fund Balances	<u>380,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>380,712</u>
Restricted for:					
Police grants	-	-	-	220,910	220,910
City parks	-	-	-	2,947,624	2,947,624
Traffic management	-	-	-	384,397	384,397
National Pollutant Discharge Elimination System	-	-	-	311,910	311,910
Street maintenance	-	-	-	728,098	728,098
Debt service	-	-	-	739,933	739,933
Housing	-	-	9,580,579	-	9,580,579
Total Restricted Fund Balances	<u>-</u>	<u>-</u>	<u>9,580,579</u>	<u>5,332,872</u>	<u>14,913,451</u>
Committed to:					
Library tenant activities	-	-	-	1,665,665	1,665,665
Parking lot improvements	-	-	-	144,636	144,636
Equipment replacement	-	-	-	3,064,240	3,064,240
Capital projects	-	16,531,589	-	-	16,531,589
Strategic property acquisitions	7,691,795	-	-	-	7,691,795
Emergency reserve	4,440,000	-	-	-	4,440,000
Total Committed Fund Balances	<u>12,131,795</u>	<u>16,531,589</u>	<u>-</u>	<u>4,874,541</u>	<u>33,537,925</u>
Assigned to:					
Unfunded liabilities	7,750,000	-	-	-	7,750,000
Facility/infrastructure improvements	7,591,500	-	-	-	7,591,500
Emergency reserve	1,500,000	-	-	-	1,500,000
Total Assigned Fund Balances	<u>16,841,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,841,500</u>
Unassigned:					
General Fund	2,698,673	-	-	-	2,698,673
Total Unassigned Fund Balances	<u>2,698,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,698,673</u>
Total Fund Balances	<u>\$ 32,052,680</u>	<u>\$ 16,531,589</u>	<u>\$ 9,580,579</u>	<u>\$ 10,207,413</u>	<u>\$ 68,372,261</u>

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 9 – FUND BALANCES (Continued)

b. Fund Balance Commitments

The City has the following committed fund balances shown on the governmental balance sheet:

Economic Uncertainties – General Fund committed fund balance for Economic Uncertainties equal to a minimum of 12.5% of the General Fund expenditures with a target of increasing to 20% of General Fund expenditures.

Once established, appropriations from the Economic Uncertainties fund balance commitment can only be made by formal action of the City Council. Generally, appropriations and access to these funds will be reserved for emergency situations. Examples of such emergencies include, but are not limited to: catastrophic disaster (declared by Governor); budgeted revenue taken by another government entity; or a more than 5% drop in projected revenue to the General Fund. The balance as of June 30, 2017 was \$4,440,000. In an effort to raise the percentage towards 20% of General Fund expenditures, the City Manager has also assigned \$1.5 million towards the Economic Uncertainty Reserve.

Strategic Property Acquisitions – General Fund committed fund balance for Strategic Property Acquisitions accumulates funds from the proceeds of future sales of City properties, as directed by the City Manager or City Council.

Once established, appropriations from the Strategic Property Acquisitions fund balance commitment can only be made by formal action of the City Council. Generally, appropriations and access to these funds will be reserved for funding strategic property acquisitions by the City. The balance as of June 30, 2017 was \$7,691,795.

Equipment and Vehicle Replacement Reserves – A Replacement Fund will be maintained as a separate fund for budgetary purposes to fund the replacement costs of existing non-sewer-related vehicles, major equipment and information technology items when they reach the end of their useful lives. Sewer-related items will be maintained in the Wastewater Fund. The Replacement Fund will be analyzed by staff at least annually as part of the budget update process for changes in assets, useful lives, estimated replacement costs and appropriate funding levels. This fund is to be maintained at a level sufficient to fund 100% of the assets, based on estimated replacement costs and useful lives. The balance as of June 30, 2017 was \$3,064,240.

The City also has commitments for community development projects, general government and capital projects totaling \$18,341,890.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – NET PENSION LIABILITY

a. California Public Employees' Retirement System (CalPERS) Plan

Description of Plan

The City of San Carlos Miscellaneous Plans Tier 1, Tier 2, Tier 3 and Public Employees' Pension Reform Act of 2013 (PEPRA), and all Safety Plans (Safety Police and Safety Fire) are all cost-sharing multiple-employer defined benefit pension plans (the Cost-Sharing Plans) administered by the California Public Employees' Retirement System (CalPERS). All qualified permanent and probationary employees are eligible to participate in the City's Cost-Sharing Plans. Benefit provisions under the Cost-Sharing Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include full descriptions of each of the Cost-Sharing Plans regarding benefit provisions, assumptions and membership information. These reports can be found on the CalPERS website: www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full-time employment. Members with five years of total service are eligible to retire at an age as early as 50 in the Cost-Sharing Plans with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit; the 1957 Survivor Benefit; or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The (PEPRA) requires new benefits and member contributions for new members as defined by PEPRA that are hired after January 1, 2013. These PEPRA members in pooled plans are reflected in the new Miscellaneous and Safety risk pools created by the CalPERS Board in response to the passage of PEPRA, beginning with the June 30, 2013 risk-pool valuations. Therefore, pursuant to PEPRA, the Miscellaneous "Classic" plan is closed to new entrants as of January 1, 2013.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – NET PENSION LIABILITY (Continued)

The provisions and benefits of each plan in effect at June 30, 2017 are summarized as follows:

	<i>City Miscellaneous Plan</i>			
	<i>Tier 1</i>	<i>Tier 2</i>	<i>Tier 3</i>	<i>PEPRA</i>
Hire date	Prior to March 16, 2009	Prior to April 23, 2012	On or after April 23, 2012	On or after January 1, 2013
Benefit formula	2.7% @ 55	2.5% @ 55	2.0% @ 55	2.0% @ 62
Benefit vesting schedule		5 years of credited service		
Benefit payments		monthly for life		
Retirement age		50 and up		52 and up
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	2.0% to 2.5%	1.426% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	8%	7%	6.500%
Required employer contribution rates	11.973%	10.408%	8.721%	6.647%

	<i>City Safety Plan</i>	
	<i>Safety Fire Tier 1</i>	<i>Safety Police</i>
Hire date	On or after October 23, 2011	On or after October 30, 2010
Benefit formula	2% @ 50	3% @ 55
Benefit vesting schedule	5 years of credited service	
Benefit payments	monthly for life	
Retirement age	50 and up	
Monthly benefits, as a % of eligible compensation	2.0% to 2.7%	2.4% to 3.0%
Required employee contribution rates	9%	0.0% *
Required employer contribution rates	14.785%	0.00% *

*There are no active employees in this plan during the measurement period.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for all Miscellaneous Plans and Safety Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017 the contributions recognized as part of pension expense for each plan were as follows:

	<i>Safety</i>	<i>Miscellaneous</i>
Contributions - employer	\$ 1,112,696	\$ 670,838

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – NET PENSION LIABILITY (Continued)

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

As of June 30, 2016, measurement date, the City reported net pension liabilities for its proportionate share of the net pension liability of each Miscellaneous and Safety Plan as follows:

	Proportionate Share of Net Pension Liability
Safety	\$ 17,790,912
Miscellaneous	20,234,806
Total Net Pension Liability	<u>\$ 38,025,718</u>

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans are measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. 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 plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016 was as follows:

Proportion - June 30, 2016	0.44%
Proportion - June 30, 2015	<u>0.47%</u>
Change Increase/(Decrease)	<u>-0.03%</u>

For the year ended June 30, 2017, the City recognized a pension expense of \$1,962,459 for the CalPERS Plan. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Safety		Miscellaneous		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 1,112,696	\$ -	\$ 670,838	\$ -	\$ 1,783,534	\$ -
Differences between actual and expected experience	-	(78,431)	57,740	(13,230)	57,740	(91,661)
Changes in assumptions	-	(341,964)	-	(546,277)	-	(888,241)
Net differences between projected and actual earnings on plan investments	1,680,052	-	2,843,188	-	4,523,240	-
Difference in actual contributions and proportion contributions	-	(242,979)	-	(185,736)	-	(428,715)
Change in proportion and differences between actual contributions and proportionate share of contributions	174,295	(474,673)	1,514,171	-	1,688,466	(474,673)
Total	<u>\$ 2,967,043</u>	<u>\$ (1,138,047)</u>	<u>\$ 5,085,937</u>	<u>\$ (745,243)</u>	<u>\$ 8,052,980</u>	<u>\$ (1,883,290)</u>

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – NET PENSION LIABILITY (Continued)

In the table above, the \$1,783,534 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Safety Annual Amortization	Miscellaneous Annual Amortization	Total
2018	\$ (298,132)	\$ 846,644	\$ 548,512
2019	(195,024)	750,262	555,238
2020	772,089	1,336,531	2,108,620
2021	437,367	736,419	1,173,786

Actuarial Assumptions

The total pension liabilities in the actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.5% (1)
Mortality	Derived using CalPers Membership Data for all Funds (2)

(1) Net of pension plan investment expenses, including inflation

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on the CalPERS website: www.calpers.ca.gov

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for each of the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the assumed 7.65% discount rate is adequate and the use of the municipal bond rate is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – NET PENSION LIABILITY (Continued)

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, staff took into account both short-term and long-term market return expectations and the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10(a) ¹	Real Return Years 11+ ²
Global Equity	51%	5.25%	5.71%
Global Fixed Income	20%	0.99%	2.43%
Inflation Sensitive	6%	0.45%	3.36%
Private Equity	10%	6.83%	6.95%
Real Estate	10%	4.50%	5.13%
Infrastructure and Forestland	2%	4.50%	5.09%
Liquidity	1%	-0.55%	-1.05%
Total	100%		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – NET PENSION LIABILITY (Continued)

Sensitivity of the 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 for each Plan, calculated using the discount rate for each Plan, 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 or 1-percentage point higher than the current rate:

	Discount Rate		
	1% Decrease 6.65%	Current 7.65%	1% Increase 8.65%
Safety	\$ 24,920,024	\$ 17,790,912	\$ 11,938,642
Miscellaneous	28,958,077	20,234,806	13,025,456

Pension Plan Fiduciary Net Position

Detailed information about each pension plans' fiduciary net position is available in the separately issued CalPERS financial reports.

b. Public Agency Retirement Services (PARS) Longevity Recognition Plan

Plan Description and Benefits

The City sponsors a Longevity Recognition Plan for its retirees. All full-time employees hired before January 1, 2009 are eligible for a longevity recognition benefit if they retire from the City with a CalPERS pension and with at least 10 years of City service. All AFSCME (formerly known as Clerical and Mid-Management) and Teamsters employees hired on or after January 1, 2009 and before the following exclusion dates depending on bargaining group are eligible for a longevity recognition benefit if they retire from the City with a CalPERS pension and with at least 15 years of City service.

<u>Bargaining Group</u>	<u>Exclusion Date</u>
AFSCME (formerly known as Mid-Management)	December 13, 2010
AFSCME (formerly known as Clerical)	February 28, 2011
Teamsters	March 28, 2011

Employees hired by the City before January 1, 2009 receive a monthly payment equal to the Internal Revenue Code (IRC) Section 125 Plan benefit for active Miscellaneous employees with single coverage, \$809.46 per month for 2017, subject to future annual increases. The cap for Police retirees has been \$718.11 since 2011 and is not expected to be increased.

Eligible employees hired by the City after January 1, 2009 and before the exclusion date for their respective bargaining groups will receive a monthly payment of \$350 per month with no future increases upon retirement.

The longevity recognition benefit is payable for the retiree's lifetime. No continuation of longevity benefits are payable to surviving spouses or dependents. No employees hired after the above exclusion dates are eligible for longevity benefits.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – NET PENSION LIABILITY (Continued)

Participants Covered

As of the measurement date, June 30, 2016, the number of participants is as follows: 42 active and 33 retirees.

Contributions

During the year ended June 30, 2017, the contributions totaled \$452,000.

Net Pension Liability

The net pension liability for the plan is measured as the total pension liability, less the Plan's fiduciary net position. A summary of the actuarial assumptions and methods used to determine the net pension liability is shown below.

Actuarial Assumptions and Discount Rate

	PARS Longevity Recognition Plan	
	Valuation Date	June 30, 2015
	Measurement Date	June 30, 2016
Actuarial Cost Method	Individual Entry Age, Level Percent of Pay, Normal Cost Method 23-year amortization of unfunded liability (closed period) as a level percentage of projected payroll.	
Discount Rate		4.44%
Inflation		2.50%
Annual Salary Increases	CalPERS salary scale for Miscellaneous employees hired at age 30.	
Municipal Bond Rate	2.85%. As of June 30, 2016, the 20-year AA bond yield (based on the Bond Buyer Index).	
Investment Rate of Return	6.0% net of investment expenses, including 2.5% inflation.	
Mortality	Rates based on statistics taken from the California PERS Experience Study Report adopted in 2014 and include a margin for mortality improvement based on Scale BB projected to 2028.	

Assets are invested in PAR's Highmark Moderate Index PLUS Diversified Portfolio.

Asset Class	Asset Allocation	Expected Arithmetic Nominal Return (50 yrs)
U.S. Equity	50.0%	7.84%
U.S. Fixed Income	45.0%	4.88%
Cash	5.0%	3.19%
Expected Geometric Return (50 yrs)		5.94%

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – NET PENSION LIABILITY (Continued)

Changes in the Net Pension Liability

The changes in the June 30, 2016, Measurement Date follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	<u>\$ 9,513,814</u>	<u>\$ 1,663,142</u>	<u>\$ 7,850,672</u>
Changes in the year:			
Service cost	225,433		225,433
Interest on the total pension liability	470,045		470,045
Contribution - employer		350,000	(350,000)
Contribution - employee			
Net investment income		15,848	(15,848)
Administrative expenses		(394)	394
Change of assumptions	802,583		802,583
Benefit payments	(299,652)	(299,652)	
Net changes	<u>1,198,409</u>	<u>65,802</u>	<u>1,132,607</u>
Balance at June 30, 2016	<u>\$ 10,712,223</u>	<u>\$ 1,728,944</u>	<u>\$ 8,983,279</u>

Sensitivity of the Net Pension Liability to changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, 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 or 1-percentage point higher than the current rate:

	Discount Rate		
	1% Decrease 3.44%	Current 4.44%	1% Increase 5.44%
Net Pension Liability	\$ 10,651,711	\$ 8,983,279	\$ 7,625,860

Pension Plan Fiduciary Net Position

Detailed information about each pension plans' fiduciary net position is available in the separately issued PARS financial reports.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 10 – NET PENSION LIABILITY (Continued)

Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pension

For the year ended June 30, 2017, the City recognized pension expense of \$841,972 for the PARS Longevity Recognition Plan. At June 30, 2017, the City reported the following related to this plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 452,000	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	585,669	-
Net differences between projected and actual earnings on plan investments	108,436	-
Total	<u>\$ 1,146,105</u>	<u>\$ -</u>

The \$452,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Amortization
2018	\$ 247,365
2019	247,365
2020	182,290
2021	17,085

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS

a. Provisions and Benefits

OPEB Healthcare – During fiscal year 2008-2009, the City joined the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer plan administered by CalPERS, consisting of an aggregation of single-employer plans. City Council authorized a deposit of \$1,575,000 with CERBT on October 10, 2008 to begin funding its OPEB liability.

By Council resolution and through agreements with its labor units, the City provides certain health care benefits for retired employees (spouse and dependents are not included) under Public Employees' Medical Healthcare Act (PEMHCA). A summary of eligibility and retiree contribution requirements are described below:

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Employees are eligible for retiree health benefits if they retire from the City with a CalPERS pension.

For retirees who retired on or before December 31, 2008, the City will reimburse the retiree only premium, up to the active employee single cap. The cap amount for miscellaneous is \$809.46 per month for 2017. The cap amount for safety (Police) retirees is \$718.11 and is not expected to be increased.

The City will continue to pay the CalPERS minimum contribution for surviving spouses of retirees as long as they remain enrolled in a health plan sponsored by CalPERS (PEMHCA).

For employees retiring on or after January 1, 2009 from the City of San Carlos who choose to enroll in a CalPERS retiree health plan, the City contributes the minimum monthly premium amount specified by CalPERS towards the cost of CalPERS (PEMHCA) medical premiums. The minimum is \$128 per month for 2017.

As of June 30, 2017, 73 retired employees participated in the retiree healthcare benefits. Additionally, 101 current employees have met the criteria for the retiree healthcare benefits and are eligible to participate in the program if they retire from the City of San Carlos in future years.

b. Funding Policy and Actuarial Assumptions

OPEB Healthcare – The annual required contribution (ARC) was determined as part of a June 30, 2015, actuarial valuation using the projected unit credit actuarial cost method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current actives and retirees and is calculated based on the assumptions and census data from the actuarial report. The actuarial assumptions included (a) 7% discount rate and (b) range of 4.25% to 6.25% health inflation increases. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's unfunded actuarial accrued liability is amortized as a level dollars amount on a closed basis using a 30-year amortization period from June 30, 2009. The remaining amortization period as of June 30, 2017 is 22 years.

In accordance with the City's budget, the ARC is to be funded throughout the year as a percentage of payroll. During the fiscal year 2008-2009, the City Council passed a resolution to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administrated by CalPERS, and is managed by an appointed board not under the control of the City Council. This Trust is not considered a component unit of the City and has been excluded from these financial statements. Separately issued financial statements for CERBT may be obtained from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

c. Funding Progress and Funded Status

Generally accepted accounting principles permit contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability (AAL) when such contributions are placed in an irrevocable trust or equivalent arrangement. In fiscal year 2017, the City made contributions and amortized its net OPEB asset and obligation as presented below:

Annual required contribution (ARC)	\$ 383,000
Interest on net OPEB obligation	(1,000)
Adjustment to annual required contribution	<u>1,000</u>
Annual OPEB cost (expense)	383,000
Contributions made	<u>398,000</u>
Increase/(decrease) in Net OPEB obligation	(15,000)
Net OPEB Asset - beginning of year	<u>(9,759)</u>
Net OPEB Asset - end of year	<u><u>\$ (24,759)</u></u>

The City's annual required contributions and actual contributions for the year ended June 30, 2017 are set forth below:

Fiscal Year	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost	Net OPEB Obligation (Asset)
6/30/2017	\$ 383,000	\$ 398,000	104%	\$ (24,759)

The Schedule of Funding Progress below and in the required supplementary information immediately following the notes to the financial statements presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data as of the June 30, 2015 actuarial study is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Overfunded (Unfunded) AAL (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Unfunded) AAL as Percentage of Covered Payroll [(A – B)/C]
6/30/2015	\$ 1,255	\$ 4,926	\$ (3,671)	25.48%	\$ 5,805	-63.24%

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 12 – RISK MANAGEMENT

a. Liability Coverage

The City participates in the Association of Bay Area Governments (ABAG), a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. The ABAG Plan provides \$5,000,000 of general and automobile liability coverage per occurrence and \$25,000,000 excess liability coverage per occurrence and is responsible for paying claims in excess of the City's \$100,000 deductible. For the year ended June 30, 2017, the City paid the ABAG Plan \$360,459 in premiums.

Financial statements may be obtained from ABAG Services, P.O. Box 2050, Oakland, CA 94604-2050.

b. Workers' Compensation Coverage

The City participates in the Cities Group, created by a joint powers agreement to provide workers' compensation coverage of up to \$10,000,000 per occurrence in excess of \$1,500,000 for safety officers and \$1,000,000 for miscellaneous employees. The Group acts as administrator, claim adjuster and provides other risk management services as required by State law. Each member of the Group pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the Group. During the year ended June 30, 2017, the City paid the Group \$64,559 in premiums. At June 30, 2017, the Group reported that the City's equity for the workers' compensation program amounted to \$156,193.

Financial statements may be obtained from the Cities Group, P.O. Box 111, Burlingame, CA 94011-0111.

c. Liability for Uninsured Claims

The City's liability for uninsured claims at June 30, 2017 was estimated by management based on the ABAG Plan's claims experience and recorded in the Liability Insurance Internal Service Fund.

For the years ended June 30, 2017 and 2016, the amount of settlements did not exceed insurance coverage.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 12 – RISK MANAGEMENT (Continued)

The City's liability for uninsured claims is limited to workers' compensation and general liability claims, as discussed above, and was estimated by management based on prior years' claims experience as follows for the year's ended:

	June 30,	
	2017	2016
Beginning balance	\$ 573,896	\$ 523,895
Net change in liability for claims and claims paid but not reported	385,196	528,405
Claims paid	(361,922)	(478,404)
Balance at June 30	597,170	573,896
Current Portion	347,170	200,736
Long-term Portion	\$ 250,000	\$ 373,160

NOTE 13 – JOINT VENTURES

The City participates in joint ventures through formally organized and separate entities established under the Joint Exercise of Powers Act (JPA) of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Each joint venture is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective joint venture, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these joint ventures are not the City's responsibility and the City does not have an equity interest in the assets of each joint venture except upon dissolution of the joint venture.

a. Belmont-San Carlos Fire Department

The South County Fire Authority was formed in 1979 between the Cities of San Carlos and Belmont on an equal basis to provide more efficient fire protection services for the two cities. Any assets used by the Fire Authority but owned by the member agencies prior to the creation of the Fire Authority remain the property of the members. Each member contributes its pro rata share of operating costs to the Fire Authority.

On April 12, 2010, the City Council adopted a resolution authorizing the City Manager to send notice to Belmont Fire Protection District of the City's intent to dissolve the joint powers authority establishing Belmont-San Carlos Fire Department. The service termination of the Belmont-San Carlos Fire Department took effect on October 1, 2011.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 13 – JOINT VENTURES (Continued)

As a result of the termination of service with the Belmont-San Carlos Fire Department, the City is required to make the annual contribution paying for: other post-employment benefits for retirees who have earned lifetime medical coverage; unfunded liabilities of the safety and miscellaneous retirement plans with CalPERS; outstanding workers' compensation claims from past employees; and liability claims or other obligations of the former Fire Department. The City's contribution during the year ended June 30, 2017 was \$1,814,363.

b. Fire and Emergency Services Agreement with the City of Redwood City

In July 2011, the City of San Carlos and the City of Redwood City entered into an agreement for fire and emergency services. This original agreement allowed the City of San Carlos to maintain a fire department, including personnel and infrastructure, at its sole cost sufficient to provide certain emergency and non-emergency services. The City of Redwood City provided certain fire and emergency services, including fire administration and support; fire prevention; investigation; and training. The City of San Carlos pays the City of Redwood City a fee for the services provided that will be reviewed in January of each year and amended to reflect actual increases or decreases in cost.

On June 24, 2013, the City Council adopted a resolution for the execution of the amended and restated agreement between the Cities of Redwood City and San Carlos for a full service model for fire and emergency services. The restated agreement also included the transfer of fire services personnel from the City of San Carlos to the City of Redwood City on July 1, 2013. The term of the agreement is five years, commencing on July 1, 2013 and expiring on June 30, 2018. Costs of services will be reviewed annually and brought forward for Council approval each year.

c. Law Enforcement Services Agreement with the County of San Mateo

In September 2010, the City Council approved a five-year Police Services Agreement contract with the County of San Mateo Sheriff's Office to provide law enforcement to the City. The contract with the Sheriff includes police management, patrol, investigation, traffic enforcement, community and school services, as well as support service components. The contract maintains minimum staffing levels for patrol, provides for the same quick response times and restores many of the key community programs that the San Carlos Police Department had provided during better economic times. The consolidation of police services with the Sheriff's Office results in estimated annual savings of approximately \$2 million. Annual cost increases are limited to those increases required under California Government Code: Section 51350.

On May 11, 2015, the Agreement with the Sheriff's Office was renewed for another five-year term expiring June 30, 2020. In the seventh year of the Agreement, the total charges for Fiscal Year 2016-17 were \$7,872,997.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 13 – JOINT VENTURES (Continued)

d. Silicon Valley Clean Water (SVCW)

Silicon Valley Clean Water (formerly the South Bayside System Authority) was formed in 1975 between the cities of San Carlos, Belmont, Redwood City and the West Bay Sanitation District to operate a wastewater treatment facility. The cost of operating and maintaining the facility is divided in proportion to the volume of sewage entering from each member entity. During the year ended June 30, 2017, the City contributed \$3,791,196 toward the cost of operating and maintaining the facility and paid debt principal and interest of \$1,983,153 that included the State revolving fund loan and the financing agreements to finance the construction and rehabilitation of the SVCW's wastewater system. For the fiscal year 2017 – 2018, the City is obligated to pay debt principal and interest payments totaling \$1,985,219.

The condensed financial information of the JPA as of June 30, 2017 is as follows:

Total Assets	\$ 302,112,248
Total Deferred Outflows	6,969,339
Total Liability	(223,112,712)
Total Deferred Inflows	(5,832,072)
Total Net Position	<u>\$ 80,136,803</u>
Total Operating Revenues	\$ 38,604,428
Total Operating Expenses	(32,149,766)
Total Operating Income (Loss)	6,454,662
Other Income (Loss)	(5,481,752)
Net Income	<u>\$ 972,910</u>
Cumulative Agency Balances:	
Belmont	\$ 20,755,009
San Carlos	6,680,080
Redwood City	39,111,940
West Bay Sanitation District	13,589,774
Total Net Position	<u>\$ 80,136,803</u>

Of the \$223,112,712 liability, \$130,390,000 is related to the 2009, 2014 and 2015 revenue bonds. Of that amount, the City's direct obligation is \$22,463,030.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 13 – JOINT VENTURES (Continued)

The City entered into financing agreements with SVCW for repayment of the City's allocated share of the 2009, 2014 and 2015 bonds in the amount of \$30,947,027. The financing agreements are secured by a pledge of the City's Sewer Enterprises Fund Net Revenue as defined under the financing agreements. For the fiscal year 2016 – 2017, gross Sewer Fund revenues, including operating revenues and non-operating interest earnings, amounted to \$17,072,848. The operating and maintenance costs, including operating expenses, transfers out for overhead and administrative cost but excluding interest, and depreciation or amortization amounted to \$9,563,723. Net revenues available for debt services amounted to \$7,509,125, which represented coverage of 4.04 times over the total of debt services of \$1,859,007.

In October 2015, SVCW issued the 2015 wastewater revenue bonds in the amount of \$70.2 million. Pursuant to the financing agreement, the City's allocable share of the 2015 bonds is approximately 15.14%.

Of the total bond proceeds, \$8.5 million will be used to refund, on an advance basis, certain maturities of the 2008 Bonds and approximately \$49.8 million will be used to refund, on an advance crossover basis, certain maturities of the 2009 Bonds.

Proceeds associated with the Refunded 2008 Bonds has been deposited into the "2008 Escrow Fund" for principal and interest payments through August 1, 2017, when the remaining proceeds will be applied to pay the redemption price of the outstanding Refunded 2008 Bonds in full. As a result of the deposit and the application of funds under the escrow agreement relating to the Refunded 2008 Bonds, the Refunded 2008 Bonds are considered fully defeased upon the issuance of the 2015 bonds and are no longer secured by revenues that were originally pledged for the payment of the 2008 Bonds.

Proceeds associated with the Refunded 2009 Bonds has been deposited into the "2009 Escrow Fund" until the Crossover date of August 1, 2019, when all of the outstanding Refunded 2009 Bonds will be redeemed, without premium. Prior to the Crossover date, the Refunded 2009 Bonds will continue to be secured by and payable from the revenues that were originally pledged for the payment of the 2009 Bonds.

The City's investment in SVCW was adjusted to reflect a net increase in the investment of \$1.7 million. Every year the City adjusts the investment based on the City's proportion of financial activity at SVCW.

Financial statements may be obtained by mailing a request to Silicon Valley Clean Water, 1400 Radio Road, Redwood City, CA 94065.

e. City/County Association of Governments of San Mateo County (C/CAG)

City/County Association of Governments of San Mateo County was formed in 1990 between the various cities in San Mateo County to prepare, adopt, monitor and enforce State mandated plans for the management of traffic congestion, integrated solid waste, airport land use and hazardous waste. The City's contribution to C/CAG was \$101,752 for the year ended June 30, 2017. Financial statements may be obtained by mailing a request to the City of San Carlos, 600 Elm Street, San Carlos, CA 94070.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 13 – JOINT VENTURES (Continued)

f. South Bayside Waste Management Authority (SBWMA)

The South Bayside Waste Management Authority (the Authority) was formed by a joint powers agreement on October 13, 1999. Members of the Authority currently include the cities of Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, as well as the West Bay Sanitary District and the County of San Mateo. The Members are required by AB939 to reduce, recycle and reuse solid waste generated within their respective jurisdictions and to provide source reduction, recycling and composting activities. The Authority's purpose is to assist its members in meeting these requirements. Financial statements may be obtained by mailing a request to the City of San Carlos, 600 Elm Street, San Carlos, CA 94070.

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES

The City is subject to litigation arising during the normal course of business. In the opinion of the City Attorney, there is no pending litigation that is likely to have a material adverse effect on the financial position of the City.

The City participates in federal, State and local grant programs. These programs have been audited by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act of 1984, as amended, and applicable State requirements. No cost disallowances were proposed as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

a. Palo Alto Medical Foundation Development Agreement

On October 8, 2007, after an extensive 3 1/2-year process, the City Council approved a proposal by the Palo Alto Medical Foundation (PAMF) to develop a regional Medical Clinic, Medical Office Building and Hospital on an 18-acre site at 301 Industrial Road in San Carlos that formerly housed the Varian – CPI Eimac plant. In 2011, Sutter Health, PAMF's parent organization, approved funding for the first phase construction of its medical facility in San Carlos. This included construction of the Medical Office Building and Clinic, the parking garage to serve full facility build-out, and site improvements, including utilities, loop access road and landscaping. In May 2012, PAMF received construction permits from the City and began work. The Medical Office Building and Clinic opened to patients in November 2014. A second phase of the project, to construct the Hospital on this site, remains unfunded.

The purchase and transfer of the 18-acre site at 301 Industrial Road took a major parcel in San Carlos off of the property tax rolls of the City. This occurred when the title to the site passed from 301 Industrial LLC (the entity performing the site clearance and remediation activities) to PAMF, which is a tax-exempt entity. In addition, the PAMF San Carlos Center generates very little in sales tax revenue for the City. To offset this fiscal impact, a Development Agreement with PAMF was entered into to ensure that the City would be in substantially the same position financially as the City would likely have been with use of the Project Site instead for another, economically productive use.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The key components of the Development Agreement are described in the table below. The Development Agreement guarantees the City nearly \$91,000,000 in revenue over a 50-year period. When factoring in costs for City services, the Development Agreement would net the City \$43,939,000 over 50 years, resulting in a positive net present value of \$11,642,000. The net amount does not include one-time payments of \$1 million to the City for athletic fields and \$1.5 million to the San Carlos Education Foundation for educational purposes. This amount also does not include the City's share of any excess returns of the \$9 million principal amount to be funded by PAMF under the agreement, which could be substantial depending on the investment returns received on the fund.

The financial impacts of these developments are beneficial to the City. The Guaranteed Minimum Payments (item "C" in the table below) began in 2010-11 with a payment of \$630,000 in April 2011 after receipt of \$250,000 per year payments in the two years prior as described in the Development Agreement. Guaranteed Minimum Payments continued the following year with a payment of \$730,607 in April 2017. The next guaranteed payment will be \$748,872 in April 2018.

In addition to receiving the Year 3 Guaranteed Minimum Payments of \$630,000 in April 2011 as specified in the Development Agreement, the start of construction triggered two more events.

First, the City received the "construction period revenue" for Phase 1 of the PAMF development (see item "D" in the table below). Since the second phase of the project is unfunded, the City and PAMF agreed to allocate \$252,700 of the total construction period revenue to Phase 1, which the City has received.

Second, the start of construction triggered payment to the City of the "guaranteed minimum annual operational use tax revenue" one year after construction is completed (see item "E" in the table below).

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

The revenue sources contained in the Development Agreement are summarized in the following table:

	Funding Source	Summary Description	Current Status
A	\$9 million endowment fund (called the Designated Fund)	At the end of 50 years, the Designated Fund becomes the City's to administer	No change.
B	50% of excess returns on the Designated Fund at the end of the payment term	In addition to receiving the \$9 million Designated Fund at the end of the term of the agreement, the City will then receive 50% of the amount of the Designated Fund that exceeds \$9 million	No change.
C	Guaranteed minimum payments from the revenue on the Designated Fund	\$250,000 in each of Years 1 and 2 \$630,000 in Year 3 \$630,000 inflated by 2.5% per year for the next 49 years	The City has received a total of \$5,254,881 from years 1 through 9. City will receive the year 10 payment of \$748,872 in April 2018 as scheduled.
D	Guaranteed minimum construction-related use tax revenue	\$722,000 for the principal construction period	With the start of construction in May 2012, construction period revenue (use tax assigned to the project by the contractors) began to flow to the City's sales tax account. At completion of Phase I construction, the City had received a total of \$252,700 in construction user taxes.
E	Guaranteed minimum annual operational use tax revenue	\$152,000/year inflated by 3% per year for 50 years	Deferred — \$152,000 per year is guaranteed for 50 years starting 1 year after construction of both the Medical Clinic and Hospital facilities are completed.
F	\$1.5 million	One-time payment to the San Carlos Education Foundation for health-related school programs	Received by San Carlos Education Foundation on Feb. 5, 2008.
G	\$1 million	One-time payment to the City to improve athletic facilities and fields	Received — by City of San Carlos on Feb. 5, 2008 and the funds were used to install a synthetic turf field at Lower Highlands Park.

Total: \$90,804,000 (minimum) over 50 years

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

b. San Francisco Baykeeper Commitment

On February 16, 2010, the City entered into a consent decree with San Francisco Baykeeper to reduce the number of sanitary sewer overflows (SSOs) from the wastewater collection system. The agreement sets forth a timeline for reducing SSOs from the 2010 level of 64 per 100 miles of sewer line per year to a level of 4 per 100 miles of sewer line per year in 2017. The agreement required payments of \$200,000 for an environmental mitigation project, \$95,000 for litigation fees and costs, and \$55,000 for compliance monitoring. These obligations have been met. The agreement also commits the City to certain actions including: SSO investigation, response and reporting; sewer condition assessment rehabilitation replacement; implementation of a fats, oil and grease program; sewer cleaning, hot spots, and lateral programs; regulation of private laterals; and a chemical root control program. An annual report is required commencing on March 1, 2011 and each year thereafter. The agreement sets forth stipulated payments for failure to file required reports.

The City was notified by San Francisco Baykeeper (Baykeeper) that the Consent Decree which was signed and issued in 2010 would be allowed to automatically terminate after seven years. Baykeeper was pleased with the City's progress reducing SSOs.

To achieve these reductions, the City made a significant commitment to investing in its sewer system infrastructure, in terms of both financial and staff resources. The improvements to the City's system have resulted in the prevention of hundreds of thousands of gallons of untreated sewage reaching San Francisco Bay. The consent decree has terminated.

c. Construction Commitments

Construction commitments as of June 30, 2017 consisted of the following projects:

Project Name	Contract Amount	Expenditures to date as of June 30, 2017	Remaining Commitments
Holly Street/US 101 Interchange Modification	\$ 4,149,292	\$ 4,132,297	\$ 16,995
Capacity Assurance Improvement	4,454,000	4,169,871	284,129
Sewer Lateral Replacement Project	1,111,630	1,040,920	70,710
Capacity Assurance Improvement Phase 4	1,642,050	1,180,233	461,817
Sanitary Sewer Rehabilitation Project	2,179,546	1,880,404	299,142
City Hall and Corporation Yard Generator	685,376	660,651	24,725
Highland Park Renovation	1,178,478	273,428	905,050

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 14 – COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

d. PG&E Gas Transmission Line 147

The City is an interested party in matter 015-11-015, under which Pacific Gas and Electric is being investigated for serious rules violations for improper ex parte communications with the California Public Utilities Commission (CPUC). A tentative Settlement has been reached that is subject to CPUC approval. If approved, the City's General Fund will receive \$6,000,000. Additional ex parte communications have been disclosed, that could affect the Settlement and receipt of the funds.

NOTE 15 – SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provided for the dissolution of all Redevelopment Agencies in the State of California. This action impacted the reporting entity of the City of San Carlos that previously had reported a Redevelopment Agency within the reporting entity of the City as a blended component unit.

The Bill provided that upon dissolution of a Redevelopment Agency, either the City or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of State and local government. On January 9, 2012, the City Council elected to become the Successor Agency for the former Redevelopment Agency in accordance with the Bill.

After enactment of the law, which occurred on June 28, 2011, Redevelopment Agencies in California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, Successor Agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Redevelopment Agency until all enforceable obligations of the prior Redevelopment Agency have been paid in full and all assets have been liquidated.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

**NOTE 15 – SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER
REDEVELOPMENT AGENCY (Continued)**

Additional Information for the Successor Agency of the Former RDA

a. Cash and Investments

Cash and investments reported in the Successor Agency in the accompanying financial statements consisted of the following:

Cash and investments	\$ 1,137,553
Cash and investments with fiscal agent	<u>2,524,647</u>
Total Cash and Investments	<u>\$ 3,662,200</u>

b. Capital Assets

Capital assets of the Successor Agency as of June 30, 2017 consisted of the following:

	Balance at June 30, 2016	Additions	Retirements	Balance at June 30, 2017
Capital assets not being depreciated:				
Land	\$ 588,000	\$ -	\$ (588,000)	\$ -
Construction in progress	281,676	-	-	281,676
Total non-depreciable assets	<u>869,676</u>	<u>-</u>	<u>(588,000)</u>	<u>281,676</u>
Capital assets being depreciated:				
Buildings and improvements	2,311,798	-	(2,311,798)	-
Total capital assets being depreciated	<u>2,311,798</u>	<u>-</u>	<u>(2,311,798)</u>	<u>-</u>
Less accumulated depreciation for:				
Buildings	(250,999)	(11,559)	262,558	-
Total accumulated depreciation	<u>(250,999)</u>	<u>(11,559)</u>	<u>262,558</u>	<u>-</u>
Net capital assets being depreciated	<u>2,060,799</u>	<u>(11,559)</u>	<u>(2,049,240)</u>	<u>-</u>
Capital assets, net	<u>\$ 2,930,475</u>	<u>\$ (11,559)</u>	<u>\$ (2,637,240)</u>	<u>\$ 281,676</u>

c. Long-term Debt

The Successor Agency long-term debt issues and transactions are summarized below and discussed in detail thereafter.

	Balance June 30, 2016	Retirements	Balance June 30, 2017	Due Within One Year
Notes Payable:				
Installment Purchase Agreement	\$ 2,635,859	\$ (50,626)	\$ 2,585,233	\$ 55,790
Richard A. Berghella Trust Agreement,	582,748	(18,075)	564,673	19,869
2007 Non-Taxable Revenue Bonds, Series A	11,820,000	(145,000)	11,675,000	155,000
2007 Taxable Revenue Bonds, Series B	<u>1,040,000</u>	<u>(330,000)</u>	<u>710,000</u>	<u>345,000</u>
Total	<u>\$ 16,078,607</u>	<u>\$ (543,701)</u>	<u>\$ 15,534,906</u>	<u>\$ 575,659</u>

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

**NOTE 15 – SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER
REDEVELOPMENT AGENCY (Continued)**

Installment Purchase Agreement

On October 1, 1994, the Redevelopment Agency (Agency) purchased real property and provided the bulk of the financing required to construct and equip an 85-unit residential care facility for elderly low income persons. As part of the transaction, the San Carlos Development Corporation (SCDC) agreed to purchase and operate the facility. The Agency signed an Installment Purchase Agreement in the amount of \$2,800,000 to finance its purchase of the land. Payments are made out of receipts from SCDC. Interest payments on the Installment Agreement are due monthly and principal payments began on May 1, 2012 and will continue through June 1, 2035, bearing interest of 10.9%. As of June 30, 2017, the total principal and interest remaining on the debt is \$5,487,934.

Richard A. Berghella Trust Agreement

In October 2001, the Agency entered into a purchase agreement for \$720,156 to purchase a parcel of land to be used for the construction of a residential facility for low and moderate income residents of the city. The agreement calls for monthly principal and interest payments of \$6,055 due on the 15th day of each month through August 15, 2032, bearing interest at 9.50% per annum. As of June 30, 2017, the total principal and interest remaining on the debt is \$1,029,299.

Tax Allocation Bonds

In December 2007, the Agency issued \$12,875,000 of 2007 Series A Revenue Bonds, and \$3,135,000 of 2007 Series B Taxable Revenue Bonds, to refinance the 1995 and 1997 Tax Allocation Bonds and to finance various redevelopment activities within or of benefit to the Project Area. The refunding resulted in an overall debt service increase of \$75,767. The net present value of the savings resulted in an economic gain of \$416,051. The 1995 and 1997 Tax Allocation Revenue Bonds were subsequently retired in December 2007.

The 2007 Series A and Series B Bonds are special obligations of the Agency payable solely from and secured by a pledge of tax revenues, including ad valorem taxes and incremental taxes that are required to be deposited into the housing fund, generated within the Project Area. Principal payments are payable annually on September 1 and the last principal payment is scheduled to occur in 2033. Interest payments are due semi-annually on September 1 and March 1 and bear interest between 3.25% and 5.5%. The pledge of future tax revenue ends upon repayment of the total 2007 Series A and Series B bonds in the amount of \$27 million.

On February 1, 2012, this debt was transferred to the Successor Agency, which took over responsibility of winding down the operations of the former Agency upon dissolution.

CITY OF SAN CARLOS
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

**NOTE 15 – SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER
REDEVELOPMENT AGENCY (Continued)**

The Agency pledged, as security for bonds issued, either directly or through the Financing Authority, a portion of tax increment revenue that it receives. The bonds were issued to provide financing for various capital projects. Assembly Bill 1X 26 provided that upon dissolution of the Agency, property taxes allocated to redevelopment agencies no longer are deemed tax increment but rather property tax revenues and will be allocated first to successor agencies to make payments on the indebtedness incurred by the dissolved redevelopment agency. Total principal and interest remaining on the debt is \$18,043,345 with annual debt service requirements as included below. For the current year, the total property tax revenue recognized by the Successor Agency for the payment of indebtedness incurred by the dissolved Redevelopment Agency was \$1,608,179 and the debt service obligation on the bonds was \$1,067,450.

Debt Service Requirements

The following schedule illustrates the debt service requirements to maturity for the debt outstanding as of June 30, 2017:

For the Year Ending June 30	Bonds			Agreements		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 500,000	\$ 568,444	\$ 1,068,444	\$ 75,659	\$ 302,401	\$ 378,060
2019	520,000	542,913	1,062,913	83,317	294,743	378,060
2020	550,000	518,431	1,068,431	91,755	286,305	378,060
2021	570,000	494,975	1,064,975	101,046	277,014	378,060
2022	595,000	470,219	1,065,219	111,278	266,782	378,060
2023-2027	3,400,000	1,918,875	5,318,875	750,050	1,140,276	1,890,326
2028-2032	4,245,000	1,043,113	5,288,113	1,152,160	677,564	1,829,724
2033-2035	2,005,000	101,375	2,106,375	784,641	122,242	906,883
Total	<u>\$ 12,385,000</u>	<u>\$ 5,658,345</u>	<u>\$ 18,043,345</u>	<u>\$ 3,149,906</u>	<u>\$ 3,367,327</u>	<u>\$ 6,517,233</u>

d. Commitments and Contingent Liabilities

The Successor Agency is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation that is likely to have a material adverse effect on the financial position of the Successor Agency.

e. State Controller Office Asset Transfer Review

In October 2014, the State Controller's office completed the fieldwork for its review of the asset transfers between the City and Redevelopment Agency made from January 1, 2011 through January 31, 2012 in accordance with Health and Safety Code section 34167.5. Through the review, the State Controller's office identified that the repayment of principal and interest on a loan between the City and the former Redevelopment Agency, in the amount of \$3,308,092, was deemed unallowable and should be returned. The results of the review was based on the State Controller's interpretation and understanding of the Code. The City disagrees with the finding and has communicated such to the State Controller's office. As of June 30, 2017, The City is waiting for an appeal process to be made available so that an appeal can be filed.

REQUIRED SUPPLEMENTARY INFORMATION

This Page Left Intentionally Blank

REQUIRED SUPPLEMENTARY INFORMATION

CALPERS COST SHARING PLAN
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS

Measurement Dates:	Miscellaneous		
	6/30/14	6/30/15	6/30/16
Plan's proportion of the Net Pension Liability (Asset)	0.22%	0.25%	0.23%
Plan's proportion share of the Net Pension Liability (Asset)	\$ 13,765,793	\$ 16,833,679	\$ 20,234,806
Plan's Covered Payroll	6,254,350	6,577,443	7,079,214
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	220%	256%	286%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	77.29%	72.85%	68.77%

Measurement Dates:	Safety		
	6/30/14	6/30/15	6/30/16
Plan's proportion of the Net Pension Liability (Asset)	0.22%	0.23%	0.21%
Plan's proportion share of the Net Pension Liability (Asset)	\$ 13,974,817	\$ 15,579,631	\$ 17,790,912
Plan's Covered Payroll	2,225,546	114,534	119,583
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	627.93%	13603%	14877%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	73.42%	69.92%	66.12%

Notes to Schedule:

Benefit Changes: There were no changes to benefit terms that applied to all members of the Public Agency Pool. However, individual employers in the Plan may have provided a benefit improvement to their employees by granting Two Years Additional Service Credit to members retiring during a specified time period (a.k.a. Golden Handshakes).

Changes in assumptions: There were no changes of assumptions

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

REQUIRED SUPPLEMENTARY INFORMATION

**CALPERS COST SHARING PLAN
SCHEDULE OF PLAN CONTRIBUTIONS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS**

Fiscal year ended	Miscellaneous		
	2015	2016	2017
Actuarially determined contribution	\$ 1,261,404	\$ 1,102,597	\$ 670,838
Contributions in relation to the actuarially determined contributions	(1,261,404)	(1,102,597)	(670,838)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
 Covered payroll	 \$ 6,254,350	 \$ 6,577,443	 \$ 7,079,214
 Contributions as a percentage of covered payroll	 20.17%	 16.76%	 9.48%

Fiscal year ended	Safety		
	2015	2016	2017
Actuarially determined contribution	\$ 1,034,659	\$ 1,169,706	\$ 1,112,696
Contributions in relation to the actuarially determined contributions	(1,034,659)	(1,169,706)	(1,112,696)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
 Covered payroll	 \$ 2,225,546	 \$ 114,534	 \$ 119,583
 Contributions as a percentage of covered payroll	 46.49%	 1021%	 930%

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

REQUIRED SUPPLEMENTARY INFORMATION

PARS LONGEVITY RECOGNITION PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS

Measurement Date:	6/30/2014	6/30/2015	6/30/2016
Total Pension Liability			
Service Cost	Not available	\$ 239,822	\$ 225,433
Interest	Not available	455,847	470,045
Changes of assumptions	Not available		802,583
Benefit payments, including refunds of employee contributions	Not available	(261,805)	(299,652)
Net change in total pension liability	Not available	433,864	1,198,409
Total pension liability - beginning	Not available	9,079,950	9,513,814
Total pension liability - ending (a)	9,079,950	9,513,814	10,712,223
Plan fiduciary net position			
Contributions - employer	311,000	328,200	350,000
Contributions - employee			
Net investment income	141,262	29,190	15,848
Administrative expenses		(373)	(394)
Benefit payments, including refunds of employee contributions	(208,839)	(261,805)	(299,652)
Net change in plan fiduciary net position	243,423	95,212	65,802
Plan fiduciary net position - beginning	1,324,507	1,567,930	1,663,142
Plan fiduciary net position - ending (b)	1,567,930	1,663,142	1,728,944
 Net pension liability - ending (a)-(b)	 \$ 7,512,020	 \$ 7,850,672	 \$ 8,983,279
 Plan fiduciary net position as a percentage of the total pension liability	 17.27%	 17.48%	 16.14%
Covered payroll ¹	\$ 4,751,000	\$ 3,794,000	\$ 3,848,632
Net pension liability as percentage of covered payroll	158.11%	206.92%	233.41%

Notes to Schedule:

¹ Covered payroll as of June 30, 2015 only reflects 36 of 43 active employees.

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

REQUIRED SUPPLEMENTARY INFORMATION

**PARS LONGEVITY RECOGNITION PLAN
SCHEDULE OF PLAN CONTRIBUTIONS
AS OF JUNE 30, FOR THE LAST TEN FISCAL YEARS**

Fiscal year ended	2015	2016	2017
Actuarially determined contribution	Not available	\$ 620,227	\$765,384
Contributions in relation to the actuarially determined contributions	Not available	(328,200)	(350,000)
Contribution deficiency (excess)	Not available	\$ 292,027	\$ 415,384
Covered payroll ¹	Not available	\$ 3,794,000	\$ 3,848,632
Contributions as a percentage of covered payroll	Not available	8.65%	9.09%

Notes to Schedule

Valuation date: 6/30/2015

Actuarial cost method	Entry-Age Normal Cost Method
Amortization method	Level percentage of payroll, closed
Remaining amortization period	23 year amortization of unfunded liability (closed period) as a level percentage of projected payroll

Discount Rate	4.44%
Inflation	2.50%
Annual Salary Increases	CalPERS salary scale for Miscellaneous employees hired at age 30.
Investment Rate of Return	6.0% net of investment expenses, including 2.5% inflation.
Mortality	Derived using CalPERS Membership Data for all Funds

¹ Covered payroll as of June 30, 2015 only reflects 36 of 43 actives employees.

* Fiscal year 2015 was the 1st year of implementation, therefore only three years are shown.

REQUIRED SUPPLEMENTARY INFORMATION

**OTHER POST-EMPLOYMENT BENEFITS
SCHEDULE OF PLAN CONTRIBUTIONS
AS OF JUNE 30, FOR THE LAST THREE FISCAL YEARS**

Fiscal Year	Annual OPEB Cost	Actual Contributions	Percentage of Annual OPEB Cost	Net OPEB Obligation (Asset)
6/30/2015	\$ 287,127	\$ 287,000	100%	\$ (106,879)
6/30/2016	381,320	284,200	75%	(9,759)
6/30/2017	383,000	398,000	104%	(24,759)

**OTHER POST-EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS (in thousands)
AS OF JUNE 30, FOR THE LAST THREE FISCAL YEARS**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Overfunded (Unfunded) AAL (A – B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Unfunded) AAL as Percentage of Covered Payroll [(A – B)/C]
6/30/2011	\$ 1,140	\$ 5,197	\$ (4,057)	21.94%	\$ 5,863	-69.20%
6/30/2013	1,073	3,895	(2,822)	27.55%	4,751	-59.40%
6/30/2015	1,255	4,926	(3,671)	25.48%	5,805	-63.24%

This Page Left Intentionally Blank

SUPPLEMENTAL INFORMATION

This Page Left Intentionally Blank

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENT
FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 700,000	\$ 700,000	\$ 1,265,089	\$ 565,089
Franchise taxes	1,386,600	1,386,600	1,853,604	467,004
Licenses and permits	-	-	548,935	548,935
From other agencies	400,000	191,896	1,257,306	1,065,410
Use of money and property	-	-	16,024	16,024
Other revenue	208,100	1,572,151	320,562	(1,251,589)
Total Revenues	2,694,700	3,850,647	5,261,520	1,410,873
Expenditures:				
Capital outlay	6,255,600	12,663,524	3,928,979	8,734,545
Total Expenditures	6,255,600	12,663,524	3,928,979	8,734,545
Excess (Deficiency) of Revenues Over Expenditures	(3,560,900)	(8,812,877)	1,332,541	10,145,418
Other Financing Sources (Uses):				
Transfers in	3,307,900	3,307,900	3,361,518	53,618
Transfers (out)	-	(450,000)	(473,500)	(23,500)
Total Other Financing Sources (Uses)	3,307,900	2,857,900	2,888,018	30,118
Net Change in Fund Balance	<u>\$ (253,000)</u>	<u>\$ (5,954,977)</u>	4,220,559	<u>\$ 10,175,536</u>
Beginning Fund Balance			12,311,030	
Ending Fund Balance			<u>\$ 16,531,589</u>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE

HOUSING

FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 27,500	\$ 27,500	\$ 146,263	\$ 118,763
Other revenue	76,500	76,500	683,805	607,305
Total Revenues	104,000	104,000	830,068	726,068
Expenditures:				
Community development	1,381,600	2,957,721	376,843	2,580,878
Total Expenditures	1,381,600	2,957,721	376,843	2,580,878
Net Change in Fund Balance	<u>\$ (1,277,600)</u>	<u>\$ (2,853,721)</u>	453,225	<u>\$ 3,306,946</u>
Beginning Fund Balance			<u>9,127,354</u>	
Ending Fund Balance			<u>\$ 9,580,579</u>	

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

NPDES FUND – Used to account for revenues received from assessments levied by the County on property and disburses funds in compliance with the provisions of the National Pollutant Discharge Elimination System.

POLICE GRANTS FUND – Used to account for grant activities and services paid for and reimbursed by grant funding. This fund includes grants from the following funding sources:

- **Supplemental Law Enforcement Services Funds (SLESF)** – Under the SLESF program, cities and counties receive State funds to augment public safety expenditures.
- **Office of Traffic Safety (OTS) State Funding** – The program funds a variety of traffic related projects including equipment, personnel and overhead reimbursement.

SAN CARLOS LIBRARY TENANT FUND – Used to account for the San Carlos Library tenants activities.

CAPITAL PROJECTS FUNDS

EQUIPMENT REPLACEMENT FUND – Used to account for the anticipated replacement of general equipment needs.

MEASURE A FUND – Used to account for the City's share of a one-half cent sales tax restricted for transportation purposes.

GAS TAX FUNDS – Used to account for revenue received and expended under the State of California, Streets and Highways Code Sections 2106, 2107, and 2107.5. These revenues must be expended for maintenance or construction of streets.

PARK FEE FUND – Used to account for development fees collected and used to finance the acquisition and construction of City parks.

PARKING IN-LIEU FUND – Used to account for fees charged to business in lieu of required parking. These revenues are used to pay for parking lot improvements and repairs.

DEBT SERVICE FUND

SAN CARLOS LIBRARY BONDS DEBT SERVICE FUND – Used to accumulate the annual tax levies earmarked for payment of principal and interest on the general obligation bonds.

CITY OF SAN CARLOS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

	Special Revenue Funds			Capital Projects Fund
	NPDES	Police Grants	San Carlos Library Tenant	Equipment Replacement
Assets:				
Cash and investments	\$ 315,564	\$ 220,910	\$ 1,665,665	\$ 3,078,080
Receivables:				
Accounts receivable	-	-	-	-
Total Assets	\$ 315,564	\$ 220,910	\$ 1,665,665	\$ 3,078,080
Liabilities:				
Accounts payable and accrued liabilities	\$ 3,654	\$ -	\$ -	\$ 13,840
Total Liabilities	3,654	-	-	13,840
Deferred Inflows of Resources:				
Unavailable revenue	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Fund balances:				
Restricted for:				
Public safety	-	220,910	-	-
Parks and recreation	-	-	-	-
Public works	311,910	-	-	-
Debt service	-	-	-	-
Committed to:				
General government	-	-	1,665,665	-
Community development	-	-	-	-
Capital projects	-	-	-	3,064,240
Total Fund Balances	311,910	220,910	1,665,665	3,064,240
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 315,564	\$ 220,910	\$ 1,665,665	\$ 3,078,080

CITY OF SAN CARLOS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

	Capital Projects Funds			
	Measure A	Gas Tax	Park Fee	Parking In-Lieu
Assets:				
Cash and investments	\$ 384,397	\$ 723,304	\$ 3,212,496	\$ 144,636
Receivables:				
Accounts receivable	-	32,941	-	-
Total Assets	\$ 384,397	\$ 756,245	\$ 3,212,496	\$ 144,636
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ 1,283	\$ 264,872	\$ -
Total Liabilities	-	1,283	264,872	-
Deferred Inflows of Resources:				
Unavailable revenue	-	26,864	-	-
Total Deferred Inflows of Resources	-	26,864	-	-
Fund balances:				
Restricted for:				
Public safety	-	-	-	-
Parks and recreation	-	-	2,947,624	-
Public works	384,397	728,098	-	-
Debt service	-	-	-	-
Committed to:				
General government	-	-	-	-
Community development	-	-	-	144,636
Capital projects	-	-	-	-
Total Fund Balances	384,397	728,098	2,947,624	144,636
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 384,397	\$ 756,245	\$ 3,212,496	\$ 144,636

CITY OF SAN CARLOS

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017**

	Debt Service Fund	Total Nonmajor Governmental Funds
	San Carlos Library Bonds	
Assets:		
Cash and investments	\$ 739,933	\$10,484,985
Receivables:		
Accounts receivable	-	32,941
Total Assets	\$ 739,933	\$ 10,517,926
Liabilities:		
Accounts payable and accrued liabilities	\$ -	\$ 283,649
Total Liabilities	-	283,649
Deferred Inflows of Resources:		
Unavailable revenue	-	26,864
Total Deferred Inflows of Resources	-	26,864
Fund balances:		
Restricted for:		
Public safety	-	220,910
Parks and recreation	-	2,947,624
Public works	-	1,424,405
Debt service	739,933	739,933
Committed to:		
General government	-	1,665,665
Community development	-	144,636
Capital projects	-	3,064,240
Total Fund Balances	739,933	10,207,413
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 739,933	\$ 10,517,926

This Page Left Intentionally Blank

CITY OF SAN CARLOS

COMBINING STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Special Revenue Funds			Capital Projects Funds
	NPDES	Police Grants	San Carlos Library Tenant	Equipment Replacement
Revenues:				
Sales taxes	\$ -	\$ -	\$ -	\$ -
Property taxes	-	-	-	-
Licenses and permits	-	-	-	-
From other agencies	524,853	130,086	-	-
Charges for current services	-	-	-	-
Use of money and property	2,357	-	242,130	-
Other revenue	5,000	-	-	-
Total Revenues	532,210	130,086	242,130	-
Expenditures:				
Current:				
General government	-	-	13,025	-
Community development	-	-	-	-
Public safety	-	92,839	-	-
Public works	501,057	-	-	-
Capital outlay	-	57,201	-	294,856
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	501,057	150,040	13,025	294,856
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	31,153	(19,954)	229,105	(294,856)
Other Financing Sources (Uses):				
Transfers in	-	-	-	712,000
Transfers (out)	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	712,000
Net Change in Fund Balances	31,153	(19,954)	229,105	417,144
Fund Balances, Beginning of Year	280,757	240,864	1,436,560	2,647,096
Fund Balances, End of Year	\$ 311,910	\$ 220,910	\$ 1,665,665	\$ 3,064,240

CITY OF SAN CARLOS

COMBINING STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Capital Projects Funds			
	Measure A	Gas Tax	Park Fee	Parking In-Lieu
Revenues:				
Sales taxes	\$ 804,007	\$ -	\$ -	\$ -
Property taxes	-	-	-	-
Licenses and permits	-	16,831	-	248
From other agencies	-	819,674	-	-
Charges for current services	-	9,600	-	-
Use of money and property	2,874	5,462	24,092	1,440
Other revenue	-	-	932,032	107,616
Total Revenues	806,881	851,567	956,124	109,304
Expenditures:				
Current:				
General government	-	-	-	-
Community development	-	-	-	3,769
Public safety	-	-	-	-
Public works	90,973	476,750	-	-
Capital outlay	-	1,232,190	303,428	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	90,973	1,708,940	303,428	3,769
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	715,908	(857,373)	652,696	105,535
Other Financing Sources (Uses):				
Transfers in	-	625,191	550,000	-
Transfers (out)	(950,000)	-	-	-
Total Other Financing Sources (Uses)	(950,000)	625,191	550,000	-
Net Change in Fund Balances	(234,092)	(232,182)	1,202,696	105,535
Fund Balances, Beginning of Year	618,489	960,280	1,744,928	39,101
Fund Balances, End of Year	\$ 384,397	\$ 728,098	\$ 2,947,624	\$ 144,636

CITY OF SAN CARLOS

COMBINING STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Debt Service Fund	Total Nonmajor Governmental Funds
	San Carlos Library Bonds	
Revenues:		
Sales taxes	\$ -	\$ 804,007
Property taxes	422,382	422,382
Licenses and permits	-	17,079
From other agencies	-	1,474,613
Charges for current services	-	9,600
Use of money and property	5,560	283,915
Other revenue	-	1,044,648
Total Revenues	<u>427,942</u>	<u>4,056,244</u>
Expenditures:		
Current:		
General government	-	13,025
Community development	-	3,769
Public safety	-	92,839
Public works	-	1,068,780
Capital outlay	-	1,887,675
Debt service:		
Principal	250,000	250,000
Interest and fiscal charges	99,485	99,485
Total Expenditures	<u>349,485</u>	<u>3,415,573</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>78,457</u>	<u>640,671</u>
Other Financing Sources (Uses):		
Transfers in	-	1,887,191
Transfers (out)	-	(950,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>937,191</u>
Net Change in Fund Balances	78,457	1,577,862
Fund Balances, Beginning of Year	661,476	8,629,551
Fund Balances, End of Year	<u>\$ 739,933</u>	<u>\$ 10,207,413</u>

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE

NPDES

FOR THE YEAR ENDED JUNE 30, 2017

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
From other agencies	\$ 537,600	\$ 537,600	\$ 524,853	\$ (12,747)
Use of money and property	-	-	2,357	2,357
Other revenue	5,100	5,100	5,000	(100)
Total Revenues	542,700	542,700	532,210	(10,490)
Expenditures:				
Public works	535,800	535,800	501,057	34,743
Total Expenditures	535,800	535,800	501,057	34,743
Net Change in Fund Balance	<u>\$ 6,900</u>	<u>\$ 6,900</u>	31,153	<u>\$ 24,253</u>
Beginning Fund Balance			<u>280,757</u>	
Ending Fund Balance			<u>\$ 311,910</u>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE
POLICE GRANTS
FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
From other agencies	\$ 102,000	\$ 102,000	\$ 130,086	\$ 28,086
Total Revenues	102,000	102,000	130,086	28,086
Expenditures:				
Public safety	90,000	90,000	92,839	(2,839)
Capital outlay	60,000	60,000	57,201	2,799
Total Expenditures	150,000	150,000	150,040	(40)
Net Change in Fund Balance	\$ (48,000)	\$ (48,000)	(19,954)	\$ 28,046
Beginning Fund Balance			240,864	
Ending Fund Balance			\$ 220,910	

CITY OF SAN CARLOS

**BUDGETARY COMPARISON SCHEDULE
 SAN CARLOS LIBRARY TENANT
 FOR THE YEAR ENDED JUNE 30, 2017**

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 232,100	\$ 232,100	\$ 242,130	\$ 10,030
Total Revenues	232,100	232,100	242,130	10,030
Expenditures:				
General government	381,600	381,600	13,025	368,575
Total Expenditures	381,600	381,600	13,025	368,575
Net Change in Fund Balance	<u>\$ (149,500)</u>	<u>\$ (149,500)</u>	229,105	<u>\$ 378,605</u>
Beginning Fund Balance			1,436,560	
Ending Fund Balance			<u>\$ 1,665,665</u>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE
EQUIPMENT REPLACEMENT
FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Expenditures:				
Capital outlay	\$ 965,600	\$ 1,450,600	\$ 294,856	\$ 1,155,744
Total Expenditures	965,600	1,450,600	294,856	1,155,744
Excess (Deficiency) of Revenues Over Expenditures	(965,600)	(1,450,600)	(294,856)	1,155,744
Other Financing Sources (Uses):				
Transfers in	712,000	712,000	712,000	-
Net Change in Fund Balance	\$ (253,600)	\$ (738,600)	417,144	\$ 1,155,744
Beginning Fund Balance			2,647,096	
Ending Fund Balance			\$ 3,064,240	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE

MEASURE A

FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales taxes	\$ 728,300	\$ 728,300	\$ 804,007	\$ 75,707
Use of money and property	-	-	2,874	2,874
Total Revenues	728,300	728,300	806,881	78,581
Expenditures:				
Public works	116,000	116,000	90,973	25,027
Total Expenditures	116,000	116,000	90,973	25,027
Excess (Deficiency) of Revenues Over Expenditures	612,300	612,300	715,908	103,608
Other Financing Sources (Uses):				
Transfers (out)	(950,000)	(950,000)	(950,000)	-
Net Change in Fund Balance	<u>\$ (337,700)</u>	<u>\$ (337,700)</u>	(234,092)	<u>\$ 103,608</u>
Beginning Fund Balance			618,489	
Ending Fund Balance			<u>\$ 384,397</u>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE

GAS TAX

FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Licenses and permits	\$ 45,900	\$ 45,900	\$ 16,831	\$ (29,069)
Charges for current services	-	-	9,600	9,600
From other agencies	987,100	987,100	819,674	(167,426)
Use of money and property	-	-	5,462	5,462
Total Revenues	1,033,000	1,033,000	851,567	(181,433)
Expenditures:				
Public works	477,200	477,200	476,750	450
Capital outlay	1,775,000	1,910,574	1,232,190	678,384
Total Expenditures	2,252,200	2,387,774	1,708,940	678,834
Excess (Deficiency) of Revenues Over Expenditures	(1,219,200)	(1,354,774)	(857,373)	497,401
Other Financing Sources (Uses):				
Transfers in	600,000	600,000	625,191	25,191
Net Change in Fund Balance	\$ (619,200)	\$ (754,774)	(232,182)	\$ 522,592
Beginning Fund Balance			960,280	
Ending Fund Balance			\$ 728,098	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE

PARK FEE

FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Use of money and property	\$ 2,100	\$ 2,100	\$ 24,092	\$ 21,992
Other revenue	869,300	269,300	932,032	662,732
Total Revenues	871,400	271,400	956,124	684,724
Expenditures:				
Capital outlay	1,455,000	2,005,000	303,428	1,701,572
Total Expenditures	1,455,000	2,005,000	303,428	1,701,572
Excess (Deficiency) of Revenues Over Expenditures	(583,600)	(1,733,600)	652,696	2,386,296
Other Financing Sources (Uses):				
Transfers in	-	550,000	550,000	-
Net Change in Fund Balance	\$ (583,600)	\$ (1,183,600)	1,202,696	\$ 2,386,296
Beginning Fund Balance			1,744,928	
Ending Fund Balance			\$ 2,947,624	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE

PARKING IN-LIEU

FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Licenses and permits	\$ 8,500	\$ 8,500	\$ 248	\$ (8,252)
Use of money and property	400	400	1,440	1,040
Other revenue	-	-	107,616	107,616
Total Revenues	8,900	8,900	109,304	100,404
Expenditures:				
Community development	4,500	4,500	3,769	731
Capital outlay	3,000	3,000	-	3,000
Total Expenditures	7,500	7,500	3,769	3,731
Net Change in Fund Balance	<u>\$ 1,400</u>	<u>\$ 1,400</u>	105,535	<u>\$ 104,135</u>
Beginning Fund Balance			<u>39,101</u>	
Ending Fund Balance			<u>\$ 144,636</u>	

CITY OF SAN CARLOS

BUDGETARY COMPARISON SCHEDULE
SAN CARLOS LIBRARY BONDS
FOR THE YEAR ENDED JUNE 30, 2017

	Budget Amounts		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 350,400	\$ 350,400	\$ 422,382	\$ 71,982
Use of money and property	-	-	5,560	5,560
Total Revenues	350,400	350,400	427,942	77,542
Expenditures:				
Principal	250,000	250,000	250,000	-
Interest and fiscal charges	99,600	99,600	99,485	115
Total Expenditures	349,600	349,600	349,485	115
Net Change in Fund Balance	<u>\$ 800</u>	<u>\$ 800</u>	78,457	<u>\$ 77,657</u>
Beginning Fund Balance			661,476	
Ending Fund Balance			<u>\$ 739,933</u>	

This Page Left Intentionally Blank

INTERNAL SERVICE FUNDS

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis. The concept of major funds does not extend to internal service funds because they do not do business with outside parties. The Statement of Activities, the net revenues or expenses of each internal service fund, is eliminated by netting them against the operations of the other City departments, which generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Position. However, internal service funds are still presented separately in the Fund Financial Statements, including the funds below:

WORKERS' COMPENSATION FUND – Used to account for activities relating to Workers' Compensation claims and the premiums for coverage.

LIABILITY INSURANCE FUND – Used to account for activities relating to general liability claims against the City and premiums for coverage above the City's risk retention level.

LONGEVITY BENEFITS FUND – Used to account for activities relating to health care benefits for retired employees.

CITY OF SAN CARLOS

COMBINING STATEMENTS OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2017

	Governmental Activities - Internal Service Funds			
	Workers' Compensation	Liability Insurance	Longevity Benefits	Total
Assets:				
Current:				
Cash and investments	\$ 277,449	\$ 939,666	\$ 272,238	\$ 1,489,353
Accounts receivable		37,612		37,612
Total Assets	\$ 277,449	\$ 977,278	\$ 272,238	\$ 1,526,965
Liabilities:				
Accounts payable	\$ -	\$ 9,627	\$ -	\$ 9,627
Claims payable:				
Due within one year	97,170	250,000	-	347,170
Due in more than one year	-	250,000	-	250,000
Total Liabilities	97,170	509,627	-	606,797
Net Position:				
Unrestricted	180,279	467,651	272,238	920,168
Total Net Position	\$ 180,279	\$ 467,651	\$ 272,238	\$ 920,168

CITY OF SAN CARLOS

COMBINING STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Funds			
	Workers' Compensation	Liability Insurance	Longevity Benefits	Total
Operating Revenues:				
Charges for services	\$ 778	\$ -	\$ 869,400	\$ 870,178
Cost reimbursements	53,100	901,900	-	955,000
Total Operating Revenues	53,878	901,900	869,400	1,825,178
Operating Expenses:				
Insurance premiums	64,559	368,144	-	432,703
Claims expense	(13,316)	357,698	850,000	1,194,382
Miscellaneous	6,662	22,824	-	29,486
Total Operating Expenses	57,905	748,666	850,000	1,656,571
Operating Income	(4,027)	153,234	19,400	168,607
Nonoperating Revenues:				
Investment income	3,110	7,029	2,062	12,201
From other agencies	-	43,885	-	43,885
Total Nonoperating Revenues	3,110	50,914	2,062	56,086
Changes in Net Position	(917)	204,148	21,462	224,693
Net Position:				
Beginning of Year	181,196	263,503	250,776	695,475
End of Fiscal Year	\$ 180,279	\$ 467,651	\$ 272,238	\$ 920,168

CITY OF SAN CARLOS

INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Funds			
	Workers' Compensation	Liability Insurance	Longevity Benefits	Total
Cash Flows from Operating Activities:				
Receipts from other funds	\$ 53,878	\$ 897,050	\$ 869,400	#####
Payments to suppliers	(71,671)	(416,485)	-	(488,156)
Claims paid	-	(321,108)	(850,000)	(1,171,108)
Net Cash Provided (Used) by Operating Activities	(17,793)	159,457	19,400	161,064
Cash Flows from Non-Capital Financing Activities:				
From other agencies	-	43,885	-	43,885
Net Cash Provided by Non-Capital Financing Activities	-	43,885	-	43,885
Cash Flows from Investing Activities:				
Interest	3,110	7,029	2,062	12,201
Net Cash Provided (Used) by Investing Activities	3,110	7,029	2,062	12,201
Net Increase (Decrease) in Cash and Cash Equivalents	(14,683)	210,371	21,462	217,150
Cash and Cash Equivalents at Beginning of Year	292,132	729,295	250,776	1,272,203
Cash and Cash Equivalents at End of Year	\$ 277,449	\$ 939,666	\$ 272,238	#####
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (4,027)	\$ 153,234	\$ 19,400	\$ 168,607
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Change in assets and liabilities:				
Accounts receivable	-	(4,850)	-	(4,850)
Accounts payable	(450)	(25,517)	-	(25,967)
Claims payable	(13,316)	36,590	-	23,274
Net Cash Provided (Used) by Operating Activities	\$ (17,793)	\$ 159,457	\$ 19,400	\$ 161,064

AGENCY FUNDS

Agency Funds are presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the City as agent for individuals, governmental entities, and non-public organizations. These funds include the following:

ASSESSMENT DISTRICTS FUND – Used to account for the collection and payment to holders of the 1988 Special Tax Bonds.

CITY/COUNTY ASSOCIATION OF GOVERNMENTS OF SAN MATEO COUNTY (C/CAG) – Used to account for City/County Association of Governments of San Mateo County's activities. The City acts as fiscal agent for this entity.

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY (SBWMA) – Used to account for the South Bayside Waste Management Authority's activities. The City acts as fiscal agent for this entity.

CITY OF SAN CARLOS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Assessment Districts Fund				
Assets:				
Cash and investments	\$ 11,790	\$ -	\$ -	\$11,790
Total Assets	\$ 11,790	\$ -	\$ -	\$ 11,790
Liabilities:				
Due to assessment district bondholders	\$ 11,790	\$ -	\$ -	\$ 11,790
Total Liabilities	\$ 11,790	\$ -	\$ -	\$ 11,790
City/County Association of Government of San Mateo County				
Assets:				
Cash and investments	\$ 21,546,519	\$ 60,524,942	\$ 60,094,814	\$ 21,976,647
Receivables:				
Accounts receivable	3,184,912	7,205,878	6,482,935	3,907,855
Total Assets	\$ 24,731,431	\$ 67,730,820	\$ 66,577,749	\$ 25,884,502
Liabilities:				
Accounts payable	\$ 3,621,416	\$ 16,457,387	\$ 16,342,643	\$ 3,736,160
Due to members	21,110,015	20,527,528	19,489,201	22,148,342
Total Liabilities	\$ 24,731,431	\$ 36,984,915	\$ 35,831,844	\$25,884,502
South Bayside Waste Management Authority				
Assets:				
Cash and investments	\$ 16,136,138	\$ 249,541,083	\$ 250,816,058	\$ 14,861,163
Cash with fiscal agent	6,320,832	4,146,228	4,102,801	6,364,259
Prepaid items	-	4,639	3,919	720
Receivables:				
Accounts receivable	4,133,293	41,424,713	40,942,672	4,615,340
Interest receivable	23,018	36,178	23,018	36,178
Total Assets	\$ 26,613,281	\$ 295,152,841	\$ 295,888,468	\$ 25,877,660
Liabilities:				
Accounts payable and accrued liabilities	\$ 6,490,459	\$ 53,122,707	\$ 55,731,079	\$ 3,882,096
Interest payable	936,971	1,839,008	1,856,475	919,504
Deposits payable	1,233,640	-	-	1,233,640
Due to members	17,952,211	83,478,800	81,588,588	19,842,420
Total Liabilities	\$ 26,613,281	\$ 138,440,515	\$ 139,176,142	\$ 25,877,660

CITY OF SAN CARLOS

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
Total Agency Funds				
Assets:				
Cash and investments	\$ 37,694,447	\$ 310,066,025	\$ 310,910,872	\$ 36,849,600
Receivables:				
Accounts receivable	7,318,205	48,630,591	47,425,607	8,523,189
Interest Receivable	23,018	36,178	23,018	36,178
Prepaid items	-	4,639	3,919	720
Restricted Assets:				
Cash and investments with fiscal agents	6,320,832	4,146,228	4,102,801	6,364,259
Total Assets	\$ 51,356,502	\$ 362,883,661	\$ 362,466,217	\$ 51,773,946
Liabilities:				
Accounts payable and accrued liabilities	\$ 10,111,875	\$ 69,580,094	\$ 72,073,722	\$ 7,618,247
Interest Payable	936,971	1,839,008	1,856,475	919,504
Due to members	39,062,226	104,006,328	101,077,789	41,990,765
Deposits payable	1,233,640	-	-	1,233,640
Due to assessment district bondholders	11,790	-	-	11,790
Total Liabilities	\$ 51,356,502	\$ 175,425,430	\$ 175,007,986	\$ 51,773,946

This Page Left Intentionally Blank

STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. In contrast to the financial section, the statistical section information is not subject to independent audit.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time:

1. Net Position by Component
2. Changes in Net Position
3. Fund Balances of Governmental Funds
4. Changes in Fund Balance of Governmental Funds

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax:

1. Assessed and Estimated Actual Value of Taxable Property
2. Direct and Overlapping Property Tax Rates
3. Top Ten Property Tax Payers
4. Property Tax Levies and Collections

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

1. Ratio of Outstanding Debt by Type
2. Ratio of General Bonded Debt Outstanding
3. Pledged-Revenue Coverage
4. Computation of Direct and Overlapping Debt
5. Computation of Legal Bonded Debt Margin

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

1. Demographic and Economic Statistics
2. Principal Employers
3. Full Time Equivalent City Employees by Function

Operating Information

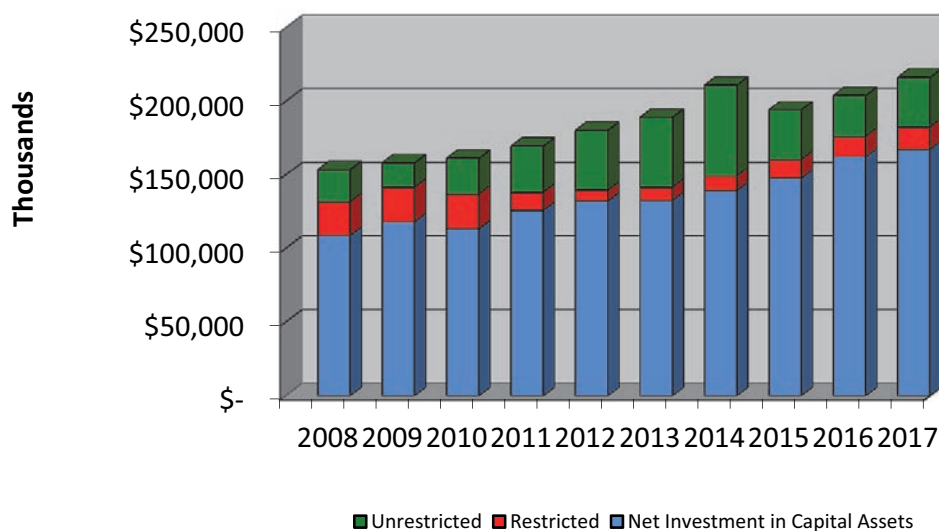
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

1. Operating Indicators by Function/Program
2. Capital Asset Statistics by Function/Program

Sources

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

CITY OF SAN CARLOS
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)



	2008	2009	2010	2011
Governmental activities				
Net investment in capital assets	\$ 98,247,695	\$107,041,257	\$101,975,928	\$113,903,786
Restricted	22,849,602	23,426,300	23,500,466	12,143,894
Unrestricted	18,741,036	12,724,651	19,737,818	26,256,514
Total governmental activities net position	<u>\$139,838,333</u>	<u>\$143,192,208</u>	<u>\$145,214,212</u>	<u>\$152,304,194</u>
Business-type activities				
Net investment in capital assets	\$ 10,667,232	\$ 11,097,233	\$ 11,528,037	\$ 12,133,706
Unrestricted	3,064,709	3,985,755	4,591,798	5,117,936
Total business-type activities net position	<u>\$ 13,731,941</u>	<u>\$ 15,082,988</u>	<u>\$ 16,119,835</u>	<u>\$ 17,251,642</u>
Primary government				
Net investment in capital assets	\$108,914,927	\$118,138,490	\$113,503,965	\$126,037,492
Restricted	22,849,602	23,426,300	23,500,466	12,143,894
Unrestricted	21,805,745	16,710,406	24,329,616	31,374,450
Total primary government net position	<u>\$153,570,274</u>	<u>\$158,275,196</u>	<u>\$161,334,047</u>	<u>\$169,555,836</u>

2012	2013	2014	2015	2016	2017
\$119,426,713	\$119,171,599	\$124,467,083	\$132,736,463	\$140,578,718	\$139,749,356
7,322,914	8,871,235	9,859,896	12,904,615	13,634,148	14,913,451
34,473,081	39,942,056	42,689,655	14,374,721	14,261,604	19,429,741
<u>\$161,222,708</u>	<u>\$167,984,890</u>	<u>\$177,016,634</u>	<u>\$160,015,799</u>	<u>\$168,474,470</u>	<u>\$174,092,548</u>
\$ 12,798,962	\$ 13,337,359	\$ 14,840,080	\$ 14,855,225	\$ 21,838,351	\$ 27,740,303
6,210,876	7,556,596	19,028,996	19,212,357	13,613,839	14,360,124
<u>\$ 19,009,838</u>	<u>\$ 20,893,955</u>	<u>\$ 33,869,076</u>	<u>\$ 34,067,582</u>	<u>\$ 35,452,190</u>	<u>\$ 42,100,427</u>
\$132,225,675	\$132,508,958	\$139,307,163	\$147,591,688	\$162,417,069	\$167,489,659
7,322,914	8,871,235	9,859,896	12,904,615	13,634,148	14,913,451
40,683,957	47,498,652	61,718,651	33,587,078	27,875,443	33,789,865
<u>\$180,232,546</u>	<u>\$188,878,845</u>	<u>\$210,885,710</u>	<u>\$194,083,381</u>	<u>\$203,926,660</u>	<u>\$216,192,975</u>

CITY OF SAN CARLOS
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Expenses				
Governmental Activities:				
General Government	\$ 5,565,910	\$ 5,627,987	\$ 5,167,150	\$ 3,950,781
Public Safety	13,464,481	14,188,879	14,590,515	15,074,068
Public Works	2,028,532	2,195,710	2,398,325	1,945,532
Community Development	4,044,214	3,656,176	3,763,475	3,611,267
Parks and Recreation	4,773,862	4,618,697	4,799,953	3,707,647
Interest on Long Term Debt	1,272,432	1,409,090	1,383,563	1,565,337
Total Governmental Activities Expenses	<u>31,149,431</u>	<u>31,696,539</u>	<u>32,102,981</u>	<u>29,854,632</u>
Business-Type Activities:				
Sewer	4,801,406	5,187,771	6,696,224	7,314,132
Total Business-Type Activities Expenses	<u>4,801,406</u>	<u>5,187,771</u>	<u>6,696,224</u>	<u>7,314,132</u>
Total Primary Government Expenses	<u>\$ 35,950,837</u>	<u>\$ 36,884,310</u>	<u>\$ 38,799,205</u>	<u>\$ 37,168,764</u>
Program Revenues				
Governmental Activities:				
Charges for Services:				
General Government	\$ 1,770,920	\$ 1,463,589	\$ 1,485,737	\$ 1,348,137
Public Safety	357,905	433,521	553,269	468,078
Public Works	642,518	571,395	593,230	626,538
Community Development	2,570,665	1,997,953	2,194,437	1,909,598
Parks and Recreation	2,604,797	2,229,688	2,027,398	1,722,864
Operating Grants and Contributions	1,210,826	925,265	1,303,320	1,621,920
Capital Grants and Contributions	499,261	293,889	270,875	594,081
Total Government Activities Program Revenues	<u>9,656,892</u>	<u>7,915,300</u>	<u>8,428,266</u>	<u>8,291,216</u>
Business-Type Activities:				
Charges for Services:				
Sewer	7,077,490	7,756,952	8,020,388	8,993,614
Total Business-Type Activities Program Revenue	<u>7,077,490</u>	<u>7,756,952</u>	<u>8,020,388</u>	<u>8,993,614</u>
Total Primary Government Program Revenues	<u>\$ 16,734,382</u>	<u>\$ 15,672,252</u>	<u>\$ 16,448,654</u>	<u>\$ 17,284,830</u>
Net (Expense)/Revenue				
Governmental Activities	\$(21,492,539)	\$(23,781,239)	\$(23,674,715)	\$(21,563,416)
Business-Type Activities	2,276,084	2,569,181	1,324,164	1,679,482
Total Primary Government Net Expense	<u>\$(19,216,455)</u>	<u>\$(21,212,058)</u>	<u>\$(22,350,551)</u>	<u>\$(19,883,934)</u>

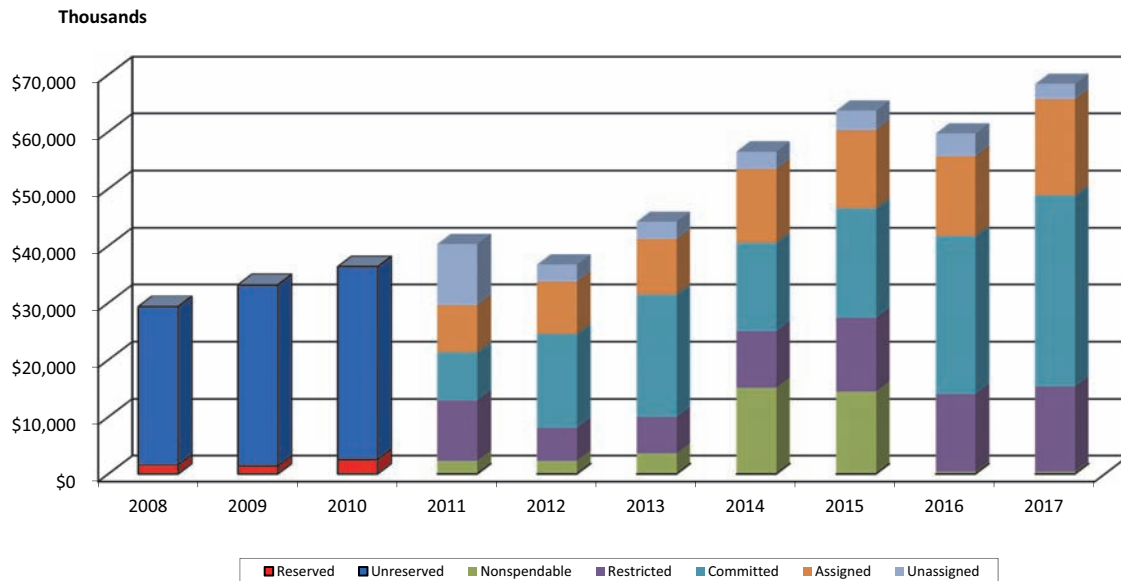
<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
\$ 5,663,863	\$ 6,475,824	\$ 5,321,121	\$ 5,189,609	\$ 6,017,538	\$ 6,329,346
13,449,771	14,574,275	15,592,529	16,069,651	17,430,558	18,375,585
2,493,488	2,687,707	8,255,888	9,167,760	8,266,278	7,978,435
4,081,250	2,766,720	2,991,374	3,272,803	4,096,699	4,700,675
4,018,025	4,117,692	3,043,648	3,203,949	2,367,444	3,858,835
608,784	264,260	276,859	334,808	268,810	81,837
<u>30,315,181</u>	<u>30,886,478</u>	<u>35,481,419</u>	<u>37,238,580</u>	<u>38,447,327</u>	<u>41,324,713</u>
<u>7,887,064</u>	<u>7,874,008</u>	<u>8,320,370</u>	<u>11,882,000</u>	<u>14,067,910</u>	<u>9,663,209</u>
<u>7,887,064</u>	<u>7,874,008</u>	<u>8,320,370</u>	<u>11,882,000</u>	<u>14,067,910</u>	<u>9,663,209</u>
<u>\$ 38,202,245</u>	<u>\$ 38,760,486</u>	<u>\$ 43,801,789</u>	<u>\$ 49,120,580</u>	<u>\$ 52,515,237</u>	<u>\$ 50,987,922</u>
\$ 1,027,189	\$ 1,074,928	\$ 1,071,289	\$ 1,749,186	\$ 1,258,805	\$ 1,297,282
515,745	505,948	527,366	560,303	518,876	618,102
2,230,306	597,220	1,201,650	769,083	2,222,932	1,502,215
2,125,361	2,017,110	2,625,860	3,227,818	4,359,416	3,618,051
1,951,859	2,122,207	2,206,374	1,710,865	1,499,342	1,630,102
1,257,912	1,591,002	1,942,020	1,718,123	1,717,004	2,093,580
1,054,103	1,070,551	4,907,492	4,882,958	4,295,854	2,416,816
<u>10,162,475</u>	<u>8,978,966</u>	<u>14,482,051</u>	<u>14,618,336</u>	<u>15,872,229</u>	<u>13,176,148</u>
<u>10,195,074</u>	<u>10,222,616</u>	<u>12,685,252</u>	<u>15,335,342</u>	<u>16,798,299</u>	<u>16,793,613</u>
<u>10,195,074</u>	<u>10,222,616</u>	<u>12,685,252</u>	<u>15,335,342</u>	<u>16,798,299</u>	<u>16,793,613</u>
<u>\$ 20,357,549</u>	<u>\$ 19,201,582</u>	<u>\$ 27,167,303</u>	<u>\$ 29,953,678</u>	<u>\$ 32,670,528</u>	<u>\$ 29,969,761</u>
\$(20,152,706)	\$(21,907,512)	\$(20,999,368)	\$(22,620,244)	\$(22,575,098)	\$(28,148,565)
2,308,010	2,348,608	4,364,882	3,453,342	2,730,389	7,130,404
<u>\$(17,844,696)</u>	<u>\$(19,558,904)</u>	<u>\$(16,634,486)</u>	<u>\$(19,166,902)</u>	<u>\$(19,844,709)</u>	<u>\$(21,018,161)</u>

CITY OF SAN CARLOS
Changes in Net Position
(continued)
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
General Revenues and Other Changes in Net Position				
Governmental Activities:				
Taxes:				
Property Taxes	\$ 13,878,227	\$ 14,247,207	\$ 12,785,913	\$ 14,414,923
Sales Taxes	5,503,729	5,669,333	5,697,574	5,752,468
Motor Vehicle In-Lieu	2,105,682	2,176,235	2,230,997	2,315,671
Transient Occupancy Tax	825,070	750,175	682,750	815,197
Nonregulatory Franchise and Business	2,357,789	2,520,723	2,663,713	2,916,896
Use of money and property	1,624,497	300,513	782,328	1,190,048
Loss on sale of capital assets	-	-	-	-
Other	1,337,838	287,928	313,444	853,307
Transfers	1,139,799	1,183,000	540,000	584,600
Extraordinary gain/(loss) on dissolution of RDA	-	-	-	-
Total Government Activities	<u>28,772,631</u>	<u>27,135,114</u>	<u>25,696,719</u>	<u>28,843,110</u>
Business-Type Activities:				
Use of money and property	89,239	(35,134)	38,243	36,925
Miscellaneous Revenues	-	-	214,440	-
Transfers	(1,139,799)	(1,183,000)	(540,000)	(584,600)
Total Business-Type Activities	<u>(1,050,560)</u>	<u>(1,218,134)</u>	<u>(287,317)</u>	<u>(547,675)</u>
Total Primary Government	<u>\$ 27,722,071</u>	<u>\$ 25,916,980</u>	<u>\$ 25,409,402</u>	<u>\$ 28,295,435</u>
Change in Net Position				
Governmental Activities	\$ 7,280,092	\$ 3,353,875	\$ 2,022,004	\$ 7,279,694
Business-Type Activities	1,225,524	1,351,047	1,036,847	1,131,807
Total Primary Government	<u>\$ 8,505,616</u>	<u>\$ 4,704,922</u>	<u>\$ 3,058,851</u>	<u>\$ 8,411,501</u>

2012	2013	2014	2015	2016	2017
\$ 12,615,467	\$ 11,231,717	\$ 12,907,307	\$ 11,295,391	\$ 12,117,407	\$ 12,867,544
5,870,214	6,427,400	7,287,136	9,882,460	10,708,021	11,574,662
2,205,159	2,155,983	2,438,078	2,515,600	2,744,676	2,933,877
943,513	1,120,864	1,270,072	1,396,732	1,578,740	1,570,815
3,000,857	3,240,864	3,351,838	3,437,742	3,552,639	3,792,976
1,443,720	1,552,992	1,918,054	2,330,545	3,147,860	2,271,719
-	-	-	-	-	(2,686,318)
818,682	2,429,847	686,427	708,552	1,284,689	867,468
595,000	510,000	172,200	591,000	562,600	573,900
2,184,427	-	-	2,172,017	-	-
<u>29,677,039</u>	<u>28,669,667</u>	<u>30,031,112</u>	<u>34,330,039</u>	<u>35,696,632</u>	<u>33,766,643</u>
45,186	45,509	91,110	77,276	109,244	91,733
-	-	32,358	26,973	-	-
(595,000)	(510,000)	(172,200)	(591,000)	(562,600)	(573,900)
<u>(549,814)</u>	<u>(464,491)</u>	<u>(48,732)</u>	<u>(486,751)</u>	<u>(453,356)</u>	<u>(482,167)</u>
<u>\$ 29,127,225</u>	<u>\$ 28,205,176</u>	<u>\$ 29,982,380</u>	<u>\$ 33,843,288</u>	<u>\$ 35,243,276</u>	<u>\$ 33,284,476</u>
\$ 9,524,333	\$ 6,762,155	\$ 9,031,744	\$ 11,709,795	\$ 13,121,534	\$ 5,618,078
1,758,196	1,884,117	4,316,150	2,966,591	2,277,033	6,648,237
<u>\$ 11,282,529</u>	<u>\$ 8,646,272</u>	<u>\$ 13,347,894</u>	<u>\$ 14,676,386</u>	<u>\$ 15,398,567</u>	<u>\$ 12,266,315</u>

CITY OF SAN CARLOS
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)



	2008	2009	2010	2011	2012	2013	2014
General Fund							
Reserved	\$ 1,607,405	\$ 1,433,666	\$ 2,556,020	\$ -	\$ -	\$ -	\$ -
Unreserved	7,339,240	8,455,536	9,207,477	-	-	-	-
Nonspendable	-	-	-	712,160	713,300	1,062,700	15,130,823
Restricted	-	-	-	-	-	42,000	-
Committed	-	-	-	2,706,600	6,853,165	7,151,565	3,200,000
Assigned	-	-	-	2,728,704	9,175,000	9,700,000	12,901,565
Unassigned	-	-	-	10,694,918	3,002,379	3,052,124	3,040,483
Total General Fund	<u>\$ 8,946,645</u>	<u>\$ 9,889,202</u>	<u>\$ 11,763,497</u>	<u>\$ 16,842,382</u>	<u>\$ 19,743,844</u>	<u>\$ 21,008,389</u>	<u>\$ 34,272,871</u>
All Other Governmental Funds							
Reserved	\$ 7,950,925	\$ 4,725,179	\$ 4,093,846	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:							
Special revenue funds	986,318	1,038,590	1,228,197	-	-	-	-
Capital project funds	19,391,338	22,213,798	23,313,352	-	-	-	-
Nonspendable	-	-	-	1,587,305	1,585,662	2,538,601	-
Restricted	-	-	-	10,556,589	5,737,252	6,290,634	9,859,896
Committed	-	-	-	5,760,066	9,652,778	14,369,247	12,377,737
Assigned	-	-	-	5,578,686	-	-	-
Unassigned	-	-	-	(22,835)	(22,610)	-	-
Total all other governmental funds	<u>\$ 28,328,581</u>	<u>\$ 27,977,567</u>	<u>\$ 28,635,395</u>	<u>\$ 23,459,811</u>	<u>\$ 16,953,082</u>	<u>\$ 23,198,482</u>	<u>\$ 22,237,633</u>

(a) The City implemented Governmental Accounting Standards Board Statement Number 54 in fiscal year 2011.

2015	2016	2017
\$ -	\$ -	\$ -
-	-	-
14,422,062	348,263	380,712
-	-	-
3,300,000	11,291,795	12,131,795
13,683,365	14,000,000	16,841,500
3,386,603	3,971,159	2,698,673
<u>\$ 34,792,030</u>	<u>\$ 29,611,217</u>	<u>\$ 32,052,680</u> (a)
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
12,904,615	13,634,148	14,913,451
15,968,926	16,433,787	21,406,130
-	-	-
-	-	-
<u>\$ 28,873,541</u>	<u>\$ 30,067,935</u>	<u>\$ 36,319,581</u>

CITY OF SAN CARLOS
Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year Ended June 30,			
	2008	2009	2010	2011
Revenues				
Taxes	\$ 24,670,497	\$ 25,363,673	\$ 24,060,951	\$ 26,868,250
Licenses, permits and fees	1,927,307	1,541,665	1,607,864	1,020,215
Fines and forfeitures	260,020	312,853	397,210	299,364
Use of money and property	2,471,935	1,248,692	1,693,320	2,004,508
From other agencies	1,496,292	987,347	1,385,530	2,125,347
Charges for services	2,727,931	2,561,133	2,725,768	2,532,268
Other	3,557,546	1,861,965	1,621,224	1,594,824
Total Revenues	37,111,528	33,877,328	33,491,867	36,444,776
Expenditures				
Current:				
General government	4,475,515	5,886,424	3,736,126	3,031,272
Public safety	13,451,291	14,130,234	14,521,349	15,298,099
Public works	1,236,673	1,200,883	1,178,543	1,223,829
Community development	3,932,143	3,581,043	3,656,015	3,542,118
Parks and recreation	4,347,834	4,225,018	4,226,263	3,379,167
Capital outlay	3,699,266	3,556,380	2,165,396	9,854,906
Debt service:				
Principal repayment	1,298,643	636,421	624,164	662,049
Interest and fiscal charges	1,229,101	1,417,182	1,391,888	1,574,187
Total Expenditures	33,670,466	34,633,585	31,499,744	38,565,627
Excess (deficiency) of revenues over (under) expenditures	3,441,062	(756,257)	1,992,123	(2,120,851)
Other Financing Sources (Uses)				
Transfers in	7,401,745	8,380,752	3,981,090	4,283,631
Transfers (out)	(6,214,006)	(7,077,952)	(3,441,090)	(3,699,031)
Loss on sale of property	-	-	-	-
Proceeds from sale of capital assets	-	45,000	-	1,509,424
Proceeds of Debt	16,010,000	-	-	-
Payments to refunded bond escrow	(8,100,141)	-	-	-
Capital contribution	-	-	-	-
Total other financing sources (uses)	9,097,598	1,347,800	540,000	2,094,024
Extraordinary gain/(loss) on dissolution of RDA	-	-	-	-
Net Change in fund balances	\$ 12,538,660	\$ 591,543	\$ 2,532,123	\$ (26,827)
Debt service as a percentage of noncapital expenditures	8.9%	6.5%	6.6%	7.5%

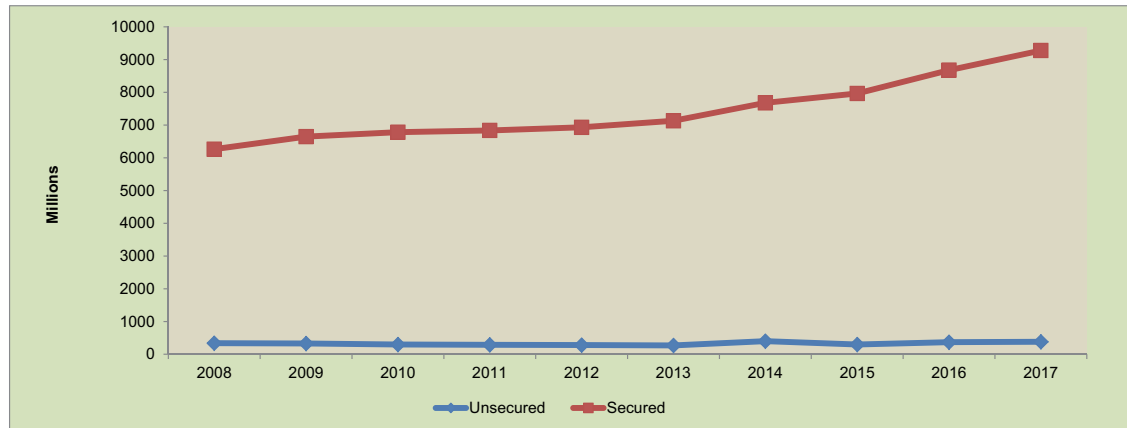
Fiscal Year Ended June 30,

2012	2013	2014	2015	2016	2017
\$ 25,282,782	\$ 24,176,828	\$ 27,254,431	\$ 28,527,925	\$ 30,701,483	\$ 32,739,874
3,198,769	2,024,279	2,271,457	2,465,157	4,534,737	3,511,276
265,091	234,218	219,944	265,288	234,697	255,632
1,864,401	1,805,466	2,176,508	6,124,308	3,143,760	2,195,096
2,048,990	1,824,567	4,119,086	4,218,621	4,360,957	2,753,794
2,557,464	2,912,353	3,389,107	3,785,239	4,253,198	3,952,620
1,674,507	3,878,322	2,886,134	4,439,450	4,236,064	3,613,927
<u>36,892,004</u>	<u>36,856,033</u>	<u>42,316,667</u>	<u>49,825,988</u>	<u>51,464,896</u>	<u>49,022,219</u>
4,555,802	4,165,249	4,715,318	4,824,314	4,988,340	4,840,215
13,119,914	14,410,769	15,360,993	15,993,240	17,340,123	17,827,665
1,673,870	1,641,955	6,779,012	4,121,793	4,612,132	8,930,843
3,932,661	2,666,132	2,870,822	3,104,920	4,134,764	4,250,662
3,438,598	3,597,600	2,574,917	2,590,068	2,775,229	2,816,465
2,465,296	2,841,083	7,691,263	10,596,619	12,271,896	1,887,675
700,264	265,000	285,000	6,405,000	9,210,000	250,000
843,435	268,300	258,604	400,240	300,908	99,485
<u>30,729,840</u>	<u>29,856,088</u>	<u>40,535,929</u>	<u>48,036,194</u>	<u>55,633,392</u>	<u>40,903,010</u>
<u>6,162,164</u>	<u>6,999,945</u>	<u>1,780,738</u>	<u>1,789,794</u>	<u>(4,168,496)</u>	<u>8,119,209</u>
2,938,040	4,303,415	1,645,165	6,441,141	4,815,399	5,846,109
(2,293,040)	(3,793,415)	(1,472,965)	(5,850,141)	(4,252,799)	(5,272,209)
-	-	-	-	(380,523)	-
-	-	-	-	-	-
-	-	8,800,000	4,774,273	-	-
-	-	-	-	-	-
-	-	1,550,695	-	-	-
<u>645,000</u>	<u>510,000</u>	<u>10,522,895</u>	<u>5,365,273</u>	<u>182,077</u>	<u>573,900</u>
(10,412,431)	-	-	-	-	-
<u>\$ (3,605,267)</u>	<u>\$ 7,509,945</u>	<u>\$ 12,303,633</u>	<u>\$ 7,155,067</u>	<u>\$ (3,986,419)</u>	<u>\$ 8,693,109</u>
5.3%	1.9%	1.7%	16.3%	20.7%	1.0%

CITY OF SAN CARLOS

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS



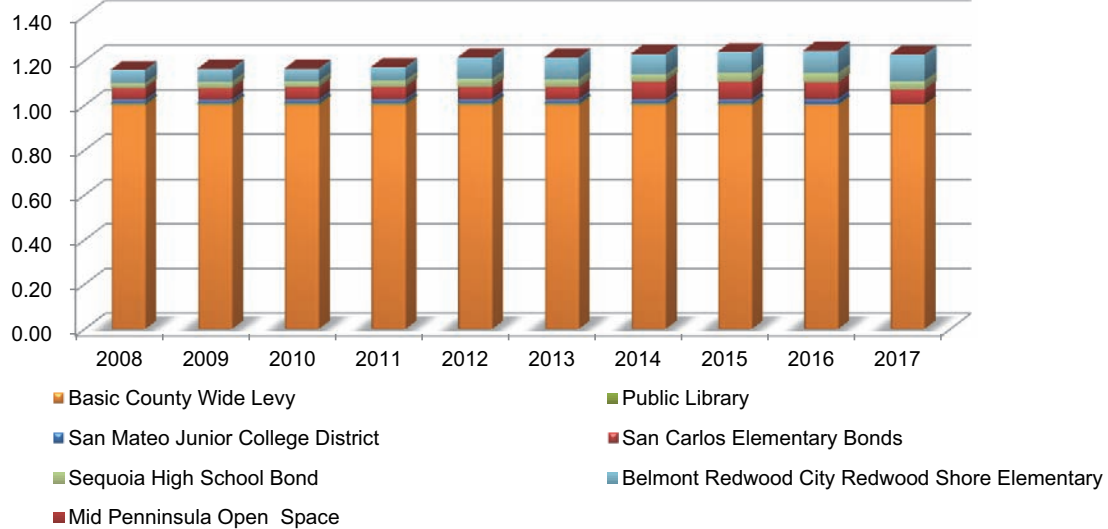
Fiscal Year	Real Property				Total Real Secured Property	Unsecured Property	Total Assessed (a)	Estimated Full Market (a)	Total Direct Tax Rate (b)
	Residential Property	Commercial Property	Industrial Property	Other					
2008	\$ 4,907,682,878	\$ 480,488,543	\$ 480,178,708	\$ 56,711,565	\$ 5,925,061,694	\$ 337,894,181	\$ 6,262,955,875	\$ 6,262,955,875	0.19223%
2009	5,237,194,752	530,328,970	493,030,102	58,254,703	6,318,808,527	329,100,047	6,647,908,574	6,647,908,574	0.19262%
2010	5,385,051,647	537,954,158	510,871,559	49,573,684	6,483,451,048	299,137,744	6,782,588,792	6,782,588,792	0.19582%
2011	5,438,326,043	532,479,578	524,446,802	50,382,008	6,545,634,431	289,541,082	6,835,175,513	6,835,175,513	0.19600%
2012	5,532,457,020	530,784,713	530,206,176	57,106,808	6,650,554,717	280,928,376	6,931,483,093	6,931,483,093	0.19481%
2013	5,717,858,710	516,269,311	559,907,761	69,214,632	6,863,250,414	269,345,842	7,132,596,256	7,132,596,256	0.19504%
2014	6,120,011,894	541,914,403	556,804,162	59,050,682	7,277,781,141	401,155,969	7,678,937,110	7,678,937,110	0.11685%
2015	6,489,784,870	561,595,333	563,659,154	50,870,561	7,665,909,918	299,060,205	7,964,970,123	7,964,970,123	0.11840%
2016	6,979,211,977	665,733,132	598,644,941	63,226,293	8,306,816,343	370,528,439	8,677,344,782	8,677,344,782	0.11424%
2017	7,420,946,280	770,190,805	636,526,534	67,885,633	8,895,549,252	381,768,262	9,277,317,514	9,277,317,514	0.11379%

Source: San Mateo County Assessor 2007/08 - 2016/17 Combined Tax Rolls

(a) The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

(b) California cities do not set their own direct tax rate. The state constitution establishes the rate at 1% and allocates a portion of that amount, by an annual calculation, to all the taxing entities within a tax rate area.

**CITY OF SAN CARLOS
DIRECT AND OVERLAPPING PROPERTY TAX RATES
(RATE PER \$100 OF TAXABLE VALUE)
LAST TEN FISCAL YEARS**



Fiscal Year	City Direct Rates			Overlapping Rates					Total Direct Overlapping Tax Rate	Total* Direct Rate
	Basic County Wide Levy	City's share ¹ of 1% Levy Per Prop 13	Public Library	San Mateo Junior College District	San Carlos Elementary Bonds	Sequoia High School Bond	Belmont Redwood City Redwood Shore Elementary	Mid Peninsula Open Space		
2008	1.0000	0.13273	0.0092	0.0171	0.0520	0.0205	0.0612	-	1.1600	0.19223
2009	1.0000	0.13273	0.0089	0.0165	0.0517	0.0282	0.0601	-	1.1654	0.19262
2010	1.0000	0.13273	0.0088	0.0182	0.0531	0.0277	0.0568	-	1.1646	0.19582
2011	1.0000	0.13273	0.0089	0.0193	0.0528	0.0311	0.0598	-	1.1719	0.19600
2012	1.0000	0.13273	0.0089	0.0199	0.0535	0.0358	0.0971	-	1.2152	0.19481
2013	1.0000	0.13273	0.0088	0.0194	0.0528	0.0356	0.0981	-	1.2147	0.19504
2014	1.0000	0.13273	0.0084	0.0194	0.0775	0.0313	0.0945	-	1.2311	0.11685
2015	1.0000	0.13273	0.0082	0.0190	0.0768	0.0433	0.0923	-	1.2396	0.11840
2016	1.0000	0.13273	0.0042	0.0250	0.0725	0.0434	0.1005	0.0008	1.2464	0.11424
2017	1.0000	0.13273	0.0040	0.0247	0.0646	0.0391	0.1198	0.0006	1.2528	0.11379

¹City's share of 1% Levy is based on the City's share of the general fund tax rate area with the largest net taxable value within the city.

*Total Direct Rate is the weighted average of all individual direct rates applied by the government preparing the statistical section information

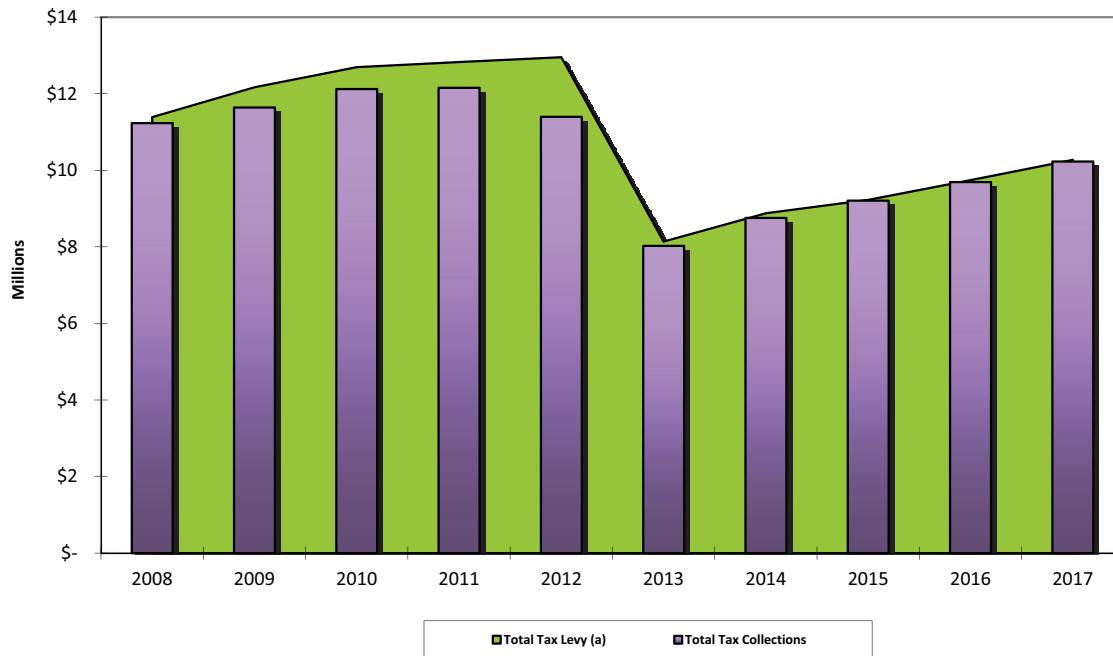
Data Source: San Mateo County Assessor 2007/08 - 2016/17 Tax Rate Table

**CITY OF SAN CARLOS
TOP TEN PROPERTY TAX PAYERS
CURRENT YEAR AND TEN YEARS AGO**

Taxpayer	2016-2017			2007-2008		
	Assessed Value	Rank	Percentage of Total City Assessed Value	Assessed Value	Rank	Percentage of Total City Assessed Value
Hudson Skyway Landing LLC	\$ 106,017,480	1	1.14%			
GC Net Lease San Carlos Investors LLC	84,736,766	2	0.91%			
Novartis Pharmaceuticals	77,886,931	3	0.84%			
BMR-201 Industrial RD LLC	39,771,625	4	0.43%	\$ 39,138,190	4	0.62%
Black Mountain Holdings LLC	39,570,571	5	0.43%			
Premia Shoreway Owner LLC	38,500,000	6	0.41%			
L-3 Communications Corp	35,554,413	7	0.38%	33,867,560	5	0.54%
SB US LLC	27,617,325	8	0.30%			
Kelly Moore Paint Company Inc	26,787,238	9	0.29%	26,690,599	6	0.43%
Are-San Francisco No. 63 LLC	25,707,113	10	0.28%			
Nektar Therapeutics				87,960,265	1	1.40%
SPK-Skyway Landing LLC				68,602,401	2	1.10%
Circle Star Center Associates LP				53,300,000	3	0.85%
301 Industrial LLC				23,750,500	7	0.38%
Brittan Corners Shopping Center LLC				22,278,379	8	0.36%
ECI San Carlos LLC				17,850,000	9	0.29%
S. Stephen Makashima Trust				16,634,219	10	0.27%
Subtotal	<u>\$502,149,462</u>		<u>5.41%</u>	<u>\$390,072,113</u>		<u>6.23%</u>
Total Net Assessed Valuation:						
Fiscal Year 2016-2017	\$9,277,317,514					
Fiscal Year 2007-2008	\$6,262,955,875					

Source: San Mateo County Assessor 2016/17 Combined Tax Rolls.
Top Property Tax Payers Based on Net Values

**CITY OF SAN CARLOS
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS**



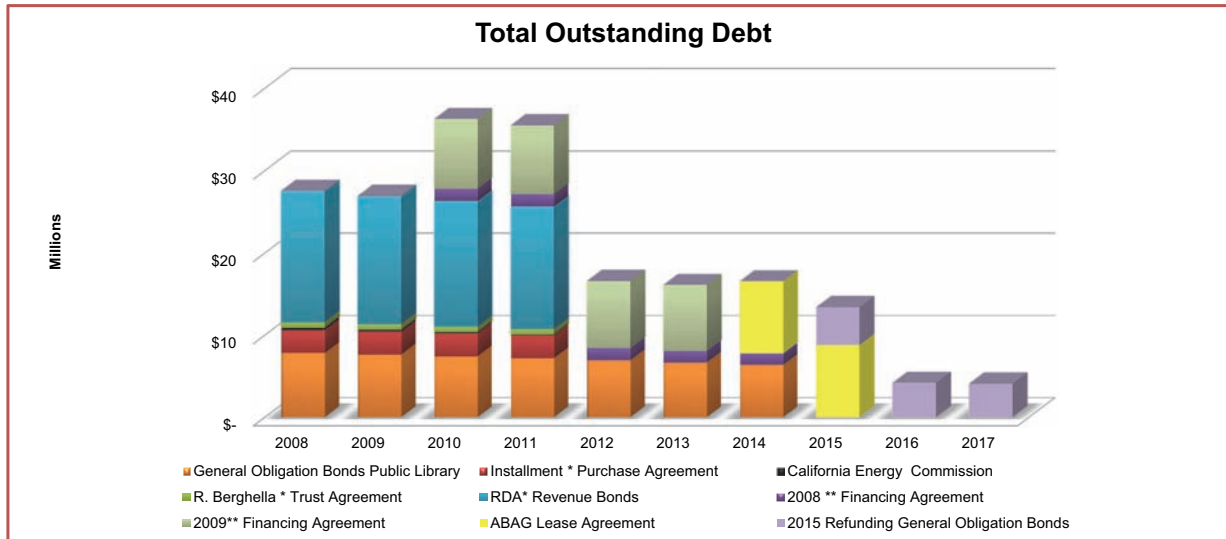
Fiscal Year	Total Tax Levy (a)	Current Tax Collections (b)	Percent of Levy Collected	Delinquent Tax Collections (c)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
2008	\$ 11,389,746	\$ 11,234,055	98.63%	N/A	\$ 11,234,055	98.63%
2009	12,171,289	11,641,072	95.64%	N/A	11,641,072	95.64%
2010	12,695,894	12,124,097	95.50%	N/A	12,124,097	95.50%
2011	12,829,443	12,155,993	94.75%	N/A	12,155,993	94.75%
2012	12,955,911	11,398,356	87.98%	N/A	11,398,356	87.98%
2013	8,138,448	8,027,011	98.63%	N/A	8,027,011	98.63%
2014	8,879,658	8,757,878	98.63%	N/A	8,757,878	98.63%
2015	9,229,066	9,208,905	99.78%	N/A	9,208,905	99.78%
2016	9,744,532	9,693,047	99.47%	N/A	9,693,047	99.47%
2017	10,273,217	10,231,703	99.60%	N/A	10,231,703	99.60%

Source: San Mateo County Assessor 2007/08 - 2016/17 Combined Tax Rolls
2015/16 County of San Mateo Estimated property tax revenue

Note: Current tax collections beginning in 1993 have been reduced by a mandatory tax reallocation imposed by the State of California

- a) Prior to the dissolution of the Redevelopment Agency in FY 2012; the data in this table included the general fund property taxes, debt service tax, and the Redevelopment Agency tax increments. Beginning FY 2013, the amounts presented are the secured and unsecured estimated property tax revenue provided by the County at the beginning of the fiscal year. The tax levy is subject to adjustment for all increases, decreases and refunds processed throughout the fiscal year.
- b) Prior to the dissolution of the Redevelopment Agency in FY 2012; the data in this table included the basic and supplemental property taxes, debt service tax and the Redevelopment Agency tax increments. Beginning FY 2013, the amounts presented include only the City's general secured and unsecured property taxes collections. The tax collection is subject to adjustment for all increases, decreases and refunds processed throughout the fiscal year.
- c) Beginning fiscal year 1995, the County entered a "Teeter Plan" agreement with the City which allows the City to keep 100% of the secured taxes, and the County to keep all interest and delinquency charges collected. Delinquent tax collection data is not available.

CITY OF SAN CARLOS
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS



Fiscal Year	Governmental Activities						2015			Business Type Activities		Total Primary Government	Percentage of Personal Income (a)	Per Capita
	General Obligation Bonds Public Library	Installment * Purchase Agreement	California Energy Commission	R. Berghella * Trust Agreement	RDA* Revenue Bonds	ABAG Lease Agreement	Refunding General Obligation Bonds			2008 ** Financing Agreement	2009** Financing Agreement			
2008	\$ 7,820,000	\$ 2,800,000	\$ 263,415	\$ 679,432	\$ 16,010,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,572,847	1.46%	\$ 966.04
2009	7,630,000	2,800,000	200,475	671,009	15,635,000	-	-	-	1,510,000	-	-	28,446,484	1.55%	986.73
2010	7,425,000	2,800,000	135,627	661,683	15,290,000	-	-	-	1,510,000	8,450,000	-	36,272,310	2.38%	1,276.92
2011	7,200,000	2,800,000	68,822	651,439	14,930,000	-	-	-	1,460,000	8,330,000	-	35,440,261	2.19%	1,243.78
2012	6,955,000	-	-	-	-	-	-	-	1,410,000	8,175,000	-	16,540,000	0.97%	577.23
2013	6,690,000	-	-	-	-	-	-	-	1,355,000	8,015,000	-	16,060,000	0.91%	555.11
2014	6,405,000	-	-	-	-	8,800,000	-	-	-	-	-	15,205,000	0.89%	520.38
2015	-	-	-	-	-	8,800,000	4,600,000	-	-	-	-	13,400,000	0.73%	455.02
2016	-	-	-	-	-	-	4,190,000	-	-	-	-	4,190,000	0.21%	144.44
2017	-	-	-	-	-	-	4,085,227	-	-	-	-	4,085,227	(a)	139.38

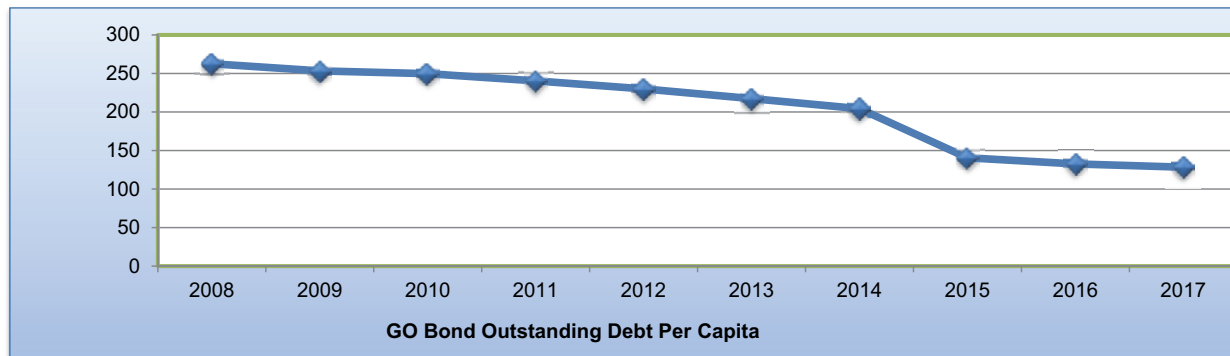
Note: Debt amounts exclude any premiums, discounts, or other amortization amounts.

Sources: City of San Carlos Debt Schedule
 State of California, Department of Finance (population)
 U.S. Department of Commerce, Bureau of the Census (income)
 (a) See Schedule (Demographic Statistics) for personal income and population data.
 Data for 2017 is not available

* As a result of the dissolution of the Redevelopment Agency on February 1, 2012, the long-term debt of the former Redevelopment Agency was transferred to the Successor Agency when it took over the responsibility of winding down the operations of the former Agency.

** Adjustments made in FY2013 relating to the City's investment in the Silicon Valley Water Joint Venture.

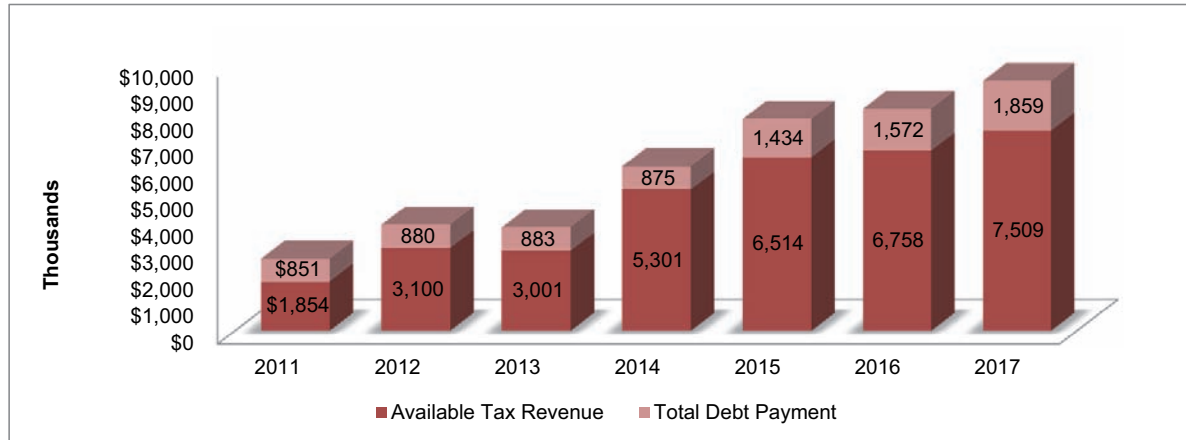
CITY OF SAN CARLOS
RATIO OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS



Fiscal Year	General Bonded Debt Outstanding				Percentage of Assessed Value (3)	Per Capita (4)
	2005 General Obligation Debt (1)	2015 Refunding General Obligation Bonds	Less: Amounts Available in Debt Service Fund (2)	Total		
2008	\$ 7,820,000	\$ -	\$ 324,388	\$ 7,495,612	0.12%	\$ 262.62
2009	7,630,000	-	327,112	7,302,888	0.11%	253.32
2010	7,425,000	-	331,025	7,093,975	0.10%	249.74
2011	7,200,000	-	350,365	6,849,635	0.10%	240.39
2012	6,955,000	-	364,775	6,590,225	0.10%	229.99
2013	6,690,000	-	401,700	6,288,300	0.09%	217.36
2014	6,405,000	-	436,396	5,968,604	0.08%	204.27
2015	-	4,600,000	460,660	4,139,340	0.05%	140.56
2016	-	4,190,000	343,987	3,846,013	0.04%	132.58
2017	-	4,085,227	323,532	3,761,695	0.04%	128.34

1. This is the general bonded debt of governmental activities, net of original issuance discounts and premiums
2. This is the amount restricted for debt service principal payments
3. Assessed value has been used because the actual value of taxable property is not readily available in the State of California
4. Population data can be found in the Schedule of Demographic and Economic Statistics

**CITY OF SAN CARLOS
PLEDGED-REVENUE COVERAGE
LAST SEVEN FISCAL YEARS**



San Carlos Sewer Fund - SCVCW 2008, 2009, 2014 & 2015 Financing Agreement							
Fiscal Year	Net Revenue Available for Debt Services	Financing Agreement				Total	Coverage
		2008	2009	2014	2015		
			Debt Services				
2011	\$ 1,853,539	\$ 117,308	\$ 733,352	\$ -	\$ -	\$ 850,660	2.18
2012	3,099,735	115,308	765,177	-	-	880,485	3.52
2013	3,000,783	118,208	765,278	-	-	883,486	3.40
2014	5,300,680	116,008	759,246	-	-	875,254	6.06
2015	6,514,209	118,707	757,204	558,039	-	1,433,950	4.54
2016	6,758,316	110,850	754,175	646,163	60,448	1,571,636	4.30
2017	7,509,125	-	750,113	645,494	463,400	1,859,007	4.04

Source: City of San Carlos Annual Financial Statements

CITY OF SAN CARLOS
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2017

2016-17 Assessed Valuation \$9,277,329,499
 Redevelopment Successor Agency Incremental Valuation \$942,245,617

	Total Debt 6/30/2017	(1) Percentage Applicable	City's Share of Debt 6/30/2017
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT			
San Mateo Community College District	\$ 611,812,998	4.835%	\$ 29,581,158
Sequoia Union High School District	523,920,000	11.396%	59,705,923
Belmont-Redwood Shores School District	66,921,311	3.873%	2,591,862
Belmont-Redwood Shores School Facilities Improvement District	38,078,950	6.302%	2,399,735
Belmont-Redwood Shores School Facilities Improvement District	21,715,000	0.672%	145,925
Redwood City School District	85,711,277	3.045%	2,609,908
San Carlos School District	120,526,118	95.897%	115,580,931
City of San Carlos	4,085,227	100%	4,085,227
Midpeninsula Regional Park District	44,225,000	3.752%	1,659,322
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT	\$ 1,516,995,881		\$ 218,359,993

OVERLAPPING GENERAL FUND OBLIGATION DEBT:			
San Mateo County General Fund Obligations	\$ 399,389,816	4.835%	\$ 19,310,498
San Mateo County Board of Education Certificates of Participation	9,330,000	4.835%	451,106
Midpeninsula Regional Park District General Fund Obligations	112,143,611	3.752%	4,207,628
TOTAL OVERLAPPING GENERAL FUND DEBT	\$ 520,863,427		\$ 23,969,231

OVERLAPPING TAX INCREMENT DEBT (SUCCESSOR AGENCY) \$ 12,385,000 100% \$ 12,385,000

TOTAL DIRECT DEBT 4,085,227
TOTAL OVERLAPPING DEBT 250,628,997

COMBINED TOTAL DEBT \$ 254,714,224

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds, and non-bonded capital lease obligations

RATIOS TO 2016-2017 ASSESSED VALUATION:

Direct Debt (\$3,940,000) 0.04%
 Total Direct and Overlapping Tax and Assessment Debt 2.35%
 Combined Total Debts 2.75%

RATIOS TO REDEVELOPMENT INCREMENTAL VALUATION (\$942,245,617):

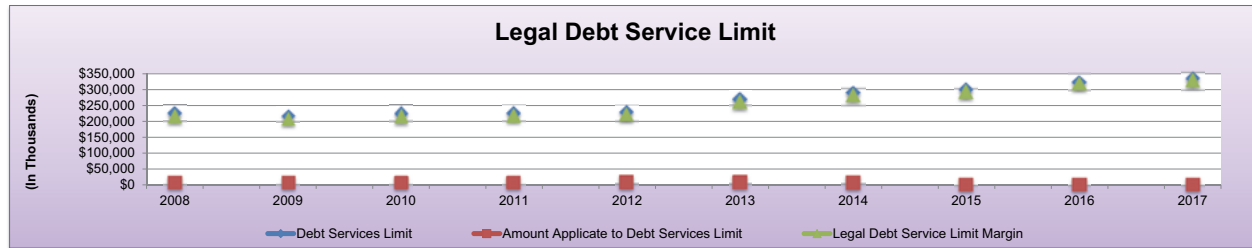
Total Overlapping Tax Increment Debt 1.31%

Source: California Municipal Statistics, Inc.

CITY OF SAN CARLOS

COMPUTATION OF LEGAL BONDED DEBT MARGIN

LAST TEN FISCAL YEARS



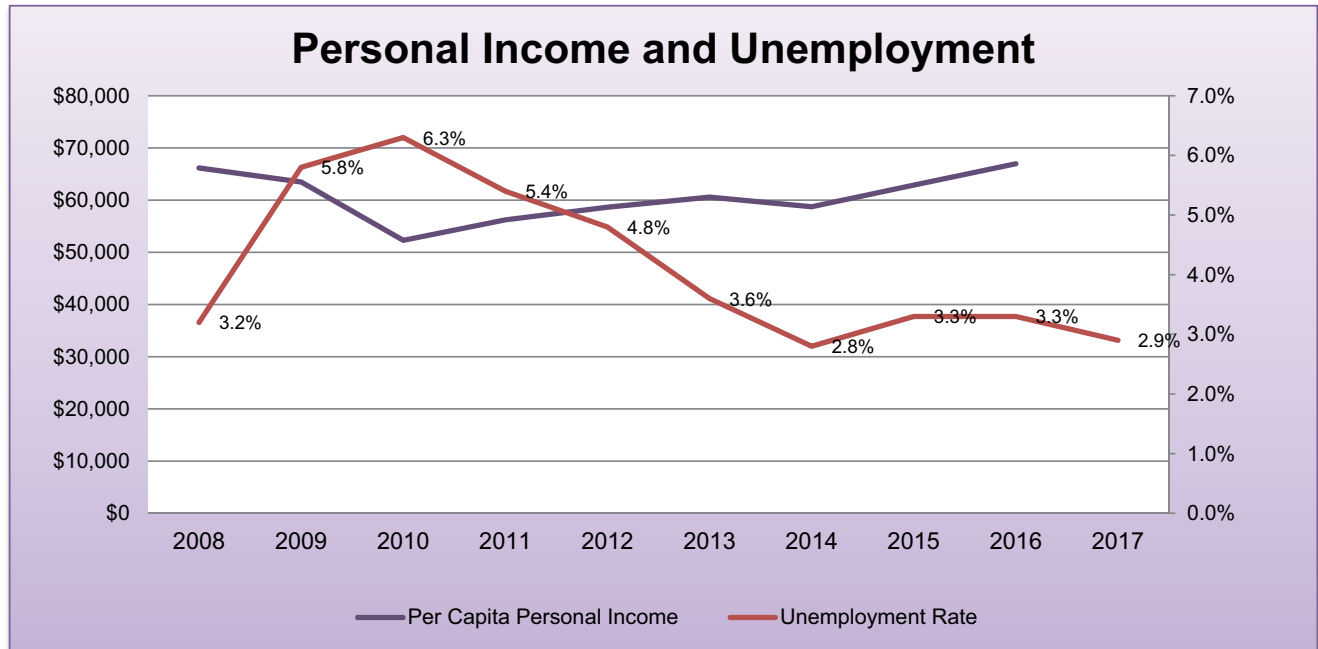
	2008	2009	2010	2011	Fiscal Year In Thousands 2012	2013	2014	2015	2016	2017
Secured property assessed value, net of exempt real property	\$ 5,925,055	\$ 5,781,085	\$ 5,940,600	\$ 5,988,768	\$ 6,085,726	\$ 7,132,596	\$ 7,678,937	\$ 7,964,970	\$ 8,677,644	\$ 8,895,382
Legal Debt Limit										
Debt service limit (3.75% of property assessed value)(a)	222,190	216,791	222,773	224,579	228,215	267,472	287,960	298,686	325,412	333,577
Less: amount applicable to debt service limit(b)	7,820	7,630	7,425	7,200	6,955	6,690	6,405	4,600	4,190	3,940
Legal debt margin	<u>\$ 214,370</u>	<u>\$ 209,161</u>	<u>\$ 215,348</u>	<u>\$ 217,379</u>	<u>\$ 221,260</u>	<u>\$ 260,782</u>	<u>\$ 281,555</u>	<u>\$ 294,086</u>	<u>\$ 321,222</u>	<u>\$ 329,637</u>
Total net debt applicable to the limit as a percentage of debt limit	3.65%	3.65%	3.45%	3.31%	3.14%	2.57%	2.27%	1.56%	1.30%	1.20%

NOTE:

- (a) California Government Code, Section 43605 sets the debt limit at 15%. The Code section was enacted prior to the change in basing assessed value to full market value when it was previously 25% of market value. Thus, the limit shown as 3.75% is one-fourth the limit to account for the adjustment of showing assessed valuation at full cash value.
- (b) The amount applicable to debt service limit represents the amount of debt services payment that is the obligation of the City

Source: City Finance Department
San Mateo County Tax Assessor's Office

**CITY OF SAN CARLOS
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS**



Fiscal Year	City Population	Total Personal Income (amount express in thousands)	Per Capita Personal Income	Unemployment Rate	San Mateo County Population	City Population % of County
2008	28,542	\$ 1,888,601	\$ 66,169	3.2%	739,469	3.90%
2009	28,829	1,830,173	63,484	5.8%	745,858	3.87%
2010	28,406	1,524,777	52,299	6.3%	754,285	3.77%
2011	28,494	1,614,668	56,223	5.4%	724,702	3.93%
2012	28,654	1,696,601	58,643	4.8%	729,443	3.93%
2013	28,931	1,769,882	60,573	3.6%	735,678	3.93%
2014	29,219	1,717,440	58,740	2.8%	745,193	3.92%
2015	29,449	1,824,271	62,888	3.3%	753,123	3.91%
2016	29,008	1,963,141	66,976	3.3%	766,041	3.79%
2017	29,311	(a)	(b)	2.9%	770,763	3.80%

Data Source:

Population: California State Department of Finance

Unemployment Data: California Employment Development Department

Income Data : ESRI - Demographic estimates are based on the last available census.

Demographic data is totaled from census Block Groups that overlap the City's boundaries

Note: (a) & (b) Information is not available

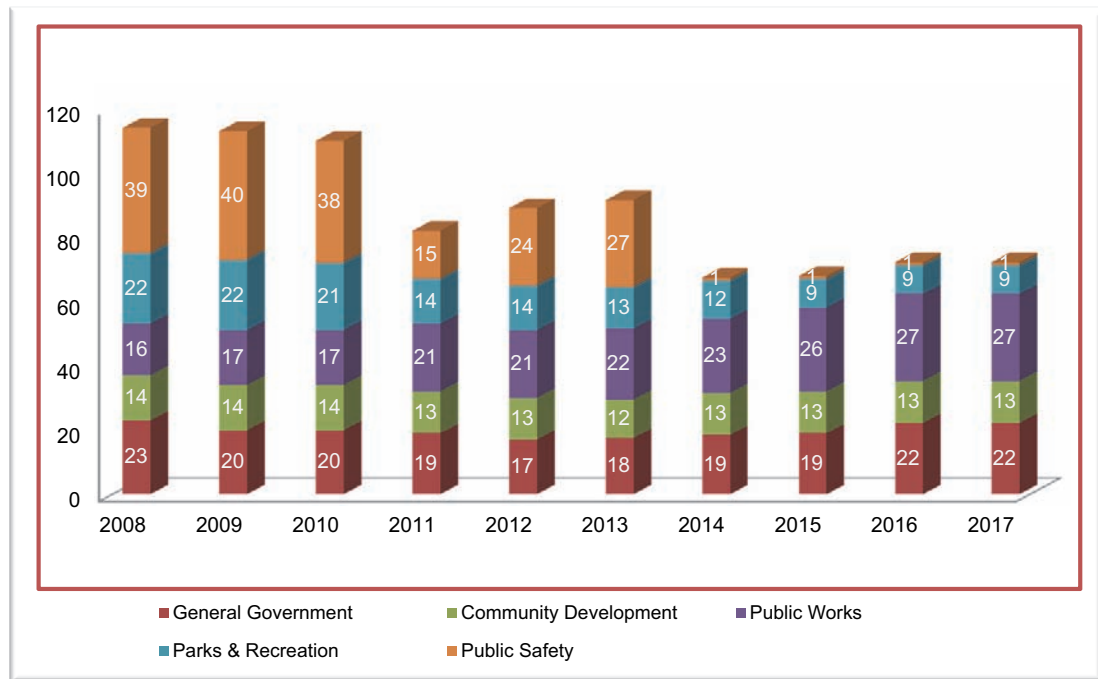
**CITY OF SAN CARLOS
PRINCIPAL EMPLOYERS
CURRENT YEAR AND TEN YEARS AGO**

Employer	2017 *			2008*		
	Number of Employees	Rank	Percent of Total City Employment	Number of Employees	Rank	Percent of Total City Employment
PALO ALTO MEDICAL FOUNDATION	500	1	2.94%			
NATERA INC	405	2	2.38%			
L-3 COMMUNICATIONS CORP	389	3	2.29%	389	2	2.51%
PACIFIC GAS & ELECTRIC CO	331	4	1.95%	350	3	2.26%
RECOLOGY SAN MATEO COUNTY	240	5	1.41%			
NOVARTIS PHARMACEUTICALS	230	6	1.35%			
THE HOME DEPOT #0628	221	7	1.30%	165	7	1.06%
CHECK POINT SOFTWARE TECH INC	208	8	1.22%			
KELLY-MOORE PAINT CO INC	193	9	1.14%	267	4	1.72%
DELTA STAR INC	188	10	1.11%	188	6	1.21%
NEKTAR THERAPEUTICS				550	1	4.71%
TESLA MOTORS				213	5	1.37%
GEORGE P JOHNSON COMPANY				150	8	0.97%
BEST BUY STORES LP				110	9	0.71%
ACTERON CORP				100	10	0.65%

"Total Employment " as used above represents the total employment of all employers located within City limits.

Source: *data from City of San Carlos business license database

**CITY OF SAN CARLOS
FULL TIME EQUIVALENT CITY EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS**



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Government	23	20	20	19	17	18	19	19	22	22
Community Development	14	14	14	13	13	12	13	13	13	13
Public Works	16	17	17	21	21	22	23	26	27	27
Parks & Recreation	22	22	21	14	14	13	12	9	9	9
Public Safety	39	40	38	15	24	27	1	1	1	1
** Police services are provided by County of San Mateo Sheriff's Office *** San Carlos Fire begins only in FY 2012 **** Transfer of fire services personnel to City of Redwood City										
Total Number Employees	114	113	110	82	89	92	68	68	72	72

Source: City budget document

** On October 31, 2010, The County of San Mateo Sheriff's Office assumed law enforcement responsibilities for the City of San Carlos.

*** On October 12, 2011 the Belmont-San Carlos Fire Department dissolved; re-establishing the City of San Carlos Fire Department with Fire Command staff contracted with the City of Redwood City.

**** As of July 1, 2013 the City of Redwood City provides full fire and emergency services including the transfer of fire service personnel from the City of San Carlos to the City of Redwood City.

CITY OF SAN CARLOS
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Function/Program										
Public safety:										
* Fire										
Fire calls for service					992	1,896	1,961	2,209	2,365	2,232
Primary fire inspections conducted					240	465	356	638	700	450
Police:										
Communication Center calls answered										
Police calls for Service	14,769	14,434	13,638	12,236	11,058	13,490	12,831	13,446	17,985	12,474
Law violations:										
Part I and Part II crimes	2,126	2,638	2,843	2,446	2,132	1,780	1,988	1,868	1,544	1,387
Physical arrests (adult and juvenile)	864	1,005	1,060	912	704	657	683	732	713	803
Traffic violations	1,783	2,916	4,660	3,701	2,932	3,666	3,224	3,260	2,599	1,843
Parking violations	4,698	4,357	5,103	4,573	4,533	4,558	3,609	6,613	4,794	8,014
Street										
Pavement Condition Index	64	64	64	67	64	64	60	60	60	63
Sewer										
Sewer service connections	11,061	11,192	11,309	11,309	11,335	11,355	11,107	11,000	11,017	11,017
Average daily flow (millions of gallons)	2.76	2.45	N/A	2.60	1.75	1.66	1.66	1.81	1.80	3
Maximum Allocated Treatment Capacity,										
Average Dry Weather Flow (Millions of Gallons)	4.47	4.47	4.47	4.47	4.47	4.47	4.47	4.39	5.18	5
Maximum Allocated Treatment Capacity, Peak										
Wet Weather Flow (Millions of Gallons)	14.30	14.30	14.30	14.30	14.30	14.30	14.30	15.96	25.0	14
Culture and recreation:										
Community Services:										
Adult Registrations	4,373	3,304	3,086	2,312	2,585	2,481	2,750	2,825	2,949	4,120
Tot/Youth Registrations	9,267	7,577	6,262	6,189	7,117	7,646	7,042	7,524	6,433	5,595
Facility Rentals	62	94	158	185	178	189	133	114	79	129
Picnic Rentals	150	184	146	N/A *	144	166	173	196	235	2,536
Organized Play Participants	8,724	6,742	6,620	5,454	8,005	7,184	6,761	7,222	7,900	7,985
Organized Play Hours Permitted	18,326	19,329	17,228	17,368	18,611	17,212	17,046	17,856	18,440	18,560

Note: N/A denotes information not available.

The Wastewater Treatment Plant had problems with its flow meters in 2010, the data for average daily flow is not available.

N/A* Due to budget cuts, the picnic rental program was halted in FY 2011. It was reinstated in FY 2012.

* The Belmont-San Carlos Fire Department was dissolved on October 12, 2011. City reestablished the Fire Department in October 2011.

Information prior to the FY 2011 is not available.

Source: Various city department records

CITY OF SAN CARLOS
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Function/Program										
Public safety:										
Fire stations	2	2	2	2	2	2	2	2	2	2
Police stations	1	1	1	1	1	1	1	1	1	1
Streets										
Total Length (Miles)	87	87	87	87	87	87	87	87	87	87
Street lights	1,740	1,740	1,888	1,888	1,888	1,888	1,888	1,916	1,942	1,942
Traffic Signals	19	20	20	20	20	20	21	21	21	21
Parking Lots										
Number of City Parking Lots	4	4	4	4	4	4	4	4	4	4
Number of Public Parking Spaces	356	356	356	356	356	356	356	356	356	356
Number of Employee Permit	94	94	94	94	91	91	91	91	91	91
Wastewater										
Total Sewer Main Length (Miles)	106	106	106	106	104	104	104	105	105	105
Sewer Pump Stations	6	6	6	6	6	6	6	6	6	6
Storm water										
Catch basins/inlets	1,324	1,324	1,324	1,324	1,324	1,324	1,324	1,324	1,326	1,326
Stormwater Pump Stations	3	3	3	3	3	3	3	3	3	3
Manholes	3,205	3,205	3,205	3,205	3,205	3,205	3,205	3,205	3,205	3,205
General government:										
City Hall	1	1	1	1	1	1	1	1	1	1
City Museum	1	1	1	1	1	1	1	1	1	1
Parks and recreation:										
Parks (and associated buildings)	13	13	13	13	13	13	13	13	13	13
Community centers	2	2	2	2	2	2	2	2	2	2

Source: Various city department records

This Page Left Intentionally Blank

APPENDIX L

**Financial Statements and Independent Auditor's Report for West Bay Sanitary District –
Fiscal Year Ended June 30, 2017**

[THIS PAGE INTENTIONALLY LEFT BLANK]



Serving Our Community Since 1902

500 Laurel Street, Menlo Park, California 94025-3486 (650) 321-0384 (650)321-4265 FAX

PHIL SCOTT
District Manager

December 14, 2017

MEMORANDUM

TO: West Bay Sanitary District's Customers & Owners

FROM: West Bay Sanitary District Board of Directors

RE: Financial Audit – Fiscal Year 2016-17

Each year, an audit of the financial records of West Bay Sanitary District (WBSD) is completed to assure the management and Board of Directors is exercising its fiduciary responsibilities in maintaining your wastewater system and services.

Attached is the audit report for the fiscal year between July 1, 2016 and June 30, 2017. We are pleased that the auditors found:

1. WBSD is in sound financial condition;
2. The accounting reports fairly reflect the financial condition of WBSD, and
3. The WBSD staff follows sound financial processes and procedures.

We welcome your comments or questions.

WBSD Board of Directors:

Ned Moritz	President
Roy Thiele-Sardina	Treasurer
Fran Dehn	Secretary
George Otte	Director
David Walker	Director

WEST BAY SANITARY DISTRICT

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

JUNE 30, 2017

* * *



CHAVAN & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS
1475 SARATOGA AVE, SUITE 180
SAN JOSE, CA 95129

West Bay Sanitary District

Table of Contents June 30, 2017

Independent Auditor's Report.....	1 - 2
Management's Discussion and Analysis	4 - 8
Basic Financial Statements:	
Statement of Net Position	10
Statement of Revenues, Expenses and Changes in Net Position	11
Statement of Cash Flows	12
Notes to Financial Statements.....	13 - 34
Required Supplementary Information:	
Schedule of Pension Contributions - CalPERS	36
Schedule of Proportionate Share of Net Pension Liability	37
Supplementary Information:	
Budgetary Comparison Schedule.....	39
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	
	41 - 42



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West Bay Sanitary District
Menlo Park, California

Report on the Financial Statements

We have audited the accompanying financial statements of the West Bay Sanitary District (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the West Bay Sanitary District, as of June 30, 2017, and the respective changes in 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.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of pension contributions - CalPERS, schedule of proportionate share of net pension liability, and schedule of funding progress for the retiree health benefit plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

C & A LLP

November 7, 2017
San Jose, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2017

The West Bay Sanitary District (the District) has issued its financial statements for the fiscal year ended June 30, 2017, in conformity with the format prescribed by the provisions of Governmental Accounting Standards. The Management's Discussion and Analysis is an overview of the District's financial activities for the fiscal year and is an integral part of the accompanying Basic Financial Statements. Readers are encouraged to consider the information presented herein with those statements.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$9,607,563 or 10.5%.
- The District's operating revenue increased by \$1,203,468 or 4.9%.
- The District's operating expenses increased by \$439,086 or 2.4%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes the Management's discussion and analysis report, the independent auditor's report and the basic financial statements of the District. The financial statements also include notes that explain the information in the financial statements in more detail.

BASIC FINANCIAL STATEMENTS

The Financial Statements of the District report information about the District's accounting methods similar to those used by private sector companies. These statements offer short-term and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets, deferred inflows, deferred outflows, and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Activities and Changes in Net Position. These statements reflect the result of the District's operations over the past year.

The final required Financial Statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations and investments. It also provides answers to questions such as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DISTRICT

One of the most important questions asked about the District's finances is "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2017

NET POSITION

To begin our analysis, a summary of the District's Statement of Net Position is presented in Table 1.

Table 1 - Summary of Net Position				
	2017	2016	Dollar Change	Percent Change
Assets				
Current & Other Assets	\$ 60,289,418	\$ 53,652,452	\$ 6,636,966	12.4%
Capital Assets	48,382,995	43,914,905	4,468,090	10.2%
Total Assets	<u>\$ 108,672,413</u>	<u>\$ 97,567,357</u>	<u>\$ 11,105,056</u>	<u>11.4%</u>
Deferred Outflows of Resources	<u>\$ 1,083,877</u>	<u>\$ 773,589</u>	<u>\$ 310,288</u>	<u>40.1%</u>
Liabilities				
Current Liabilities	\$ 3,624,254	\$ 2,631,509	\$ 992,745	37.7%
Noncurrent Liabilities	4,507,639	3,764,819	742,820	19.7%
Total Liabilities	<u>\$ 8,131,893</u>	<u>\$ 6,396,328</u>	<u>\$ 1,735,565</u>	<u>27.1%</u>
Deferred Inflows of Resources	<u>\$ 408,664</u>	<u>\$ 336,448</u>	<u>\$ 72,216</u>	<u>21.5%</u>
Net Position				
Net Investment in Capital Assets	\$ 48,382,995	\$ 43,914,905	\$ 4,468,090	10.2%
Unrestricted:				
Capital fund budget	14,531,267	19,923,329	(5,392,062)	-27.1%
Invested in SVCW	13,589,774	13,261,248	328,526	2.5%
Operations reserve	7,923,244	7,441,158	482,086	6.5%
Unreserved	16,788,453	7,067,530	9,720,923	137.5%
Total Net Position	<u>\$ 101,215,733</u>	<u>\$ 91,608,170</u>	<u>\$ 9,607,563</u>	<u>10.5%</u>

As seen above, the District's total net position increased by \$9,607,563, or 10.5%, from fiscal year 2015-16 to 2016-17. The District's current and other assets increased by \$6,636,966. Capital assets, net of depreciation, increased by \$4,468,090 from capital spending totaling \$6,120,727. This includes Capital expenditures of \$4,952,150 for capital equipment purchases and replacement of sewer infrastructure, expenditures of \$1,154,381 for the SHGCC Recycled Water Facility including a prior year reclass from O&M expense, and \$14,196 for the Bay Front Resource Recovery project. Total liabilities increased by \$1,735,565 primarily due to increases to the District's net pension liability of \$904,101 and accounts payable of \$988,504.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2017

Table 2 below summarizes the District's changes in net position for the year.

Table 2 - Change in Net Position				
	2017	2016	Dollar Change	Percent Change
Revenues				
Operating Revenue	\$ 25,576,885	\$ 24,373,417	\$ 1,203,468	4.9%
Operating Expenses				
Sewage treatment	10,294,299	10,473,285	(178,986)	-1.7%
Sewage collection and general administration	6,960,005	6,479,670	480,335	7.4%
Depreciation	1,652,638	1,514,901	137,737	9.1%
Total Operating Expenses	18,906,942	18,467,856	439,086	2.4%
Operating Income (Loss)	6,669,943	5,905,561	764,382	12.9%
Nonoperating Revenue (Expense)	696,962	389,976	306,986	78.7%
Increase (decrease) of equity in SVCW	328,526	(3,667,108)	3,995,634	-109.0%
Connection Fees	1,912,132	1,281,475	630,657	49.2%
Total Change in Net Position	\$ 9,607,563	\$ 3,909,904	\$ 5,697,659	145.7%

The Statement of Activities and Changes in Net Position (Table2) provides answers as to the nature and sources of the changes shown in Table 1. The net position increase of \$9,607,563 in Table 1 was the result of an increase in operating revenues, connection fees, and operating expenses. Operating revenues increased by \$1,203,468 (4.9%) resulting primarily from the 6% increase in service fees. Connection fees increased \$630,657 over the prior year as a result of commercial and residential developments within the District during the year. Total operating expenses, which include sewage treatment, collection, general administration, and depreciation, increased \$439,086 (2.4%) over the prior year.

The most significant impact in operating expenses came from sewage treatment costs totaling \$10,294,299. Sewage treatment is provided by Silicon Valley Clean Water, formerly South Bayside System Authority, which was created in 1975 under a Joint exercise of Powers Agreement to construct and operate a sewage treatment facility at Redwood Shores for the District and the cities of Belmont, San Carlos, and Redwood City. As a member of the JPA the District is liable for its share of SVCW operating expenses. For the year ending June 30, 2017, the District's share was approximately 17% which did not change from the prior year.

Going forward it is anticipated that SVCW related sewage treatment expenses will rise substantially as their debt increases, whereas sewage collection and general administration expenses are expected to remain stable and generally reflect CPI increases.

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2017

BUDGETARY HIGHLIGHTS

The District adopts an annual budget which provides for the general operations. Budgets are prepared on the accrual basis of accounting. Project-length financial plans are adopted for capital projects. The Capital Improvement Program provides an annual forecast of capital requirements. Table 3 shows a comparison of actual to budget for general operations for the year ended June 30, 2017.

Table 3 - Budget Summary				
	Budget	Actual	Variance	Percent Variance
Revenues				
Operating Revenue	\$ 25,012,206	\$ 25,576,885	\$ 564,679	2.3%
Operating Expenses				
Sewage treatment	11,905,000	10,294,299	1,610,701	15.6%
Sewage collection and general administration	7,024,786	6,960,005	64,781	0.9%
Depreciation	1,600,000	1,652,638	(52,638)	-3.2%
Total Operating Expenses	20,529,786	18,906,942	1,622,844	8.6%
Operating Income (Loss)	4,482,420	6,669,943	2,187,523	48.8%
Nonoperating Revenue (Expense)	105,000	696,962	591,962	84.9%
Increase (Decrease) of Equity in SVCW	-	328,526	328,526	100.0%
Connection Fees	50,000	1,912,132	1,862,132	3724.3%
Change in Net Position	\$ 4,637,420	\$ 9,607,563	\$ 4,970,143	107.2%

The District reported \$564,679 more in operating revenue than budgeted primarily resulting from higher sewer service fees collected. Total operating expenses were \$1,622,844 less than budgeted primarily due to budgeted payments for SVCW bond and loan debt that did not materialize..

Table 4 summarizes the capital budget for the fiscal year ended June 30, 2017:

Table 4 - Capital Fund Budget Summary				
	Budget	Actual	Variance	Percent Variance
Transfer from Operations	\$ 6,112,420	\$ 6,941,472	\$ 829,052	14%
Capital Expenditures	(9,414,500)	(4,952,150)	4,462,350	-90%
Recycled Water Facility SHGCC	-	(1,154,381)	(1,154,381)	100%
Bay Front Resource Recovery	-	(14,196)	(14,196)	100%
Connection Charges	50,000	1,912,132	1,862,132	3724%
Interest Income	75,000	96,511	21,511	29%
Recycled Water Facility Cash Flow Reserve	-	(8,000,000)	(8,000,000)	100%
Equipment Replacement Reserve	(221,450)	(221,450)	-	0%
Change in capital Asset Fund	(3,398,530)	(5,392,062)	(1,993,532)	37%
Beginning Fund Balance	19,946,317	19,923,329	(22,988)	0%
Ending Fund Balance	\$ 16,547,787	\$ 14,531,267	\$ (2,016,520)	-12%

Capital Expenditures of \$4,952,150 to acquire capital equipment and replace or rehabilitate sewer infrastructure were \$4,462,350 less than budget. Expenditures to date for the District recycled water facility projects are \$1,154,381 for the SHGCC Recycled Water Facility and \$14,196 for the Bay Front Resource Recovery. To fund the cash flow for these projects the District set aside \$8,000,000 in a Recycled Water Facility Cash Flow Reserve. The District also set-aside \$221,450 for equipment

West Bay Sanitary District
Management's Discussion and Analysis
June 30, 2017

replacements. Due to the favorable variances in total revenue and total expense to budget, the District was able to transfer \$6,941,472 into the capital asset fund at year end which contributed to an ending Capital Asset Fund balance of \$14,531,267.

CAPITAL ASSETS

Table 5 shows a summary of capital assets owned by the District as of June 30, 2017.

Table 5 - Summary of Capital Assets Net of Depreciation				
	2017	2016	Dollar Change	Percent Change
Land	\$ 44,467	\$ 44,467	\$ -	0.00%
Construction in Progress	4,302,952	4,372,957	(70,005)	-1.60%
Pump stations	5,600,218	3,094,983	2,505,235	80.95%
Fleet	894,948	970,789	(75,841)	-7.81%
Plant and administration facilities	373,766	252,098	121,668	48.26%
Buildings	1,881,760	1,960,726	(78,966)	-4.03%
Flow equalization facilities	547,681	637,865	(90,184)	-14.14%
Subsurface lines	34,737,203	32,581,020	2,156,183	6.62%
Net Capital Assets	<u>\$ 48,382,995</u>	<u>\$ 43,914,905</u>	<u>\$ 4,468,090</u>	<u>10.17%</u>

ECONOMIC FACTORS

The District is governed in part by provisions of the California Constitution that require the District to set rates that cover only the costs of operation, maintenance and recurring capital replacement (OM&R). The District is not subject to general economic conditions such as increases or declines in property tax values or other types of revenues that vary with economic conditions. Accordingly, the District sets its rates to its users to cover the costs of OM&R plus any increments for known or anticipated changes in program costs. As in previous years, the District has maintained operating costs by carefully managing every expense.

CONTACTING THE DISTRICT

This financial report is designed to provide a general overview of the District's Finances and demonstrate the District's accountability for the money it receives. If you have any questions about this, or any other matter related to the District, please contact the District at 500 Laurel Street, Menlo Park, CA 94025 or (650) 321-0384.

BASIC FINANCIAL STATEMENTS

West Bay Sanitary District
Statement of Net Position
June 30, 2017
(With Comparative Totals as of June 30, 2016)

Assets	2017	2016
Current Assets:		
Cash and cash equivalents	\$ 20,181,203	\$ 20,442,968
Accounts receivable	184,381	1,561,725
Interest receivable	182,784	120,550
Prepaid expenses and other current assets	35,995	32,180
Total Current Assets	<u>20,584,363</u>	<u>22,157,423</u>
Noncurrent Assets:		
Investments	26,031,081	18,233,781
Net OPEB asset	84,200	-
Investment in Silicon Valley Clean Water	13,589,774	13,261,248
Capital assets:		
Non-depreciable	4,347,419	4,417,424
Depreciable net of accumulated depreciation	44,035,576	39,497,481
Total Capital Assets - Net	<u>48,382,995</u>	<u>43,914,905</u>
Total Noncurrent Assets - Net	<u>88,088,050</u>	<u>75,409,934</u>
Total Assets	<u><u>\$ 108,672,413</u></u>	<u><u>\$ 97,567,357</u></u>
Deferred Outflows of Resources		
Pension contributions	<u><u>\$ 1,083,877</u></u>	<u><u>\$ 773,589</u></u>
Liabilities		
Current Liabilities:		
Accounts payable	\$ 3,439,238	\$ 2,450,734
Payroll and related liabilities	4,035	9,262
Construction deposits	9,381	9,381
Compensated absences payable - current	171,600	162,132
Total Current Liabilities	<u>3,624,254</u>	<u>2,631,509</u>
Noncurrent Liabilities:		
Net OPEB obligation	-	119,049
Net pension obligation	4,429,092	3,524,991
Compensated absences payable - noncurrent	78,547	120,779
Total Noncurrent Liabilities	<u>4,507,639</u>	<u>3,764,819</u>
Total Liabilities	<u><u>\$ 8,131,893</u></u>	<u><u>\$ 6,396,328</u></u>
Deferred Inflows of Resources		
Pension adjustments from projected and actual earnings	<u><u>\$ 408,664</u></u>	<u><u>\$ 336,448</u></u>
Net Position		
Net Investment in Capital Assets	\$ 48,382,995	\$ 43,914,905
Unrestricted:		
Capital fund budget	14,531,267	19,923,329
Invested in Silicon Valley Clean Water	13,589,774	13,261,248
Operations reserve	7,923,244	7,441,158
Unreserved	16,788,453	7,067,530
Total Net Position	<u><u>\$ 101,215,733</u></u>	<u><u>\$ 91,608,170</u></u>

The notes to the financial statements are an integral part of this statement.

West Bay Sanitary District
Statement of Revenues, Expenses and Changes in Net Position
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016)

	2017	2016
Operating Revenues:		
Service charges	\$ 24,483,213	\$ 23,208,142
Flow equalization uses	315,186	306,900
Permit and inspection fees and other services	210,870	242,077
Other operating revenues	567,616	616,298
Total operating revenues	<u>25,576,885</u>	<u>24,373,417</u>
Operating Expenses:		
Sewage treatment	10,294,299	10,473,285
Sewage collection and general administration:		
Salaries and benefits	5,231,091	4,538,250
Materials and supplies	335,092	346,827
Insurance	84,360	78,753
Contract services	283,662	442,135
Professional services	383,741	563,261
Repairs and maintenance	255,891	171,892
Utilities	129,147	116,154
Other operating expenses	257,021	222,398
Total sewage collection and general administration	<u>6,960,005</u>	<u>6,479,670</u>
Depreciation	1,652,638	1,514,901
Total operating expenses	<u>18,906,942</u>	<u>18,467,856</u>
Operating Income (Loss)	<u>6,669,943</u>	<u>5,905,561</u>
Nonoperating Revenues (Expenses):		
Investment income	168,839	385,725
Increase (decrease) of equity in Silicon Valley Clean Water	328,526	(3,667,108)
Other nonoperating revenues	528,123	4,251
Total nonoperating revenues (expenses)	<u>1,025,488</u>	<u>(3,277,132)</u>
Income before contributions	7,695,431	2,628,429
Capital contributions - connection fees	<u>1,912,132</u>	<u>1,281,475</u>
Change in Net Position	9,607,563	3,909,904
Beginning Net Position	<u>91,608,170</u>	<u>87,698,266</u>
Ending Net Position	<u><u>\$ 101,215,733</u></u>	<u><u>\$ 91,608,170</u></u>

The notes to the financial statements are an integral part of this statement.

West Bay Sanitary District
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017
(With Comparative Totals for the Fiscal Year Ended June 30, 2016)

	2017	2016
Cash Flows from Operating Activities:		
Cash received from customers	\$ 26,954,229	\$ 23,199,409
Cash payments to suppliers for goods and services	(11,038,524)	(12,609,926)
Cash payments to employees for services	(3,186,464)	(3,141,099)
Cash payments of benefits on behalf of employees	(1,619,838)	(1,256,818)
Net Cash Provided (Used) by Operating Activities	<u>11,109,403</u>	<u>6,191,566</u>
Cash Flows from Capital and Related Financing Activities:		
Cash received from connection fees	1,912,132	1,281,475
Cash received on the sale of capital assets	8,213	4,251
Purchases and construction of capital assets	(5,600,818)	(4,144,598)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(3,680,473)</u>	<u>(2,858,872)</u>
Cash Flows from Investing Activities:		
Sales, purchases and redemption of investments - net	(7,797,300)	(3,462,403)
Investment income	106,605	347,585
Net Cash Provided (Used) by Investing Activities	<u>(7,690,695)</u>	<u>(3,114,818)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(261,765)	217,876
Cash and Cash Equivalents Beginning	<u>20,442,968</u>	<u>20,225,092</u>
Cash and Cash Equivalents Ending	<u><u>\$ 20,181,203</u></u>	<u><u>\$ 20,442,968</u></u>
Reconciliation of Operating Income to Cash Flows Provided by Operating Activities:		
Operating Income (Loss)	\$ 6,669,943	\$ 5,905,561
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	1,652,638	1,514,901
Net change in:		
Accounts receivable	1,377,344	(1,174,008)
Prepaid expenses and other current assets	(3,815)	10,468
Net OPEB asset	(84,200)	-
Deferred outflows of resources	(310,288)	(404,876)
Accounts payable	988,504	(205,689)
Payroll and related liabilities	(5,227)	2,966
Net OPEB obligation	(119,049)	19,828
Net pension obligation	904,101	850,236
Deferred inflows of resources	72,216	(337,684)
Compensated absences	(32,764)	9,863
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 11,109,403</u></u>	<u><u>\$ 6,191,566</u></u>

The notes to the financial statements are an integral part of this statement.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

NOTE 1 - NATURE OF ORGANIZATION

West Bay Sanitary District (District) is a political subdivision of the State of California, and was formed for the purpose of protecting water quality and the associated public health. The District is responsible for wastewater collections, treatment, reclamation and disposal. The District performs the services of wastewater collection, and together with three other public entities is part of a Joint Powers District for the treatment, disposal and reclamation of wastewater. The District is also responsible for refuse (solid waste) collection, treatment, disposal and reclamation. It franchises with other organizations to perform these refuse services.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Accounting

The District's Basic Financial Statements are prepared in accordance with the policies and procedures for California special districts. The accounting policies of the District conform to accounting principles generally accepted in the United States of America, and as prescribed by the Governmental Accounting Standards Board and Audits of State and Local Governmental Units, issued by the American Institute of Certified Public Accountants.

The District is accounted for as an enterprise fund because the intent of the governing body is that the cost (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

An enterprise fund is used to account for activities similar to those in the private sector, where the proper matching of revenues and costs is important and the full accrual basis of accounting is required. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the enterprise are recorded on its statement of net position, and under the full accrual basis of accounting, all revenues are recognized when earned and all expenses, including depreciation, are recognized when incurred.

Enterprise funds are accounted for on a cost of services or economic resources measurement focus, which means that all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with their activity are included on their balance sheets. Enterprise fund type operating statements present increases (revenues) and decreases (expenses) in total net position.

Deferred outflows of resources is a consumption of net assets by the District that is applicable to a future reporting period. For example, prepaid items and deferred charges. Deferred inflows of resources is an acquisition of net assets by the District that is applicable to a future reporting period. For example, unearned revenue and advance collections.

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred inflows from unearned revenue.

The District applies all applicable GASB pronouncements for certain accounting and financial reporting guidance. In December of 2010, GASB issued Statement No. 62, *Codification of*

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB 62 incorporates pronouncements issued on or before November 30, 1989 into GASB authoritative literature. In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 also amends GASB 62 and AICPA Pronouncements paragraphs 64, 74, and 82. The GAAP hierarchy sets forth what constitutes GAAP for all state and local governmental entities. It establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. The sources of authoritative GAAP are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements (Category A)
- b. GASB Technical Bulletins; GASB Implementation Guides; and literature of the AICPA cleared by the GASB (Category B).

If the accounting treatment for a transaction or other event is not specified by a pronouncement in Category A, a governmental entity should consider whether the accounting treatment is specified by a source in Category B.

Statement of Net Position

The statement of net position is designed to display the financial position of the District. The District's net position are classified into three categories as follows:

- Net Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position, as applicable.
- Restricted - This component of net position consists of constraints placed on an assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law and regulations of other governments, and reduced by liabilities and deferred inflows of resources related to those assets. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation
- Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and operating income. Operating revenues and expenses generally result from providing services in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for services. Operating expenses for the District include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Service Charges

Service charges are billed and collected on the District's behalf by the County of San Mateo in conjunction with the County's annual property tax billings. The majority of revenues are collected through the County system with only small amounts billed directly by the District.

Connection Fees

Connection fees are reported as revenue only to the extent the amount equals the costs of the physical connection to the system.

Budgets and Budgetary Accounting

Budgets are prepared on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted by the Board of Directors. Project-length financial plans are adopted for all capital projects funds.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash represents balances that can be readily withdrawn without substantial notice or penalty. Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of three months or less.

Investments

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No.3)*, certain disclosure requirements for Deposits and Investment Risks were made in the areas of interest rate risk and credit risk. The credit risk disclosures include the following components; overall credit risk, custodial credit risk and concentrations of credit risk. In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

The District participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF), which has invested a portion of the pooled funds in

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, the structured notes and asset-backed securities are subject to market risk as to change in interest rates.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income. This statement changed the definition of fair value and is effective for periods beginning after June 15, 2015.

The following is a summary of the definition of fair value:

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

- Market approach - This approach uses prices generated for identical or similar assets or liabilities. The most common example is an investment in a public security traded in an active exchange such as the NYSE.
- Cost approach - This technique determines the amount required to replace the current asset. This approach may be ideal for valuing donations of capital assets or historical treasures.
- Income approach - This approach converts future amounts (such as cash flows) into a current discounted amount.

Each of these valuation techniques requires inputs to calculate a fair value. Observable inputs have been maximized in fair value measures, and unobservable inputs have been minimized.

Receivables

Receivables include amounts due from collection services and other assessments or resources. All receivables are current and reported net of an allowance for uncollectible accounts as applicable. The allowance for uncollectible accounts was zero as of June 30, 2017.

Capital Assets

Property, plant and equipment contributed to the District are stated at estimated fair value at the time of contribution. District policy has set the capitalization threshold for reporting capital assets at \$5,000 if an asset has an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The purpose of depreciation is to spread the cost of plant and equipment equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of plant and equipment cost.

Depreciation of all plant and equipment in service is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of the capital assets.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

The District has assigned the useful lives listed below to plant and equipment:

Pump Stations	5-30 years
Fleet	5-10 years
Plant and administration facilities	3-10 years
Buildings	10-30 years
Flow equalization facilities	10-30 years
Subsurface lines	10-50 years

Compensated Absences

Compensated absences include vacation leave. Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to the employees.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS.

Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Subsequent Events

Management has reviewed subsequent events and transactions that occurred after the date of the financial statements through the date the financial statements were issued. The financial statements include all events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management has determined that there are no non-recognized subsequent events that require additional disclosure.

Implemented New Accounting Pronouncements

GASB Statement No. 77, Tax Abatement Disclosures - Effective date: the requirements of this Statement are effective for reporting periods beginning after December 15, 2015 (earlier application was encouraged and was applied at the District).

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the District under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The implementation of this statement did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* - The objective of this Statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this GASB 78, the requirements of GASB 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that statement.

GASB 78 amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The implementation of this statement did not have a significant impact on the District's financial statements and did not result in any prior period restatements or adjustments.

Upcoming New Accounting Pronouncements

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* - The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

The District is in the process of determining the impact this statement will have on the financial statements.

GASB Statement No. 81, Irrevocable Split-Interest Agreements - The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of GASB 82 for selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 83, *Certain Asset Retirement Obligations* - This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 84, *Fiduciary Activities* - The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2018. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Earlier application is encouraged. The District doesn't believe this statement will have a significant impact on the District's financial statements.

NOTE 3 - CASH AND INVESTMENTS

The District's cash and investments consisted of the following as of June 30, 2017 and 2016:

Description	Rating	Fair Value June 30, 2017	Maturities				Concen- trations	Fair Value June 30, 2016
			12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months		
Bank of the West Investments:								
Municipal Bonds	AA+/AA3	\$ 2,443,216	\$ 1,042,561	\$ 705,019	\$ 645,765	\$ 49,871	5.29%	\$ 2,028,778
Corporate Bonds	BBB/A+	7,684,388	3,385,624	1,462,165	2,836,599	-	16.63%	5,400,745
US Agency Obligations	Govt	15,903,477	5,061,707	3,353,912	7,455,155	32,703	34.41%	10,804,260
Total Bank of West Investments	AAA	26,031,081	9,489,892	5,521,096	10,937,519	82,574	56.33%	18,233,783
Cash and Cash Equivalents:								
Cash on hand and in banks	N/A	2,084,503	2,084,503	-	-	-	4.51%	1,484,587
Money Market	N/A	13,704,414	13,704,414	-	-	-	29.66%	17,696,834
Bank of the West Cash Equivalents	N/A	1,361,849	1,361,849	-	-	-	2.95%	240,002
LAIF	N/A	3,029,837	3,029,837	-	-	-	6.56%	1,020,943
Petty Cash	N/A	600	600	-	-	-	0.00%	600
Total Cash and Cash Equivalents		20,181,203	20,181,203	-	-	-	43.67%	20,442,966
Total Cash and Investments		\$ 46,212,284	\$ 29,671,095	\$ 5,521,096	\$ 10,937,519	\$ 82,574	100.00%	\$ 38,676,749

Cash Deposits

As of June 30, 2017, the District's cash deposits exceeded the Federal Deposit Insurance Corporation ("FDIC") insured limits by \$1,865,413, but had little exposure since they were collateralized as noted in the *Collateral and Categorization Requirements* disclosure below. Bank balances are insured up to \$250,000 per bank by FDIC.

Collateral and Categorization Requirements

The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of at least 150% of an agency's total deposits.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

Investment Policy

The District's investment guidelines as defined by its written investment policy were approved by the Board of Directors. Implementation and direction is established by an internal finance committee. Monthly, the Board ratifies the investments that have been made.

The District's investment policy follows the California Government Code which authorizes the District to invest in the following:

Authorized Investment Type	Maximum Maturity (1)	Maximum Total of Portfolio	Maximum Investment in Anyone Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	20%	None
Reverse Repurchase Agreements	92 days	20%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	2 years	20%	None
County Pooled Investment Funds	1 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

Fair Value Measurements

GASB 72 established a hierarchy of inputs to the valuation techniques above. This hierarchy has three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable
- Level 3 inputs are unobservable inputs, such as a property valuation or an appraisal.

All of the Districts investments were valued using Level 1/2 inputs as noted above.

Local Agency Investment Fund

LAIF allows local agencies such as the District to participate in a Pooled Money Investment Account managed by the State Treasurer Office and overseen by the Pooled Money Investment Board and State Treasurer investment committee. A Local District Investment Advisory Board oversees LAIF. The investments with LAIF are not classified for credit risk due to their diverse nature and are stated at cost, which approximates fair value. The total amount invested by all public agencies in LAIF, as of June

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

30, 2017, was approximately \$77.6 billion of that amount, 99.12% was invested in non-derivative financial products and .88% was invested in structured notes and asset-backed securities. The average maturity for the investment in LAIF was 194 days.

Risk Disclosures

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

- *Interest Rate Risk* - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates. In order to limit loss exposure due to Interest Rate Risk, the investment policy limits the length of maturity of investments
- *Credit Risk* - Credit risk is the risk of loss due to the failure of the security issuer. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. In order to limit loss exposure due to Credit Risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.
- *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. Or, in the case of investments, the risk of loss of the investment due failure, impairment or malfeasance of the third party whose name in which the investment is held and who has physical possession of the instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of the District's investments were subject to custodial credit risk.
- *Concentration of Credit Risk* - See the chart above for the District's limitations on the amount that can be invested in any one issuer.

NOTE 4 - INVESTMENT IN SILICON VALLEY CLEAN WATER

Silicon Valley Clean Water (SVCW), formerly the South Bayside System Authority, was created in 1975, under a Joint Exercise of Powers Agreement, to construct and operate a sewage treatment facility at Redwood Shores for the District and the cities of Belmont, San Carlos, and Redwood City. At June 30, 2017 and 2016, the District had approximately 17% equity interest in SVCW, which is reported using the equity method of accounting. The District's investment in SVCW at June 30, 2017 and 2016 was \$13,589,774 and \$13,261,248, respectively, as reflected on the statement of net position. The change in the investment for the years ended June 30, 2017 and 2016 was an increase of \$328,526 and a decrease of \$3,667,108, respectively, as reflected in the statement of revenues, expenses and changes in net position. The 2017 decrease in the District's equity share was attributed to the fact that not all members share in the long-term debt, only the net position, or equity, of the participating members decreases upon the issuance of new debt, while the "non-debt" member's net position increases. In addition, the non-debt members contribute more cash into the JPA than other members to cover their share of capital improvements, which increases the equity share of non-debt

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

members and decreases the share of other participating agencies.

SVCW's governing commission consists of four members, one appointed from each of the four participating agencies. SVCW's condensed audited financial information is presented below for the year ended June 30, 2017, (most recent information available):

	June 30, 2017
Total Assets	\$ 304,774,429
Deferred Outflows of Resources	6,969,339
Total Liabilities	225,872,024
Deferred Inflows of Resources	5,832,072
Total Equity	80,039,672
Total Revenues	41,887,031
Total Expenditures	41,011,248

NOTE 5 - CAPITAL ASSETS (PROPERTY, PLANT AND EQUIPMENT)

The District's capital assets consisted of the following as of June 30, 2017:

Description	Balance June 30, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Non-depreciable Capital Assets:					
Land	\$ 44,467	\$ -	\$ -	\$ -	\$ 44,467
Construction in progress	4,372,957	5,626,783	-	(5,696,788)	4,302,952
Total non-depreciable capital assets	4,417,424	5,626,783	-	(5,696,788)	4,347,419
Depreciable Capital Assets:					
Pump stations	5,317,773	56,591	(377,308)	2,569,983	7,567,039
Fleet	2,368,042	100,498	(39,745)	-	2,428,795
Plant and administration facilities	1,442,234	183,716	(25,008)	-	1,600,942
Buildings	2,969,680	12,213	-	-	2,981,893
Flow equalization facilities	2,901,072	-	-	-	2,901,072
Subsurface lines	49,428,086	140,927	-	3,126,805	52,695,818
Total depreciable capital assets	64,426,887	493,945	(442,061)	5,696,788	70,175,559
Less accumulated depreciation for:					
Pump stations	(2,222,790)	(121,339)	377,308	-	(1,966,821)
Fleet	(1,397,253)	(176,339)	39,745	-	(1,533,847)
Plant and administration facilities	(1,190,136)	(62,048)	25,008	-	(1,227,176)
Buildings	(1,008,954)	(91,179)	-	-	(1,100,133)
Flow equalization facilities	(2,263,207)	(90,184)	-	-	(2,353,391)
Subsurface lines	(16,847,066)	(1,111,549)	-	-	(17,958,615)
Total accumulated depreciation	(24,929,406)	(1,652,638)	442,061	-	(26,139,983)
Total depreciable capital assets - net	39,497,481	(1,158,693)	-	5,696,788	44,035,576
Total capital assets - net	\$ 43,914,905	\$ 4,468,090	\$ -	\$ -	\$ 48,382,995

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

Depreciation expense for the year ended June 30, 2017 and 2016 was \$1,652,638 and \$1,514,901, respectively.

Construction in progress consisted of the following as of June 30, 2017:

Project	Balance June 30, 2017
Fair Oaks	\$ 10,598
Oak Grove	12,110
Easement Design Projects	78,598
FEF Metal Storage Building	51,437
Belle Haven II	2,701,513
Belle Haven III	273,120
RMC Water and Environment - SHGCC	1,154,381
Bay Front Resource Recovery	14,196
Other projects	7,000
Total Construction in Progress	<u>\$ 4,302,952</u>

NOTE 6 - NONCURRENT LIABILITIES

The District's noncurrent liabilities consisted of the following as of June 30, 2017:

Description	Balance July 01, 2016	Additions	Deductions	Balance June 30, 2017	Due Within One Year
Net OPEB Obligation	\$ 119,049	\$ 26,489	\$ 145,538	\$ -	\$ -
Net Pension Obligation	3,524,991	904,101	-	4,429,092	-
Compensated Absences	282,911	-	32,764	250,147	171,600
Total Noncurrent Liabilities	<u>\$ 3,926,951</u>	<u>\$ 930,590</u>	<u>\$ 178,302</u>	<u>\$ 4,679,239</u>	<u>\$ 171,600</u>

NOTE 7 - BOARD COMMITMENTS OF NET POSITION

Commitments are imposed by the District's Board to reflect future spending plans or concerns about the availability of future resources. Commitments may be modified, amended or removed by Board action. Commitments for future capital assets replacement is the portion of net position to be used for new equipment and for emergency and scheduled replacement of capital facilities paid from connection fees. Commitments for operations have been set-aside to reserve approximately five months of operating expenses. The Board committed the following unrestricted net position as of June 30, 2017:

Description	Balance
Capital fund budget	\$ 14,531,267
Invested in Silicon Valley Clean Water	13,589,774
Operations	7,923,244
Total Committed Net Unrestricted Position	<u>\$ 36,044,285</u>

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

NOTE 8 - DEFERRED COMPENSATION PLAN

District employees may defer a portion of their compensation under a District-sponsored Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. Under this Plan, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency defined by the Plan.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefits of plan participants and their beneficiaries. Since the assets held under these plans are not the District's property and are not subject to District control, they are not included in these financial statements.

NOTE 9 - RISK MANAGEMENT

The District joined together with other sanitary districts in the State to form California Sanitation Risk Management Authority (CSRMA), a public entity risk pool currently operating as a common risk management and insurance program. The District is insured for the costs of claims through CSRMA and commercial insurance carriers for the following:

Type of Coverage	Limits	Deductibles
General Liability	15,500,000	25,000
Employment Practices Liability	15,500,000	25,000
Worker's Compensation	750,000	None
Excess Worker's Compensation Liability	Statutory Limits	None
Mobile Equipment	767,005	2,000
Special Form Property	1,003,385	5,000
Public Official Bond	100,000	None

The District has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years.

Audited condensed financial information for CSRMA is presented below for the year ended June 30, 2016 (most recent information available):

	June 30, 2017
Total Assets	\$ 28,336,567
Total Liabilities	16,735,609
Total Equity	11,600,958
Total Revenues	11,843,583
Total Expenditures	10,946,085

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

NOTE 10 - DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plans

Plan Description - All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan (the Plan); cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension Plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service for Tier 1 and 5 years of service for PEPPRA. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the Plan are applied as specified by the Public Employees' Retirement Law. The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous	
	Classic	PEPPRA
Hire date	Prior to 12/6/12	On(After) 1/1/13
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a % of eligible compensation	2.0% to 2.5%	2.00%
Required employee contribution rates	8.000%	6.250%
Employee contribution rates per MOU	8.557%	7.336%
Required employer contribution rates	16.195%	13.252%
Employer contribution rates per MOU	15.638%	6.555%

Employees Covered - At June 30, 2017, the following employees were covered by the benefit terms for the Plan:

Active	24
Transferred	6
Separated	7
Retired	26
Total	63

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rates are 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2017, the contributions recognized as part of pension expense for the Plan were as follows:

	June 30, 2017
Contributions - employer	\$ 399,280
Contributions - employee	184,670
Total	<u>\$ 583,950</u>

During the fiscal year, the Classic employees contributed 8.557% and the PEPRA employees contributed 7.336% of their salary toward the combined required contribution of 24.195% for the Classic plan and 13.891% for PEPRA, leaving the District's total contribution at 15.638% for the Classic plan and 6.555% for PEPRA in 2017. Total contributions made by employees over the last three fiscal years ended June 30, 2017, 2016 and 2015 were \$230,583, \$184,846 and \$142,082, respectively.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate shares of the net pension liability of \$4,429,092. The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan are measured as of June 30, 2016, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension Plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for the Plan as of June 30, 2016 and 2017 was as follows:

	Proportion of Net Pension Liability
June 30, 2016	0.1285%
June 30, 2017	0.1275%
Change in Proportions	<u>-0.0010%</u>

For the year ended June 30, 2017, the District recognized pension expense of \$1,053,529.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 387,500	\$ -
Changes in assumptions	-	(131,736)
Differences between expected and actual experiences	10,734	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(276,928)
Net differences between projected and actual earnings on plan investments	685,643	-
Total	<u>\$ 1,083,877</u>	<u>\$ (408,664)</u>

The District reported \$387,500 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Fiscal Year Ending:	Deferred Outflows/(inflows) of Resources
2018	\$ (69,624)
2019	(56,534)
2020	236,280
2021	177,591
Total	<u>\$ 287,713</u>

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

Actuarial Assumptions - The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	(1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Varies by age and service
- (2) Net of pension plan investment expenses, including inflation
- (3) Derived using CalPERS' membership data for all funds

Discount Rate - The discount rate used to measure the total pension liability was 7.65 percent for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as we have changed our methodology. 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.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount

Rate - The following presents the District's proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.65%
Net Pension Liability	\$ 6,686,473
Current Discount Rate	7.65%
Net Pension Liability	\$ 4,429,092
1% Increase	8.65%
Net Pension Liability	\$ 2,563,477

Pension Plan Fiduciary Net Position - Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District's single employer defined benefit postemployment healthcare plan provides health care benefits to eligible retirees in accordance with a Board resolution. Eligible employees retiring at or after age 50 with a minimum of 5 years of service may opt to continue health care coverage, with a portion of the monthly premium paid for by the District. Coverage discontinues either at the request of the retiree or by defaulting on the employee portion of the premium.

The District contracts with CalPERS to administer its retiree health benefit plan. A menu of benefit provisions as well as other requirements is established by State statute within the Public Employees' Retirement Law. The District chooses among the menu of benefit provisions and adopts certain benefit provisions by Board resolution.

Funding Policy

There is no statutory requirement for the District to prefund its OPEB obligation. The District has currently chosen to pay plan benefits on a pay-as-you-go basis. There are no employee contributions. For fiscal year ending June 30, 2017, the District paid \$229,738 for retiree healthcare plan benefits and trust contributions. The Annual Required Contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC is equal to the normal cost plus a 30-year amortization of the unfunded actuarial liability.

Annual OPEB Cost and Net OPEB Obligation

The following table, based on the District's actuarial valuation dated July 1, 2015, shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's Net OPEB obligation:

Annual required contribution	\$ 27,198
Interest on net OPEB obligation	5,952
Adjustment to annual required contribution	<u>(6,661)</u>
Annual OPEB cost (expense)	26,489
Contributions made	<u>(229,738)</u>
Increase in net OPEB obligation	(203,249)
Net OPEB obligation - beginning of year	<u>119,049</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ (84,200)</u></u>

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2017, are as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	OPEB Obligation (Asset)
June 30, 2015	\$ 25,900	16.75%	\$ 99,221
June 30, 2016	25,313	21.67%	119,049
June 30, 2017	26,489	867.30%	(84,200)

Actuarial valuations of an ongoing plan involve estimates of the value of expected benefit payments and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare 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 supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include 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 are consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return, which is the expected long-term investment return on District investments, a 3% general inflation assumption, and an annual aggregate payroll increase rate of 3%.

Required Supplementary Information

Schedule of Funding Progress - Postemployment Healthcare Plan						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c))
3/1/2010	\$ -	\$ 137,900	\$ 137,900	0.00%	\$ 1,952,200	7.06%
3/1/2013	\$ -	\$ 186,100	\$ 186,100	0.00%	\$ 2,391,800	7.78%
7/1/2015	\$ -	\$ 217,440	\$ 217,440	0.00%	\$ 2,846,000	7.64%

West Bay Sanitary District
Notes to Financial Statements
June 30, 2017

NOTE 12 - SHARON HEIGHTS GOLF AND COUNTRY CLUB COST SHARING PLAN

The West Bay Sanitary District has an agreement with Sharon Heights Golf and Country Club (Club) to contribute toward the cost of the Facilities plan and the full cost incurred thereafter for the planning, design environmental review, permitting, construction and operation of a recycled water treatment facility on Club property. West Bay will receive a grant easement in perpetuity for the location of the recycled water treatment facility and West Bay will have ownership of the treatment facility and all the recycled water, with the Club's right to receive recycled water.

West Bay has received approval for a California Clean Water State Revolving Fund loan to Design/Build a recycled water treatment facility. The parties have a long-term agreement that establishes the terms and conditions of loan payments, easements, ownership of the facility, design criteria, and terms of operation and maintenance.

Through June 30, 2017, total costs for consultants, attorneys, studies, applications and reports have totaled \$1,414,145. The cost sharing breakdown for these expenditures is as follows:

West Bay Sanitary District	\$1,154,381
SHGCC (Club)	\$185,286
State Revolving Fund	\$74,477

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The District may be at risk to be a defendant in certain lawsuits which arise in the normal course of business. District management is of the opinion that the ultimate outcome of such matters will not have a significant effect on the financial position of the District.

REQUIRED SUPPLEMENTARY INFORMATION

West Bay Sanitary District
Schedule of Pension Contributions - CalPERS
June 30, 2017

	2017	2016	2015
Contractually Required Contributions (Actuarially Determined)	\$ 387,500	\$ 399,280	\$ 368,713
Contributions in Relation to Actuarially Determined Contributions	387,500	399,280	368,713
Contribution Deficiency (Excess)	<u>-</u>	<u>-</u>	<u>-</u>
Covered Employee Payroll	\$ 2,765,233	\$ 2,544,628	\$ 2,411,343
Contributions as a Percentage of Covered Payroll	14.01%	15.69%	15.29%

Notes to Schedule:

Valuation Date: June 30, 2015
Assumptions Used: Entry Age Method used for Actuarial Cost Method
Level Percentage of Payroll (Closed) Used Amortization Method
3.7 Years Remaining Amortization Period
Inflation Assumed at 2.75%
Investment Rate of Returns set at 7.5%
CalPERS mortality table using 20 years of membership data for all funds

** Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

West Bay Sanitary District
Schedule of Proportionate Share of Net Pension Liability
June 30, 2017

	2017	2016	2015
Proportion of Net Pension Liability	0.12750%	0.12849%	0.10822%
Proportionate Share of Net Pension Liability	\$ 4,429,092	\$ 3,524,991	\$ 2,674,755
Covered Employee Payroll	\$ 2,765,233	\$ 2,544,628	\$ 2,411,343
Proportionate Share of NPL			
as a % of Covered Employee Payroll	160.17%	138.53%	110.92%
Plan's Fiduciary Net Position as a % of the TPL	73.58%	78.29%	83.03%

** Fiscal year 2015 was the first year of implementation, therefore only three years are shown.

SUPPLEMENTARY INFORMATION

West Bay Sanitary District
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2017

	Budget Amounts	Actual (GAAP Basis)	Variance
Operating Revenues:			
Service charges	\$ 24,233,319	\$ 24,483,213	\$ 249,894
Flow equalization uses	313,000	315,186	2,186
Permit and inspection fees and other services	50,000	210,870	160,870
Other operating revenues	415,887	567,616	151,729
Total operating revenues	<u>25,012,206</u>	<u>25,576,885</u>	<u>564,679</u>
Operating Expenses:			
Sewage treatment	11,905,000	10,294,299	1,610,701
Sewage collection and general administration:			
Salaries and benefits	4,850,661	5,231,091	(380,430)
Materials and supplies	448,195	335,092	113,103
Insurance	95,050	84,360	10,690
Contract services	393,000	283,662	109,338
Professional services	529,350	383,741	145,609
Repairs and maintenance	259,000	255,891	3,109
Utilities	148,000	129,147	18,853
Other operating expenses	301,530	257,021	44,509
Total sewage collection and general administration	<u>7,024,786</u>	<u>6,960,005</u>	<u>64,781</u>
Depreciation	1,600,000	1,652,638	(52,638)
Total operating expenses	<u>20,529,786</u>	<u>18,906,942</u>	<u>1,622,844</u>
Operating Income (Loss)	<u>4,482,420</u>	<u>6,669,943</u>	<u>2,187,523</u>
Nonoperating Revenues (Expenses):			
Investment income	125,000	168,839	43,839
Increase (decrease) of equity in Silicon Valley Clean Water	-	328,526	328,526
Other nonoperating expenses	(21,000)	-	21,000
Other nonoperating revenues	1,000	528,123	527,123
Total nonoperating revenues (expenses)	<u>105,000</u>	<u>1,025,488</u>	<u>920,488</u>
Income before contributions	4,587,420	7,695,431	3,108,011
Capital Contributions	<u>50,000</u>	<u>1,912,132</u>	<u>1,862,132</u>
Change in Net Position	4,637,420	9,607,563	4,970,143
Beginning Net Position	91,608,170	91,608,170	-
Ending Net Position	<u>\$ 96,245,590</u>	<u>\$ 101,215,733</u>	<u>\$ 4,970,143</u>

**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**



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

To the Board of Directors
West Bay Sanitary District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Bay Sanitary District (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 7, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not



express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

C & A LLP

November 7, 2017
San Jose, California

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

