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**WILLITS CITY COUNCIL
SPECIAL MEETING AGENDA
MARCH 21, 2016 ♦ 6:30 P.M. ♦ COUNCIL CHAMBERS**

1. **OPENING MATTERS** – a) Call to Order; b) Roll Call
2. **PRESENTATION BY JPB CONSULTING REGARDING THE FUTURE OF ALTERNATIVE FUELS IN NORTHERN CALIFORNIA**
3. **PRESENTATION BY RJ RICCIARDI REGARDING AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING JUNE 30, 2015**
4. **APPROVE SERVICE AGREEMENT RENEWAL WITH ACS ENTERPRISE SOLUTIONS LLC FOR SOFTWARE, HARDWARE, AND SERVICES**
5. **MARIJUANA AD HOC COMMITTEE REPORT AND RECOMMENDATION TO THE WILLITS CITY COUNCIL AND DIRECTION TO STAFF TO DRAFT ORDINANCE**
6. **CLOSED SESSION**
 - a. Conference with Legal Counsel Pursuant to Government Code §54956.9 – Existing Litigation: People of the State of California and the City of Willits v. Remco Hydraulics, Inc., et al. (United States District Court – Northern District of California, Case No. C-96-6283 SI 12/22/2000)
7. **ADJOURNMENT**

I hereby certify under penalty of perjury under the laws of the State of California that the foregoing agenda was posted on the bulletin board at the main entrance of the City of Willits City Hall, located at 111 East Commercial Street, Willits, California, not less than 24 hours prior to the meeting set forth on this agenda.

*Dated this 18th day of March, 2016.
Cathy Moorhead, City Clerk*

AMERICANS WITH DISABILITIES ACT (ADA) COMPLIANCE

The meeting room is wheelchair accessible and disabled parking is available. If you are a person with a disability and need disability-related modifications or accommodations to participate in this meeting, please contact Cathy Moorhead at (707) 459-7121 or Fax (707) 459-1562. Requests for such modifications or accommodations must be made at least two full business days prior to the meeting.

ADDITIONAL MEETING INFORMATION FOR INTERESTED PARTIES

Materials related to an item on this Agenda submitted to the Willits City Council, Planning Commission, or Community Development Agency after distribution of the agenda packet are available for public inspection at City Clerk's office at 111 E. Commercial Street, Willits, during normal business hours.



Northwest California Alternative Fuels Readiness Project



The Northwest California Alternative Fuels Readiness Project is developing a readiness plan for the counties of Del Norte, Siskiyou, Humboldt, Trinity, and Mendocino.

Focus on the Future

- Create a roadmap for wise and effective alternative fuel infrastructure deployment.
- Identify activities that encourage regional alternative fuel vehicle adoption.
- Coordinate regional efforts that support the successful introduction of alternative fuel vehicles.
- Highlight training and first responder needs for safe deployment and adoption.
- Facilitate robust market development for alternative fuels.

Promote Economic Development

To address multiple barriers to alternative transportation fuel adoption in the region, this project:

- Promotes the need for alternative fuel infrastructure;
- Encourages the use of locally processed fuels;
- Informs consumers about alternative fuels;
- Addresses permitting and regulatory hurdles with local and regional government agencies;
- Engages local and regional fleets about alternative fuel conversion opportunities.

Project Partners

This is a cooperative effort between the Redwood Coast Energy Authority, the Schatz Energy Research Center at Humboldt State University, the Mendocino Council of Governments, the North Coast Unified Air Quality Management District, and the Siskiyou County Economic Development Council. Funding is provided by the California Energy Commission under grant number ARV-13-012.



Change More Than Just the Car You Drive

Through accelerated commercialization of alternative and renewable fuels, this project not only ensures the region meets its share of the State's low carbon fuel standard, but also improves air quality, encourages energy sustainability, and improves regional resilience to natural disasters.



Align with State Goals

The State of California has set ambitious goals for adopting alternative fuels. Through the State Alternative Fuels Plan (AB 1007), current State policy is to:

- Transition away from petroleum consumption via AB 1076 and the *Reducing California's Petroleum Dependence* plan;
- Reduce greenhouse gas emissions through AB 32 and adoption of the low carbon fuel standard;
- Increase in-state biofuel production and use through the *Bioenergy Action Plan for California*;
- Improve air quality through state mandates set by the California Air Resources Board.

The Northwest California Alternative Fuels Readiness Project promotes State goals by assessing the opportunity to commercialize and adopt low carbon fuels in the unique setting of the Northwest Region. The project also integrates local needs and challenges into a strategic planning and outreach effort that effectively enhances the adoption of alternative fuels.

Clean, Sustainable, and Secure

Fuels that are cleaner than gasoline or diesel can be sourced within the United States, and in our region, to facilitate a more secure energy future. Fuels under consideration are **electricity, natural gas and propane, hydrogen, and biofuels such as biodiesel and biogas.**

Project Stakeholder Input Is Needed

Numerous stakeholders will have a voice in this project, including:

- Local governments
- Fuel producers and distributors
- Emergency responders
- Fleet operators
- Auto dealers
- Many others

Stakeholder Outreach Timeline

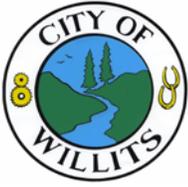
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|---|---------------------------|--------|--------|
| | ● 2014 | ● 2015 | ● 2016 |
| • Assess alternative fuel infrastructure and deployment options (including an assessment of planning, permitting and deployment challenges) | April 2014 - August 2015 | | |
| • Analyze and recommend incentives to increase alternative fuel adoption | May 2014 - June 2015 | | |
| • Develop strategic plan for alternative fuel market development | August 2014 - June 2015 | | |
| • Cooperatively develop training materials for infrastructure owners, operators, managers, and emergency response teams | May 2015 - November 2015 | | |
| • Create outreach materials and strategies to communicate alternative fuel benefits | July 2015 - December 2015 | | |
| • Develop and finalize a regional readiness plan | July 2015 - October 2015 | | |

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Item No. 3

Meeting Date: March 21, 2016

AGENDA SUMMARY REPORT

To: Honorable Mayor and Council Members

From: Susie Holmes, Finance Director

Agenda Title: PRESENTATION BY RJ RICCARDI REGARDING AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING JUNE 30, 2015

Type: Presentation Consent Regular Agenda Public Hearing Urgent Time: N/A

Summary of Request: The firm of R.J. Ricciardi, Inc. issued an unqualified opinion on the City of Willits financial statements for the fiscal year ending June 30, 2015.

The report includes the auditors' opinion letter, the Management discussion and analysis, the financial statements, notes to the financial statements, budget to actual comparisons for the general and sales tax funds, and the auditors' report on internal control. The ending fund balance in the General Fund increased by \$322,455 from \$1,999,156 to \$2,321,611.

The Sales Tax Transportation Improvement Fund ended the year with \$2,174,232 in reserves an increase of \$87,146.

The Sewer enterprise fund balance decreased \$707,892 while the balance in the Water enterprise increased \$831,745 as indicated on pages 18 and 19 of Financial Statements.

Please read the Management Discussion and Analysis (pages 3-12) for an overview of the financial statements. The Notes to the Financial Statements (pages 25-46) are an integral part of understanding the financial statements.

GASB68 requires the unfunded liability for pension accounts be included on financial statements. Michael O'Connor, CPA with the form of R.J. Ricciardi, Inc. will be available to answer any questions related to the financial statements.

Recommended Action: Receive and file the report.

Alternative(s): None recommended.

Fiscal Impact: Information purposes only.

Personnel Impact: None.

Reviewed by: City Manager City Attorney Finance Director Human Resources Risk

Council Action: Approved Denied Other: _____

Records: Agreement Resolution # _____ Ordinance # _____ Other _____

DRAFT

1/28/2016

To be used only for management discussion purposes; engagement is incomplete; this draft is subject to final review and possible revision. ****Report/Letter date is TENTATIVE-TBD****

**CITY OF WILLITS
WILLITS, CALIFORNIA**

BASIC FINANCIAL STATEMENTS

JUNE 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Willits
Willits, 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 City of Willits, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Willits' 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, we consider internal control relevant to City of Willits' 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 City of Willits' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information and, where applicable, cash flows of City of Willits, as of June 30, 2015, and the respective changes in financial position 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 (pages 3-11) and the required supplemental information (pages 50-52), 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated , on our consideration of City of Willits' 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

This discussion and analysis of City of Willits' financial activities and performance provides an overview for the fiscal year ended June 30, 2015. Please read this in conjunction with City of Willits' financial statements, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements

The Government-wide Statement of Net Position appearing as the first statement of the Basic Financial Statements and summarized in the Management's Discussion and Analysis shows City of Willits' (the City's) total assets to be \$55,358,069, total liabilities to be \$32,182,231 and total net position to be \$24,122,740.

The City's net capital assets, net of related debt, totaled \$19,388,720 at June 30, 2015. This amount represents capital assets net of the related debt to acquire the capital assets. As a "small" City under the definition of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34), the City is not required to report, and has not reported, infrastructure (i.e. streets, streetlights, sidewalks, etc.) assets acquired prior to June 30, 2003 in accounting for capital assets.

The City's long-term debt (including current portion) totaled \$31,180,638 as of June 30, 2015. This amount includes the 2011 Waste Water USDA Loan and other items reported in previous years in the General Long-Term Debt column, capital leases, net pension liability and debt related to business-type activities (see Note 5 of the financial statements).

Governmental Funds Financial Statements

At June 30, 2015, Governmental Fund balances totaled \$5,110,082, an increase of \$738,397 from June 30, 2014. This increase is primarily due to the timing of reimbursements in the Regional Transportation Improvement Funds. The detailed components of revenues and expenditures can be found in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances.

The core operations of the City are accounted for in the General Fund, and the General Fund balance is a key measure of the financial health of the City. As of June 30, 2015, the General Fund balance was \$2,321,611, an increase of \$322,455 from the July 1, 2014 balance of \$1,999,156.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's Basic Financial Statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. They provide information about the activities of the City as a whole and present a longer-term view of the City's finances.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. 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 diminishing.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

The Statement of Activities presents information that shows how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event causing the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses may be reported in this statement for some items that will result in cash flows in future fiscal periods, such as property taxes assessed but not collected by June 30 and interest expenses accrued but not paid.

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, like other government entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of government entities can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on short-term inflows and outflows of spendable resources and balances of these resources available for spending. This information may be useful in evaluating a government's short-term financing requirements. 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 Funds Financial Statements.

The City maintains numerous individual governmental funds, which for financial reporting, are grouped according to their type (general fund, special revenue, capital projects, and debt service). Funds with expenditures exceeding 10% of the total expenditures for all governmental funds, or meet other specific criteria for determining their importance to the financial statement user, are designated Major Funds and are reported separately in the governmental funds statements. All other funds are grouped together as Non-Major Funds for reporting purposes. The City's Major governmental funds are:

- General Fund
- Sales Tax Transportation Improvement
- Gas Tax Fund

All of the City's Enterprise Funds are reported as Major Funds.

Proprietary Funds

Proprietary funds generally account for services for which customer fees are intended to finance the costs of operations and can include enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary Funds Financial Statements are prepared on the full accrual basis, as in the past, and include all of their assets and liabilities, current and long-term.

The City does not have any internal service funds.

Fiduciary Funds

Fiduciary Statements are used to account for resources held for the benefit of parties outside of the reporting government for which the City acts solely as agent. These statements are separate from, and their balances are excluded from, the City's financial statements.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

Tables 1 and 2 focus on the City's Governmental Statement of Net Position and Statement of Activities, while Tables 3 and 4 focus on the City's Business-type Statement of Net Position and Statement of Activities.

Governmental Activities

Table 1
Governmental Net Position at June 30

	Governmental Activities 2015	Governmental Activities 2014
Current and other assets	\$ 5,413,817	\$ 4,706,704
Capital assets	441,960	505,323
Total assets	<u>5,855,777</u>	<u>5,212,027</u>
Deferred outflows	<u>516,209</u>	
Long-term liabilities	15,000	21,114
Other liabilities	<u>503,462</u>	<u>446,869</u>
Total liabilities	<u>518,462</u>	<u>467,983</u>
Deferred inflows	<u>(275,427)</u>	
Net position:		
Invested in capital assets, net of related debt	426,960	484,209
Restricted	171,341	300,003
Unrestricted	<u>317,515</u>	<u>3,959,832</u>
Total net position	<u>\$ 915,816</u>	<u>\$ 4,744,044</u>

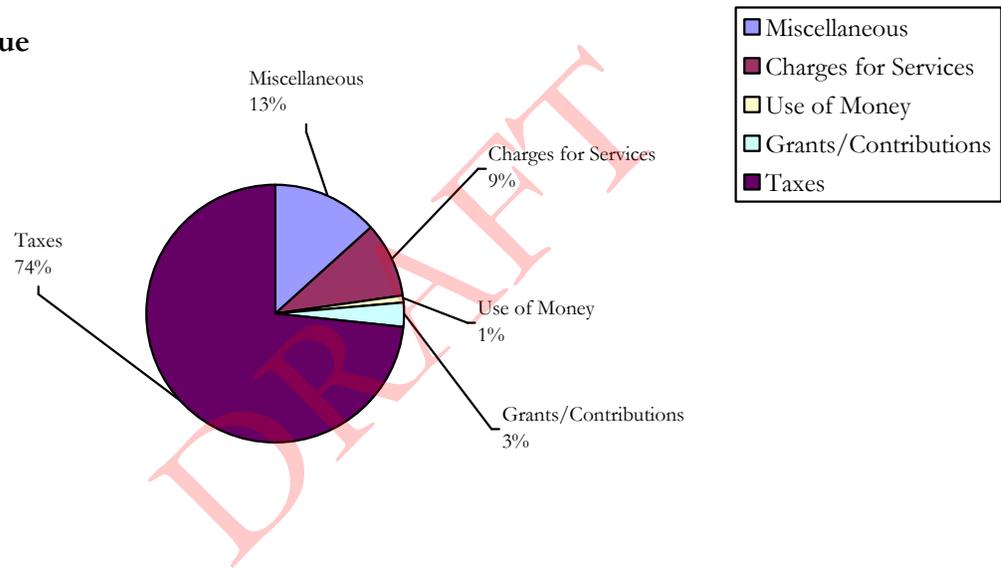
The City's governmental net position amounted to \$915,816 as of June 30, 2015, a decrease of \$3,828,228 from 2014. This increase is the Change in Net Position and the prior period adjustment reflected in the Governmental Activities column of the Statement of Activities shown in Table 2. The City's net position as of June 30, 2015 comprised the following:

- Cash and investments were comprised of \$4,690,181 in the City treasury. Substantially all of these amounts were held in short-term investments in government securities, as detailed in Note 2 to the basic financial statements.
- Receivables were comprised of the following: \$720,538 current receivables, and \$3,098 of inventories.
- Capital assets were \$441,960 net of depreciation charges, which includes all the City's capital assets used in governmental activities.
- Current liabilities, including accounts payable, claims, accrued liabilities, and other amounts currently due, totaled \$518,462.
- Long-term debt was \$15,000.

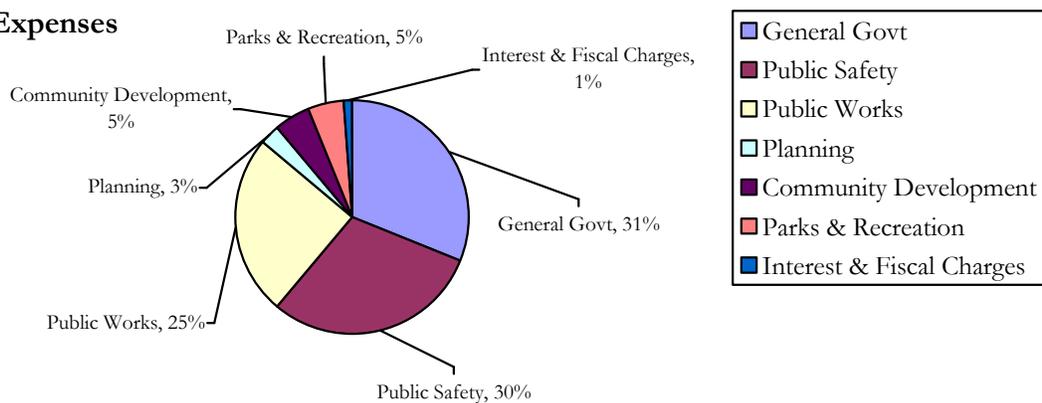
City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

- Net position invested in capital assets, net of related debt, was \$426,960, representing the City's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Restricted net position totaling \$171,341, which may be used only to construct specified capital projects or for debt service. The restrictions on these funds were placed there by outsiders and cannot be changed by the City.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The City had \$317,515 of unrestricted net position as of June 30, 2015.

Sources of Revenue



Functional Expenses



As the Sources of Revenue Chart above shows, \$3,840,314 or 71%, of the City's fiscal year 2015 governmental activities revenue came from taxes, while \$142,814 or 3%, came from grants and contributions, \$499,574, or 9%, came from charges for services, and the remainder came from a variety of sources, as shown above.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

The Functional Expenses Chart above includes only current year expenses; it does not include capital outlays, which are now added to the City's capital assets. As the Chart shows, general government expenses are \$1,111,783, or 31%, of total government expenses, community development is \$182,375, or 5%, public safety is \$1,085,933 or 30%, public works is \$936,560, or 25%, parks and recreation is \$178,655, or 5%, and other governmental programs and functions are the remaining 4%.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

Table 2
Changes in Governmental Net Position

	Governmental Activities 2015	Governmental Activities 2014
<u>Expenses</u>		
General government	\$ 1,111,783	\$ 1,184,479
Public safety	1,085,933	2,352,321
Planning	101,430	129,193
Community development	182,375	79,589
Public works	936,560	1,400,878
Parks and recreation	178,655	265,999
Interest on long-term debt	4,612	11,376
Total expenses	3,601,348	5,423,835
<u>Revenues</u>		
Program revenues:		
Charges for services	499,574	287,667
Operating grants and contributions	142,814	143,793
Capital grants and contributions	-	291,926
Total program revenues	642,388	723,386
General revenues:		
Taxes	3,840,314	4,094,337
Use of money and property	28,549	31,898
Other revenues and transfers	868,784	746,495
Total general revenues	4,737,647	4,872,730
Total revenues	5,380,035	5,596,116
Change in net position	\$ 1,778,687	\$ 172,281

As the Sources of Revenue Chart and Table 2 above show, \$642,388, or 12%, of the City's fiscal year 2015 governmental revenue, came from program revenues and \$4,737,647, or 88%, came from general revenues such as taxes and interest and transfers.

Program revenues were composed of charges for services of \$499,574, which includes permit revenues, fees and charges used to fund expenses incurred in providing services; and \$142,814 of operating grants and contributions, which includes gas tax revenues and housing and police grants.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Business-type Activities

The Statement of Net Position and Statement of Activities present a summary of the City's business-type activities that are composed of the City's enterprise funds.

Table 3
Business-Type Net Position at June 30

	Business-Type 2015	Business-Type 2014
Current and other assets	\$ 5,732,947	\$ 5,767,040
Capital assets	43,690,425	44,261,203
Total assets	49,423,372	50,028,243
Deferred outflows	98,354	
Long-term debt outstanding	25,107,555	26,463,855
Other liabilities	498,131	642,895
Total liabilities	25,605,686	27,106,750
Deferred inflows	(56,912)	
Net position:		
Invested in capital assets, net of debt	18,961,760	21,647,476
Restricted	1,653,716	2,158,681
Unrestricted	2,395,793	(884,664)
Total net position	\$ 23,011,269	\$ 22,921,493

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

Table 4
Changes in Business-Type Net Position

	Business-Type Activities 2015	Business-Type Activities 2014
<u>Expenses</u>		
Water	\$ 2,530,249	\$ 3,219,404
Sewer	3,373,594	3,443,048
Airport	<u>113,629</u>	<u>85,522</u>
Total expenses	<u>6,017,472</u>	<u>6,747,974</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	5,708,372	5,220,625
Capital grants and contributions	10,000	-
Operating grants and contributions	<u>1,464,340</u>	<u>1,803,554</u>
Total program revenues	<u>7,182,712</u>	<u>7,024,179</u>
General revenues:		
Use of money and property	41,608	57,634
Other revenues and transfers	<u>(11,793)</u>	<u>(10,876)</u>
Total general revenues	<u>29,815</u>	<u>46,758</u>
Total revenues	<u>7,212,527</u>	<u>7,070,937</u>
Change in net position	<u>\$ 1,195,055</u>	<u>\$ 322,963</u>

Analyses of Major Funds

Governmental Funds

General Fund

General Fund revenues increased \$315,022 this fiscal year due primarily to increases in licenses and permits, charges for services and other revenue that offset decreases in taxes and intergovernmental revenue. Actual revenues were over budgeted amounts by \$249,283.

General Fund expenditures were \$4,102,244, a decrease of \$131,186 from the prior year. Expenditures were \$191,465 less than budgeted.

As of June 30, 2015, the General Fund's fund balance totaled \$2,321,513.

Sales Tax Transportation Improvement Fund

This fund is used to account for capital expenditures, maintenance, rehabilitation, reconstruction and construction of City streets and roads. The fund's fiscal year end fund balance was \$2,174,232.

Gas Tax Fund

This fund is used to account for capital expenditures, maintenance, rehabilitation, reconstruction and construction of City streets and roads funded by State gas taxes.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

Other Governmental Funds

These funds are not presented separately in the basic financial statements.

Proprietary Funds

Sewer Fund

The change in net position of the Sewer Fund resulted in a decrease of \$707,892 in fiscal year 2015. Operating revenues increased \$349,691 to \$3,115,220. Operating expenses increased \$20,400.

As of June 30, 2015, the fund's net position was \$13,710,903.

Water Fund

Operating revenues increased \$133,699 to a total of \$2,533,239 in fiscal year 2015. Operating expenses decreased \$675,786 to a total of \$2,490,969.

As a result the fund's net position increased \$831,745, to a new total of \$9,505,964.

CAPITAL ASSETS

GASB No. 34 requires the City to record all its capital assets including infrastructure, which was not recorded in prior years. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

In fiscal year 2015, the City reported the cost of all its infrastructure assets and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2015 the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 5 below:

Table 5
Capital Assets at Year-end

	Balance at June 30, 2015	Balance at June 30, 2014
<u>Governmental Activities</u>		
Land (not depreciated)	\$ 150,963	\$ 150,963
Buildings and improvements	1,650,020	1,650,020
Equipment	1,719,872	1,705,248
Less: accumulated depreciation	3,078,895	3,000,908
Governmental activity capital assets, net	\$ 441,960	\$ 505,323
<u>Business-type Activities</u>		
Land (not depreciated)	\$ 1,804,213	\$ 1,804,213
Buildings	7,695,901	7,695,901
Plant and equipment	8,988,680	8,988,680
Construction in progress (not depreciated)	5,738,815	31,675,576
Infrastructure	35,356,307	8,655,568
Less: accumulated depreciation	15,893,488	14,558,735
Business-type activity capital assets, net	\$ 43,690,428	\$ 41,261,203

Detail on capital assets, current year additions and construction in progress can be found in Note 4.

City of Willits
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2015

The City depreciates all its capital assets over their estimated useful lives, as required by GASB No. 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 4 to the basic financial statements.

DEBT ADMINISTRATION

The City's debt issues are discussed in detail in Note 5 to the financial statements. As of June 30, 2015, the City's debt was comprised of the following:

Table 6
Outstanding Debt

	2015	2014
<u>Government Activity Debt:</u>		
Capital leases	\$ 15,000	\$ 21,114
Total Government Activity Debt	<u>\$ 15,000</u>	<u>\$ 21,114</u>
<u>Business-Type Activity Debt:</u>		
1994 Public Facilities Bonds, 2.5-5.1%, due 2015	\$ -	\$ 340,000
1993 Sewer Bonds, 5.125%, due 2034	3,335,000	3,440,000
State Water Loan, 4%, due 2020	835,761	1,081,764
State Water Revolving Fund Loan	3,170,935	3,366,510
2007 Waste Water Sewer Loan A	8,288,500	8,405,500
2007 Waste Water Sewer Loan B	1,186,000	1,202,500
2011 Waste Water Bonds	7,787,000	7,920,000
Capital leases	125,469	223,950
Landfill post-closure	378,890	483,618
Total Business-Type Activity Debt	<u>\$ 25,107,555</u>	<u>\$ 26,463,842</u>

ECONOMIC CONDITION, OUTLOOK AND ACTIVITY

Overall, the City appears to be in a favorable position to continue attracting jobs, retail establishments, and new residents for the next several years. This will help increase and strengthen the City's tax base and increase the diversity of where those revenues are generated.

Next Year's Budget

- The City is faced with increases in the Public Employees Retirement Systems (PERS) and health insurance benefit costs.
- There are limited investment opportunities for idle cash reserves.

These factors were taken into consideration during the preparation of the City's budget for the fiscal year 2015-16.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the City's finances. Questions about this report should be directed to City of Willits, at 111 E. Commercial Street, Willits, CA 95490-3188.

City of Willits
STATEMENT OF NET POSITION
June 30, 2015

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 4,690,181	\$ 3,006,472	\$ 7,696,653
Cash and investments with fiscal agent	-	1,343,158	1,343,158
Restricted cash and investments	-	310,558	310,558
Accounts receivable	720,538	994,821	1,715,359
Inventories	3,098	28,442	31,540
Prepaid items	78,920	49,496	128,416
Capital assets:			
Non-depreciable assets	150,963	7,543,028	7,693,991
Depreciable assets (net of depreciation)	290,997	36,147,397	36,438,394
Total assets	<u>5,934,697</u>	<u>49,423,372</u>	<u>55,358,069</u>
<u>DEFERRED OUTFLOWS</u>			
Deferred outflows related to pensions	<u>516,209</u>	<u>98,354</u>	<u>614,563</u>
<u>LIABILITIES</u>			
Accounts payable	86,416	102,583	188,999
Accrued expenses	417,046	395,548	812,594
Long-term debt:			
Due within one year	15,000	757,497	772,497
Due in more than one year	-	24,350,058	24,350,058
Net pension liability	5,096,400	961,683	6,058,083
Total liabilities	<u>5,614,862</u>	<u>26,567,369</u>	<u>32,182,231</u>
<u>DEFERRED INFLOWS</u>			
Deferred inflows related to pensions	<u>(275,427)</u>	<u>(56,912)</u>	<u>(332,339)</u>
<u>NET POSITION</u>			
Investment in capital assets, net of related debt	426,960	18,961,760	19,388,720
Restricted	171,341	1,653,716	1,825,057
Unrestricted	317,515	2,395,793	2,713,308
Total net position	<u>\$ 915,816</u>	<u>\$ 23,011,269</u>	<u>\$ 23,927,085</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
STATEMENT OF ACTIVITIES
For the year ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
General government	\$ 1,111,783	\$ 176,323	\$ -	\$ -	\$ (935,460)	\$ (935,460)
Public safety	1,085,933	17,935	142,814	-	(925,184)	(925,184)
Public works	936,560	258,669	-	-	(677,891)	(677,891)
Planning	101,430	-	-	-	(101,430)	(101,430)
Community services	182,375	-	-	-	(182,375)	(182,375)
Parks and recreation	178,655	46,647	-	-	(132,008)	(132,008)
Interest and fiscal charges	4,612	-	-	-	(4,612)	(4,612)
Total governmental activities	3,601,348	499,574	142,814	-	(2,958,960)	(2,958,960)
Business-type activities:						
Water	2,530,249	2,533,239	-	1,464,340	-	\$ 1,467,330
Sewer	3,373,594	3,112,013	-	-	-	(261,581)
Airport	113,629	63,120	10,000	-	-	(40,509)
Total business-type activities	6,017,472	5,708,372	10,000	1,464,340	-	1,165,240
Total	\$ 9,618,820	\$ 6,207,946	\$ 152,814	\$ 1,464,340	(2,958,960)	1,165,240
General revenues:						
Sales taxes					2,833,771	-
Property taxes					373,917	-
Gas taxes					-	-
Motor vehicle in lieu					410,815	-
Franchise taxes					221,811	-
Other revenues					853,784	3,207
Use of money and property					28,549	41,608
Transfers					15,000	(15,000)
Total general revenues					4,737,647	29,815
Change in net position					1,778,687	1,195,055
Net position beginning of period					4,744,042	22,921,491
Prior period adjustments					(5,606,913)	(1,105,277)
Net position beginning of period restated					(862,871)	21,816,214
Net position end of period					\$ 915,816	\$ 23,011,269

The accompanying notes are an integral part of these financial statements.

City of Willits
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2015

	General	Sales Tax	Gas Tax	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and investments	\$ 2,287,224	\$ 2,007,925	\$ -	\$ 395,032	\$ 4,690,181
Accounts receivable	368,864	166,403	11,968	173,303	720,538
Due from other funds	-	5,832	-	-	5,832
Prepaid items	-	-	-	78,920	78,920
Inventories	3,098	-	-	-	3,098
Total assets	<u>\$ 2,659,186</u>	<u>\$ 2,180,160</u>	<u>\$ 11,968</u>	<u>\$ 647,255</u>	<u>\$ 5,498,569</u>
<u>LIABILITIES</u>					
Accounts payable	\$ 70,625	\$ -	\$ 15,791	\$ -	\$ 86,416
Due to other funds	-	-	5,832	-	5,832
Leases payable	15,000	-	-	-	15,000
Accrued liabilities	251,950	5,928	23,230	131	281,239
Total liabilities	<u>337,575</u>	<u>5,928</u>	<u>44,853</u>	<u>131</u>	<u>388,487</u>
<u>FUND BALANCES</u>					
Nonspendable	3,098	-	-	78,920	82,018
Restricted	-	-	-	171,341	171,341
Assigned for special projects	-	2,174,232	-	62,130	2,236,362
Unassigned	2,318,513	-	(32,885)	334,733	2,620,361
Total fund balances	<u>2,321,611</u>	<u>2,174,232</u>	<u>(32,885)</u>	<u>647,124</u>	<u>5,110,082</u>
Total liabilities and fund balances	<u>\$ 2,659,186</u>	<u>\$ 2,180,160</u>	<u>\$ 11,968</u>	<u>\$ 647,255</u>	<u>\$ 5,498,569</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
 Reconciliation of the
GOVERNMENTAL FUNDS - BALANCE SHEET
 with the Governmental Activities
STATEMENT OF NET POSITION
 For the year ended June 30, 2015

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	5,110,082
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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.		441,960
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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 Funds:

Deferred outflows		516,209
Deferred inflows		275,427
Net pension liability		(5,096,400)
Non-current portion of compensated absences		<u>(135,807)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>1,111,471</u>
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The accompanying notes are an integral part of these financial statements.

City of Willits
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
For the year ended June 30, 2015

	General	Sales Tax	Gax Tax	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 2,896,602	\$ 919,520	\$ 153,063	\$ -	\$ 3,969,185
Licenses and permits	480,480	-	-	-	480,480
Fines and forfeitures	9,734	-	-	8,201	17,935
Charges for services	46,647	-	21,296	-	67,943
Use of money and property	16,833	11,693	-	23	28,549
Intergovernmental revenue	142,814	-	-	-	142,814
Other revenues	853,190	-	594	-	853,784
Total revenues	<u>4,446,300</u>	<u>931,213</u>	<u>174,953</u>	<u>8,224</u>	<u>5,560,690</u>
Expenditures:					
Current:					
General government	1,003,063	-	108,720	-	1,111,783
Public safety	2,317,117	-	-	23,017	2,340,134
Public works	437,541	186,221	280,262	8,166	912,190
Planning	101,430	-	-	-	101,430
Community services	53,712	-	-	128,663	182,375
Parks and recreation	178,655	-	-	-	178,655
Debt service:					
Principal	6,114	-	-	-	6,114
Interest	4,612	-	-	-	4,612
Total expenditures	<u>4,102,244</u>	<u>186,221</u>	<u>388,982</u>	<u>159,846</u>	<u>4,837,293</u>
Excess (deficit) of revenues over (under) expenditures	<u>344,056</u>	<u>744,992</u>	<u>(214,029)</u>	<u>(151,622)</u>	<u>723,397</u>
Other financing sources (uses):					
Transfers in	15,000	-	201,464	492,981	709,445
Transfers out	<u>(36,601)</u>	<u>(657,844)</u>	<u>-</u>	<u>-</u>	<u>(694,445)</u>
Total other financing sources (uses)	<u>(21,601)</u>	<u>(657,844)</u>	<u>201,464</u>	<u>492,981</u>	<u>15,000</u>
NET CHANGE IN FUND BALANCES	322,455	87,148	(12,565)	341,359	738,397
Fund balances, beginning of period	<u>1,999,156</u>	<u>2,087,084</u>	<u>(20,320)</u>	<u>305,765</u>	<u>4,371,685</u>
Fund balances, end of period	<u>\$ 2,321,611</u>	<u>\$ 2,174,232</u>	<u>\$ (32,885)</u>	<u>\$ 647,124</u>	<u>\$ 5,110,082</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
 Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
STATEMENT OF ACTIVITIES
 For the year ended June 30, 2015

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 \$ 738,397

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	14,624
Depreciation expense is deducted from the fund balance	(77,987)

LONG-TERM DEBT PROCEEDS AND PAYMENT

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	6,114
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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 the governmental funds (net change):

Pension expense	1,302,148
Long-term compensated absences	<u>(8,954)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,974,342</u>
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The accompanying notes are an integral part of these financial statements.

City of Willits
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
June 30, 2015

	Business-type Activities				Totals
	Enterprise Funds				
	Sewer	Water	Solid Waste	Airport	
ASSETS					
Current assets:					
Cash and investments	\$ 1,096,950	\$ 1,892,636	\$ 34,950	\$ (18,064)	\$ 3,006,472
Cash and investments with fiscal agent	1,343,158	-	-	-	1,343,158
Restricted cash and investments	251,833	58,725	-	-	310,558
Accounts receivable	190,967	803,854	-	-	994,821
Inventory	-	-	-	28,442	28,442
Prepaid items	-	46,327	-	3,169	49,496
Total current assets	<u>2,882,908</u>	<u>2,801,542</u>	<u>34,950</u>	<u>13,547</u>	<u>5,732,947</u>
Noncurrent assets:					
Capital assets, net of accumulated depreciation	32,077,510	11,458,981	-	153,934	43,690,425
Total noncurrent assets	<u>32,077,510</u>	<u>11,458,981</u>	<u>-</u>	<u>153,934</u>	<u>43,690,425</u>
Total assets	<u>34,960,418</u>	<u>14,260,523</u>	<u>34,950</u>	<u>167,481</u>	<u>49,423,372</u>
DEFERRED OUTFLOWS					
Deferred outflows related to pensions	42,152	56,202	-	-	98,354
LIABILITIES					
Current liabilities:					
Accounts payable	12,526	64,748	24,387	922	102,583
Accrued expenses	169,428	222,290	-	3,830	395,548
Current maturities of long-term debt:					
California Dept of Water Resources loan	-	172,662	-	-	172,662
USDA WWTP Loan	136,500	-	-	-	136,500
2011 USDA WWTP	136,000	-	-	-	136,000
State Revolving Fund	-	99,287	-	-	99,287
1993 Sewer bond	110,000	-	-	-	110,000
Capital lease	103,048	-	-	-	103,048
Total current liabilities	<u>667,502</u>	<u>558,987</u>	<u>24,387</u>	<u>4,752</u>	<u>1,255,628</u>
Long-term liabilities:					
California Dept of Water Resources loan	-	663,114	-	-	663,114
State Revolving Fund	-	3,071,648	-	-	3,071,648
2007 USDA WWTP Loan	9,338,000	-	-	-	9,338,000
2011 USDA WWTP	7,651,000	-	-	-	7,651,000
Landfill post closure	-	-	378,890	-	378,890
Capital Lease	22,406	-	-	-	22,406
1993 Sewer bond	3,225,000	-	-	-	3,225,000
Net pension liability	412,150	549,533	-	-	961,683
Total noncurrent liabilities	<u>20,648,556</u>	<u>4,284,295</u>	<u>378,890</u>	<u>-</u>	<u>25,311,741</u>
Total liabilities	<u>21,316,058</u>	<u>4,843,282</u>	<u>403,277</u>	<u>4,752</u>	<u>26,567,369</u>
DEFERRED INFLOWS					
Deferred inflows related to pensions	(24,391)	(32,521)	-	-	(56,912)
NET POSITION					
Invested in capital assets, net of related debt	11,355,556	7,452,270	-	153,934	18,961,760
Restricted	1,594,991	58,725	-	-	1,653,716
Unrestricted	760,356	1,994,969	(368,327)	8,795	2,395,793
Total net position	<u>\$ 13,710,903</u>	<u>\$ 9,505,964</u>	<u>\$ (368,327)</u>	<u>\$ 162,729</u>	<u>\$ 23,011,269</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
 PROPRIETARY FUNDS
STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET POSITION
 For the year ended June 30, 2015

	Sewer	Water	Solid Waste	Airport	Total
Operating revenues:					
Charges for services	\$ 3,112,013	\$ 2,533,239	\$ -	\$ 63,120	\$ 5,708,372
Other	3,207	-	-	-	3,207
Total operating revenues	<u>3,115,220</u>	<u>2,533,239</u>	<u>-</u>	<u>63,120</u>	<u>5,711,579</u>
Operating expenses:					
Administration	288,607	532,587	-	-	821,194
Operations	631,867	855,692	-	98,954	1,586,513
Maintenance	292,431	734,580	-	-	1,027,011
Engineering	32,669	-	-	-	32,669
Depreciation	994,378	325,702	-	14,675	1,334,755
Other	351,293	42,408	-	-	393,701
Total operating expenses	<u>2,591,245</u>	<u>2,490,969</u>	<u>-</u>	<u>113,629</u>	<u>5,195,843</u>
Operating income (loss)	<u>523,975</u>	<u>42,270</u>	<u>-</u>	<u>(50,509)</u>	<u>515,736</u>
Non-operating revenues (expenses):					
Intergovernmental	-	1,464,340	-	10,000	1,474,340
Interest income	24,172	11,002	6,424	10	41,608
Interest expense	(782,349)	(39,280)	-	-	(821,629)
Total non-operating revenues (expenses)	<u>(758,177)</u>	<u>1,436,062</u>	<u>6,424</u>	<u>10,010</u>	<u>694,319</u>
Income (Loss) before contributions and transfers	<u>(234,202)</u>	<u>1,478,332</u>	<u>6,424</u>	<u>(40,499)</u>	<u>1,210,055</u>
Transfers out	-	(15,000)	-	-	(15,000)
Change in net position	<u>(234,202)</u>	<u>1,463,332</u>	<u>6,424</u>	<u>(40,499)</u>	<u>1,195,055</u>
Net position, beginning of period	14,418,795	8,674,219	(374,751)	203,228	22,921,491
Prior period adjustments	(473,690)	(631,587)	-	-	(1,105,277)
Net position, beginning of period, restated	<u>13,945,105</u>	<u>8,042,632</u>	<u>(374,751)</u>	<u>203,228</u>	<u>21,816,214</u>
Net position, end of period	<u>\$ 13,710,903</u>	<u>\$ 9,505,964</u>	<u>\$ (368,327)</u>	<u>\$ 162,729</u>	<u>\$ 23,011,269</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
 PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
 For the year ended June 30, 2015

	Sewer	Water	Solid Waste	Airport	Total
Cash flows from operating activities:					
Receipts from customers	\$ 3,059,796	\$ 2,385,831	\$ -	\$ 64,295	\$ 5,509,922
Payments to suppliers	(1,326,841)	(1,828,157)	24,299	(100,286)	(3,230,985)
Payments to employees	(416,690)	(703,364)	-	-	(1,120,054)
Net cash provided (used) by operating activities	<u>1,316,265</u>	<u>(145,690)</u>	<u>24,299</u>	<u>(35,991)</u>	<u>1,158,883</u>
Cash flows from noncapital financing activities:					
Transfers	-	(15,000)	-	-	(15,000)
Intergovernmental revenue	-	1,464,340	-	10,000	1,474,340
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>1,449,340</u>	<u>-</u>	<u>10,000</u>	<u>1,459,340</u>
Cash flows from capital and related financing activities:					
Principal payments on capital debt	(470,011)	(486,701)	(104,727)	-	(1,061,439)
Debt proceeds	-	(294,862)	-	-	(294,862)
Interest paid on capital debt	(782,349)	(39,280)	-	-	(821,629)
Inventory	-	-	-	(6,336)	(6,336)
Acquisition of capital assets	1	(763,978)	-	-	(763,977)
Net cash provided (used) by capital and related financing activities	<u>(1,252,359)</u>	<u>(1,584,821)</u>	<u>(104,727)</u>	<u>(6,336)</u>	<u>(2,948,243)</u>
Cash flows from investing activities:					
Interest earned	24,172	11,002	6,424	14	41,612
Net cash provided by investing activities	<u>24,172</u>	<u>11,002</u>	<u>6,424</u>	<u>14</u>	<u>41,612</u>
Net increase (decrease) in cash and cash equivalents	88,078	(270,169)	(74,004)	(32,313)	(288,408)
Cash and cash equivalents - beginning of period	2,603,863	2,221,530	108,954	14,249	4,948,596
Cash and cash equivalents - end of period	<u>\$ 2,691,941</u>	<u>\$ 1,951,361</u>	<u>\$ 34,950</u>	<u>\$ (18,064)</u>	<u>\$ 4,660,188</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:					
Operating income (loss)	\$ 523,975	\$ 42,270	\$ -	\$ (50,509)	\$ 515,736
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	994,378	325,702	-	14,675	1,334,755
Pension expense	(128,083)	(170,777)	-	-	(298,860)
Changes in certain assets and liabilities:					
Accounts receivable	(55,424)	(147,408)	-	1,175	(201,657)
Accrued expenses	3,186	18,157	(88)	-	21,255
Prepaid items	-	(46,327)	-	-	(46,327)
Due from/Due to other funds	-	-	-	-	-
Accounts payable	(21,767)	(167,307)	24,387	(1,332)	(166,019)
Total adjustments	<u>792,290</u>	<u>(187,960)</u>	<u>24,299</u>	<u>14,518</u>	<u>643,147</u>
Net cash provided (used) by operating activities	<u>\$ 1,316,265</u>	<u>\$ (145,690)</u>	<u>\$ 24,299</u>	<u>\$ (35,991)</u>	<u>\$ 1,158,883</u>
Cash and investments					\$ 3,006,472
Cash and investments with fiscal agent					1,343,158
Restricted cash and investments					310,558
Total cash and cash equivalents					<u>\$ 4,660,188</u>

The accompanying notes are an integral part of these financial statements.

City of Willits
 FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
 June 30, 2015

	<u>Expendable Trust</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
<u>ASSETS</u>			
Cash and investments	\$ 526,358	\$ 691,540	\$ 85,339
Accounts receivable	163	247	-
Loans receivable	<u>284,080</u>	<u>-</u>	<u>-</u>
Total assets	<u>810,601</u>	<u>691,787</u>	<u>\$ 85,339</u>
 <u>LIABILITIES</u>			
Liabilities:			
Accounts payable	1,672	869	\$ 85,339
Due to City of Willits	-	171,060	-
Accrued interest payable	-	53,633	-
Long-term liabilities:			
Due within one year	-	200,000	-
Due in more than one year	<u>-</u>	<u>3,010,000</u>	<u>-</u>
Total liabilities	<u>1,672</u>	<u>3,435,562</u>	<u>\$ 85,339</u>
 <u>NET POSITION</u>			
Held in trust for successor agency and other purposes	<u>808,929</u>	<u>(2,743,775)</u>	
Total net position	<u>\$ 808,929</u>	<u>\$ (2,743,775)</u>	

City of Willits
 FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 For the Year Ended June 30, 2015

	<u>Expendable Trust</u>
Additions:	
Use of money and property	\$ 6,927
Other revenue	<u>174,168</u>
Total additions	<u>181,095</u>
Deductions:	
Other services	50,125
Narcotics forfeiture	<u>84,235</u>
Total deductions	<u>134,360</u>
Change in net position	46,735
Net position, beginning of period	<u>762,194</u>
Net position, end of period	<u><u>\$ 808,929</u></u>

DRAFT

City of Willits
 FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 For the Year Ended June 30, 2015

	<u>Private Purpose Trust Fund</u>
Additions:	
Taxes	\$ 413,668
Use of money and property	<u>805</u>
Total additions	<u>414,473</u>
Deductions:	
Project costs	379,220
Debt service:	
Interest	<u>167,292</u>
Total deductions	<u>546,512</u>
Change in net position	(132,039)
Net position, beginning of period	<u>(2,611,736)</u>
Net position, end of period	<u>\$ (2,743,775)</u>

DRAFT

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of City of Willits (the City) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting principles are described below.

A. Description of Financial Reporting Entity

The City is a general law City incorporated in the State of California. The City is governed by an elected, five-member City Council. The following services are provided by the City to its citizens: public safety (police); streets; drinking water; wastewater collection, treatment and disposal; public improvements, parks and recreation; planning and zoning; and general administrative services.

As required by U.S. generally accepted accounting principles, these financial statements present the City as the primary government, and the component units for which the City is financially accountable. The component units discussed below are included in the City's reporting entity because of the significance of their operational and/or financial relationships with the City.

B. Description of Joint Powers Agreements

The City participates in several joint power agreements (JPAs) as described in Note 12. The financial activities of the JPAs are not included in the accompanying basic financial statements because JPAs are administered by governing boards that are separate from and independent of the City.

C. Description of Funds

The accounts of the City are organized on the basis of funds, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise the fund's assets, liabilities, fund equity, and revenues and expenditures. Government resources are allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled.

D. Government-wide Financial Statements

The City's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities and business-type activities for the City, accompanied by a total column. These financial statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities.

Governmental activities are financed generally through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed generally through user fees.

The Statement of Activities presents a comparison between direct expenses and program revenues 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 three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Government-wide Financial Statements (concluded)

Certain eliminations have been made as prescribed by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB No. 34) in regards to inter-fund activities, payables and receivables.

E. Governmental 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* and *proprietary* – 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 non-major funds.

Proprietary fund 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. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net position as presented in these statements to the net position presented in the government-wide financial statements.

F. Major Funds

GASB No. 34 defines major funds and requires that the City's major governmental funds be identified and presented separately in the fund financial statements. All other governmental funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as governmental funds that have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total or five percent of the grand total. The general fund is always a major fund. The City may select other governmental funds it believes should be presented as major funds, although no such funds were selected in fiscal year 2015.

The major governmental funds of the City are:

General Fund:

The General Fund is used to account for the resources to carry out basic governmental activities of the City such as general government, public safety, public works, and parks and recreation, which are not required to be accounted for in another fund.

Sales Tax Transportation Improvement Fund:

This fund is used to account for sales tax revenues set aside for transportation improvements.

Gas Tax Fund

This fund is used to account for capital expenditures, maintenance, rehabilitation, reconstruction and construction of City streets and roads funded by State gas taxes.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Major Funds (concluded)

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Fund:

This fund accounts for all financial transactions relating to the City's water service. Services are on a user charge basis to residents and business owners located in Willits.

Sewer Fund:

This fund accounts for all financial transactions relating to the City's wastewater collection and treatment. Services are on a user charge basis to residents and business owners located in Willits and Brooktrails Cityship.

Solid Waste Fund:

This fund accounts for all financial transactions relating to the City's solid waste post-closure maintenance.

Airport Fund:

This fund accounts for all financial transactions relating to the City's airport.

Fiduciary Funds:

The City uses an Expendable Trust Fund and Agency Funds to account for assets held by the City as a fiscal agent. The City has one Private Purpose Trust Fund, which is used to report the resources held and administered by the Successor Agency to the former Community Development Agency of the City. Agency Funds have no measurement focus and are excluded from the government-wide financial statements but are presented in separate fiduciary fund financial statements.

G. Basis of Accounting

The government-wide, proprietary and fiduciary funds financial statements required by GASB No. 34 are reported using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets 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.

The governmental fund financial statements are accounted for on a spending or "current financial resources" measurement focus, and the modified accrual basis of accounting. Accordingly, only current assets and liabilities (except for long-term advances from the City) are included in the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Basis of Accounting (concluded)

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after fiscal year end) are recognized when due. The primary revenue sources that have been treated as susceptible to accrual by the City, are property taxes, sales taxes, intergovernmental revenues, other taxes and investment earnings. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving value in exchange, include 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 follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with GASB pronouncements. The reconciliations of the fund financial statements to the government-wide financial statements are provided to explain the differences created by the integrated approach of GASB No. 34.

H. Budgetary Policies

Each year, all departments of the City submit a request for appropriation to the City Manager so a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

Before June 30, the proposed budget is presented to the City Council for review. The City Council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City Manager or the revenue estimates must be changed by an affirmative vote of a majority of the City Council.

Expenditures may not legally exceed budgeted appropriations at the activity level.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Deposits and Investments

The City pools cash from all sources and all funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

The City's investment policy and section 53601 of the California Government Code allow the following investments:

- a) Certificates of Deposit;
- b) Obligations of the State of California.

The City does not enter into reverse repurchase agreements.

The City's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end if material, and it includes the effects of these adjustments in income for that fiscal year.

The City places certain funds with the State of California's Local Agency Investment Fund (LAIF). The City is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the City's investment in this pool is reported in the accompanying financial statements based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours' notice. Included in LAIF's investments 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, and corporations. Financial statements for LAIF can be obtained from the California State Treasurer's Office: State Treasurer's Office, 915 Capitol Mall, Suite 110, Sacramento, CA 95814.

Cash and Cash Equivalents:

Cash and investments are used in preparing proprietary fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

J. Inventories

The City does not record and maintain inventory records of unused materials and supplies for the various funds. Inventories are considered immaterial and materials and supplies are currently expensed.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Restricted Assets

Certain proceeds of enterprise fund loans (as well as certain resources set aside for their repayment) and resources set aside for repayment of capital leases are classified as restricted assets on the balance sheet because their use is limited by applicable loan or other covenants.

L. Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$10,000. Gifts or contributions of capital assets are recorded at fair market value on the date donated. Depreciation of capital assets is charged as an expense each year, and the total amount of accumulated depreciation taken over the years is reported on the Statement of Net Position as a reduction in the book value of capital assets.

M. Compensated Absences

Full-time employees accumulate earned vacation, holiday and compensated leave of varying amounts dependent upon length of service with the City. These amounts are deemed fully vested with the employee when earned. The City also provides full time employees with sick leave that generally must be used for sickness and injury-related leave time. However, upon an employee's retirement after 5 years of employment with the City, an employee is paid 30% of unused sick leave and after 10 years of employment they are paid 50%. In both cases the limit is 1,000 hours. Therefore, a liability has been recorded for the estimated benefits that will be taken as a result of retirement.

The City does not currently provide post-employment benefits.

N. Deposits

The City collects refundable deposits on behalf of the enterprise funds for general purposes that are primarily accounted for in enterprise funds.

O. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Net Position

Government-wide net position consists of the following:

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that does not meet the definition of “invested in capital assets, net of related debt” or “restricted net position”.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Net Position (concluded)

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Governmental fund balance consists of the following:

Fund Equity:

The accompanying financial statements reflect certain changes that have been made with respect to the reporting components of fund balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance. Due to the implementation of GASB No. 54, the components of the fund balances of governmental *funds* now reflect the component classifications described below. In the fund financial statements, governmental fund balances are reported in the following classifications:

Nonspendable fund balance includes amounts that are not in a spendable form, such as prepaid items or supplies inventories, or that are legally or contractually required to remain intact, such as principal endowments.

Restricted fund balance includes amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e., creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level decision-making authority. The City Council serves as the City's highest level decision-making authority and has the authority to establish, modify or rescind a fund balance commitment via minute's action.

Assigned fund balance includes amounts intended to be used by the City for specific purposes, subject to change, as established either directly by the City Council or by management officials to whom the assignment authority has been delegated by the City Council.

Unassigned fund balance is the residual classification that includes the spendable amounts in the General Fund that are available for any purpose.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy specifies that restricted revenues will be applied first. When expenditures are incurred for the purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balances first, then apply assigned fund balances, and finally unassigned fund balances.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Property Tax

The County of Mendocino assesses properties, bills for, collects, and distributes property taxes for the City per the following schedule:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	March 1	March 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	July 1
Delinquent as of	December 10, April 10	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.

R. Inter-fund Transactions

A description of the two basic types of the City’s inter-fund transactions during the fiscal year and the related accounting policies are set forth as follows:

- a) Transactions related directly to services rendered, or facilities provided, are recorded as revenues in the fund providing the service or facility and as expenditures (or expenses) in the fund receiving them.
- b) Transactions to allocate resources from one fund to another, not contingent on the occurrence of specific expenditures in the receiving fund, are recorded appropriately as transfers in and transfers out in the respective funds.

S. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bond using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

T. Revenue Recognition for Water and Sewer Funds

Revenues are recognized based on cycle billings rendered to customers. All residential and commercial utility customers are billed once per month. There is one billing cycle per month that includes all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued. Contributions of cash or assets to proprietary funds from state and federal agencies, developers and others are recorded as revenue.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

U. Deferred Outflows and Inflows of Resources

Pursuant to GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, and GASB No. 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The City has no items that qualify for reporting in this category.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the City that is applicable to a future reporting period. The City has no items that qualify for reporting in this category.

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 2 - CASH AND INVESTMENTS

A. Pooled Cash and Investments

The City pools cash from all sources and funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Categorization of Credit Risk of Securities Instruments

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as custodian of all City managed investments, regardless of their form.

Investments are carried at fair value and are categorized as follows at June 30, 2015:

Restricted cash and investments with fiscal agent	\$ 1,343,158
State of California Local Agency Investment Fund	3,788,239
Cash deposits with banks	<u>5,522,209</u>
Total City cash and investments	<u>\$ 10,653,606</u>

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 2 - CASH AND INVESTMENTS (continued)

A. Pooled Cash and Investments (continued)

The City's total cash and investments consist of:

City Treasury	\$ 7,696,653
Fiduciary Funds	1,303,237
Fiscal Agent	1,343,158
Restricted	<u>310,558</u>
Total City cash and investments	<u>\$ 10,653,606</u>

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

California Law requires banks and savings and loan associations 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 value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is held in the City's name and places the City ahead of general creditors of the institution.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments in LAIF and the fiscal agent money market funds are not evidenced by specific securities and, therefore, are not subject to custodial credit risk.

Authorized Investments

The City's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles.

The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end if material and it includes the effects of these adjustments in income for that fiscal year.

Investments Authorized by Debt Agreements

Investments of bond proceeds, held by bond trustees, are governed by the provisions of the debt agreements, rather than the general provisions for the California Government Code or the City's investment policy. 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 that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
Money Market Accounts	N/A	None	None

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 2 - CASH AND INVESTMENTS (concluded)

A. Pooled Cash and Investments (concluded)

Disclosures Relating to 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 is, the greater its fair value sensitivity to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months or Less	13-24 Months	25-60 Months	More than 60 Months
Held by Fiscal Agent:					
Money Market Accounts	\$ 1,343,158	\$ 1,343,158	\$ -	\$ -	\$ -

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. That is measured by the assignment of a rating by a nationally recognized rating organization. Presented below is the minimum rating required by the California Government Code, and the actual rating as of fiscal year end for each investment type.

Investment Type	Carrying Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	AA	Not Rated
Held by Fiscal Agent:						
Money Market Accounts	\$ 1,343,158	N/A	\$ -	\$ -	\$ -	\$ 1,343,158

NOTE 3 - LOANS RECEIVABLE

The City engages in programs designed to encourage business enterprises, construction or improvement in low-to-moderate income housing, or other projects. Under these programs, grants or loans are provided with favorable terms to businesses, homeowners or developers who agree to spend these funds in accordance with the City's terms.

These loans receivable were comprised of the following at June 30, 2015:

Housing Rehabilitation and Affordable Housing Notes (fiduciary funds)	\$ <u>284,080</u>
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Housing Rehabilitation, Business Enterprise and Affordable Housing:

The City has provided loans to various homeowners and businesses for rehabilitation. The maximum loan amount is \$59,000, carrying various interest rates and payment dates. Although these notes are expected to be repaid in full, their balance has been offset by a reservation of fund balance. The balance of these notes receivable at June 30, 2015 was \$284,080.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 4 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

With the implementation of GASB No. 34, the City has begun recording costs and depreciation of current infrastructure assets. The City does not record depreciation in the year of acquisition and records a full year of depreciation in the year of disposition for capital assets related to governmental activities.

GASB No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. The purpose of the depreciation is to spread the cost of the 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 the capital assets. Depreciation is provided using the straight-line method over its expected useful life. Capital assets with a value of \$10,000 or more are capitalized.

The City has assigned the following useful lives to capital assets: Buildings and Improvements (10-75 years); Vehicles and Equipment (3-40 years); Infrastructure (10-50 years); and Utility Plant (10-50 years).

The following is a summary of capital assets activity for governmental activities as of June 30, 2015:

	Balance 7/1/14	Additions	Deletions	Balance 6/30/15
Land (not depreciated)	\$ 150,963	\$ -	\$ -	\$ 150,963
Buildings and improvements	1,650,020	-	-	1,650,020
Equipment	1,705,248	14,624	-	1,719,872
Total cost	3,506,231	\$ 14,624	\$ -	3,520,855
Accumulated depreciation	(3,000,908)			(3,078,895)
Net capital assets	\$ 505,323			\$ 441,960

The changes in proprietary fund types fixed assets for the fiscal year are:

	Balance 7/1/14	Additions	Deletions	Balance 6/30/15
Land (not depreciated)	\$ 1,804,213	\$ -	\$ -	\$ 1,804,213
Construction in progress (not depreciated)	31,675,576	763,978	26,700,739	5,738,815
Buildings	7,695,901	-	-	7,695,901
Infrastructure	8,655,568	26,700,739	-	35,356,307
Plant and equipment	8,988,680	-	-	8,988,680
Total cost	58,819,938	\$27,464,717	\$ 26,700,739	59,583,916
Accumulated depreciation	(14,558,735)			(15,893,488)
Net book value of enterprise funds	\$ 44,261,203			\$ 43,690,428

Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program, are as follows:

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 4 - CAPITAL ASSETS (concluded)

Governmental Activities

Public safety	\$	38,993
Public works		<u>38,994</u>
Total Governmental Activities	\$	<u><u>77,987</u></u>

Business-type Activities

Water	\$	325,702
Airport		14,675
Sewer		<u>994,378</u>
Total Business-type Activities	\$	<u><u>1,334,755</u></u>

NOTE 5 - LONG-TERM OBLIGATIONS

Changes in long-term obligations and debt for the fiscal year ended June 30, 2015 are as follows:

	Original Issue Amount	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Current Portion
Governmental Activity Debt:						
Capital Leases	\$ 116,112	\$ 21,114	\$ -	\$ 6,114	\$ 15,000	\$ 15,000
Total Governmental Activity Debt	<u>\$ 116,112</u>	<u>\$ 21,114</u>	<u>\$ -</u>	<u>\$ 6,114</u>	<u>\$ 15,000</u>	<u>\$ 15,000</u>
Business-type Activity Debt:						
1994 Public Facilities Bond	\$ 4,765,000	\$ 340,000	\$ -	\$ 340,000	\$ -	\$ -
1993 Sewer Bonds	4,710,000	3,440,000	-	105,000	3,335,000	110,000
California Dept. Water Loan	3,375,000	1,081,764	-	246,003	835,761	172,662
State Water Revolving Fund loan	-	3,366,510	-	195,575	3,170,935	99,287
2007 Waste Water Sewer Loan A	9,000,000	8,405,500	-	117,000	8,288,500	119,500
2007 Waste Water Sewer Loan B	1,285,000	1,202,500	-	16,500	1,186,000	17,000
2011 Waste Water Bonds	51,000	7,920,000	-	133,000	7,787,000	136,000
Capital Lease	394,923	223,950	-	98,481	125,469	91,313
Landfill Post-closure	<u>1,147,553</u>	<u>483,618</u>	<u>-</u>	<u>104,728</u>	<u>378,890</u>	<u>-</u>
Total Business-type Activity Debt	<u>\$24,728,476</u>	<u>\$26,463,842</u>	<u>\$ -</u>	<u>\$ 1,356,287</u>	<u>\$ 25,107,555</u>	<u>\$ 745,762</u>

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (continued)

Bonds and Notes Payable

Long-term debt at June 30, 2015 consists of the following:

<u>Year Ending</u> <u>June 30</u>	<u>2007A Sewer WW</u> <u>Treatment</u>		<u>2007B Sewer WW</u> <u>Treatment</u>		<u>2011 A Sewer WW</u> <u>Treatment</u>	
	<u>Interest</u>	<u>Interest</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2016	\$ 349,828	\$ 119,500	\$ 49,937	\$ 17,000	\$ 192,976	\$ 136,000
2017	344,643	124,500	49,204	17,500	189,538	139,000
2018	339,235	130,000	48,439	18,500	186,013	143,000
2019	333,593	135,500	47,632	19,500	182,401	146,000
2020	327,717	141,000	46,793	20,000	178,701	150,000
2021-2025	1,541,347	801,000	220,075	114,500	834,565	809,000
2026-2030	1,352,103	986,500	193,013	141,000	727,001	914,000
2031-2035	1,119,037	1,214,500	159,756	173,000	605,315	1,035,000
2036-2040	832,129	1,495,000	118,881	213,500	467,638	1,171,000
2041-2045	478,964	1,840,500	68,363	263,000	311,876	1,324,000
2046-2050	84,597	1,303,000	12,071	186,000	135,753	1,498,000
2051-2055	-	-	-	-	4,025	322,000
Totals	<u>\$ 7,103,193</u>	<u>\$ 8,291,000</u>	<u>\$ 1,014,164</u>	<u>\$ 1,183,500</u>	<u>\$ 4,015,802</u>	<u>\$ 7,787,000</u>

<u>Year Ending</u> <u>June 30</u>	<u>Capital Leases</u>		<u>State Water Resource</u> <u>Loan</u>		<u>2011 State Water Revolving</u> <u>Fund Loan</u>	
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2016	\$ -	\$ 106,313	\$ 32,943	\$ 172,514	\$ -	\$ 99,287
2017	-	22,406	25,601	179,856	-	105,919
2018	-	11,750	18,126	187,331	-	105,919
2019	-	-	10,281	195,176	-	105,919
2020	-	-	2,101	100,884	-	105,919
2021-2025	-	-	-	-	-	529,595
2026-2030	-	-	-	-	-	529,595
2031-2035	-	-	-	-	-	529,594
2036-2040	-	-	-	-	-	529,594
2041-2045	-	-	-	-	-	529,594
2046-2050	-	-	-	-	-	-
Totals	<u>\$ -</u>	<u>\$ 140,469</u>	<u>\$ 89,052</u>	<u>\$ 835,761</u>	<u>\$ -</u>	<u>\$ 3,170,935</u>

<u>Year Ending</u> <u>June 30</u>	<u>1993 Sewer Bonds</u>	
	<u>Interest</u>	<u>Principal</u>
2016	\$ 168,100	\$ 110,000
2017	162,335	115,000
2018	156,313	120,000
2019	150,035	125,000
2020	143,500	130,000
2021-2025	606,029	770,000
2026-2030	383,582	980,000
2031-2035	<u>103,911</u>	<u>985,000</u>
Totals	<u>\$ 1,873,805</u>	<u>\$ 3,335,000</u>

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 5 - LONG-TERM OBLIGATIONS (continued)

Compensated Absences Payable

There is no fixed payment schedule to pay the liability of \$372,060 for compensated absences through June 30, 2015.

The net changes of the compensated absences are allocated to the public safety department on the Statement of Activities.

Capital Leases: The City leases equipment under various capital lease agreements with interest rates ranging from 0-6.5%.

	\$ 140,469
Less current portion	106,313
	\$ 34,156

2007 Waste Water Sewer Loans Series A and B: On May 1, 2008, the City issued \$10,285,000 in debt to provide funds for the construction of a Waste Water Treatment Plant. Interest is payable semi-annually on May 1 and November 1, at a rate of 4.25%. The outstanding principal balance is payable in annual installments, due each November 1, ranging from \$100,000 to \$516,500 through the fiscal year 2047.

	\$ 9,474,500
Less current portion	136,500
	\$ 9,338,000

2011 Waste Water Sewer Loans Series: On March 1, 2011, the City issued \$8,300,000 in debt to provide funds for the construction of a Waste Water Treatment Plant. Interest is payable semi-annually on May 1 and November 1, at a rate of 2.5%. The outstanding principal balance is payable in annual installments, due each November 1, ranging from \$125,000 to \$322,000 through the fiscal year 2050.

	\$ 7,787,000
Less current portion	136,000
	\$ 7,651,000

Loan Payable to Other Agency: The City has obtained a loan from the California Department of Water Resources to finance an upgrade of the water treatment plant to comply with safe drinking water standards. The debt is required to be serviced through water system user charges. The maximum loan amount is \$3,375,000 plus a 4% administrative fee of \$135,000. Principal and interest are payable semi-annually on April 1 and October 1. The rate of interest is 4.1439%. Semi-annual principal payments range from \$48,107 to \$100,657, and continue through the fiscal year 2020.

	\$ 835,761
Less current portion	172,662
	\$ 663,099

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 6 - SUCCESSOR AGENCY DISCLOSURES (concluded)

Allocation Bonds 2002

As of February 1, 2012, the bonds were transferred to the Successor Agency of the Willits Community Development Agency due to ABX1 26, which dissolved redevelopment agencies in the State of California as of January 1, 2012. The Successor Agency, a separate legal entity, is responsible for the repayment of the principal and interest of the outstanding bonds. Additions to the Successor Agency, in the form of property taxes, have been pledged for the repayment of enforceable obligations (which include the bonds). Since the Community Development Agency no longer exists, the bonds have been removed from the City's government-wide financial statements.

The annual requirements to amortize the 2002 Tax Allocation Bonds outstanding as of June 30, 2015, are as follows:

<u>Year Ending June 30</u>	<u>2002 Tax Allocation Bonds</u>	
	<u>Interest</u>	<u>Principal</u>
2016	\$ 151,179	\$ 250,000
2017	139,748	265,000
2018	127,460	275,000
2019	114,320	290,000
2020-2024	100,065	310,000
2025-2029	244,815	1,820,000
Totals	<u>\$ 877,587</u>	<u>\$ 3,210,000</u>

NOTE 7 - FUND EQUITY

The following funds have deficits in fund balances or net position at June 30, 2015:

Governmental Funds:	
West Commercial Street	\$ 3,659
Gas Tax	32,885
Business-type – Solid Waste	368,327

The governmental funds are expected to have their deficit eliminated through grant and loan reimbursements and transfers from the General Fund and Enterprise Funds. The Solid Waste fund deficit is related to the future post-closure costs estimated liability, which may be funded through grant reimbursements, reduction to the estimated liability and transfers from the General Fund.

NOTE 8 - INTERFUND BALANCES

Current interfund balances arise in the normal course of business; resources may be transferred from one City fund to another. The purpose of the majority of the balances is to reimburse a fund that has made an expenditure on behalf of another fund. The City had no inter-fund balances at year end.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 8 - INTERFUND BALANCES (concluded)

Transfers

The following schedule summarizes the transfers in and out for the fiscal year ended June 30, 2015:

	Transfers in	Transfers out
Major Funds:		
General Fund	\$ 15,000	\$ 36,601
Sales Tax	-	657,844
Other Governmental Funds:		
Traffic Safety	36,601	-
Gas Tax	201,464	-
Regional Transportation Improvement Program	451,873	-
W. Commercial Street	4,507	-
Proprietary Funds:		
Water	-	15,000
Totals	\$ 709,445	\$ 709,445

NOTE 9 - LANDFILL CLOSURE AND POST-CLOSURE COSTS

The City's solid waste landfill was closed during the 1997/98 fiscal year. State and federal laws and regulations require that the City place a final cover (closure) on its landfill when closed, and perform certain maintenance and monitoring functions (post-closure) at the landfill site for thirty years after closure. At June 30, 2000, the City had completed its landfill closure activities and, therefore, no closure liability is included in the accompanying financial statements. The City's estimated liability for the continuing landfill post-closure care costs at June 30, 2015 was \$378,890.

The estimated total current cost of the landfill post-closure care is based on the amount that would be paid if all equipment, facilities, and services required to monitor and maintain the landfill were acquired as of June 30, 2015. However, the actual cost of post-closure care may change due to inflation, changes in technology, or changes in landfill laws and regulations.

NOTE 10 - CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

The City violated the National Primary Drinking Water Regulations maximum contaminant level for total Trihalomethanes (TTHMs) which is one of the contaminant standards required by the Safe Drinking Water Act. The cost of the violation to the City cannot be currently determined.

There are other pending lawsuits in which the City is involved. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City Attorney that the resolution of these matters will not have a material adverse effect on the financial condition of the City.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 11 - CONTRACTED SERVICES

The City has entered into an agreement to provide services to persons living outside the City limits. The general purpose and description of this contract agreement is as follows:

Brooktrails Community Services District:

The City has made an agreement with the District to provide the District with sewage treatment. Under the terms of the agreement, the District is to reimburse the City for costs allocated to the District based on the ratio of total flow entering the treatment plant. The cost allocation was carried over from previous years. During the fiscal year ended June 30, 2015, the City settled the lawsuit with the District. The new District allocation of \$22,000 per month begins July 1, 2015 as well as 36% of the bond payments.

NOTE 12 - JOINT POWERS AGREEMENTS

The City is a member of various joint powers authorities, which provide goods or services to the City and other authority members. Under the criteria established by GASB No. 14, the City does not have sufficient authority, influence or accountability over these entities to incorporate them in this annual report. Additionally, the City has determined that it has no ongoing financial interest in or responsibility for any of these organizations as defined by GASB No. 14. The names and general functions of these joint powers are as follows:

Redwood Empire Municipal Insurance Fund (REMIF):

A group of Northern California cities participate in this agreement to provide themselves with various levels of liability, property and workers' compensation insurance. REMIF is administered by a commission comprised of one member and one alternate appointed by each member city. The City provides for its general insurance needs through REMIF. During the fiscal year ended June 30, 2015, the City paid \$483,010 to REMIF for insurance coverage. Beginning July 1, 2015 REMIF city members have become self-insured with their health benefits.

Mendocino Solid Waste Management Authority:

Mendocino Solid Waste Management Authority consists of three (3) Mendocino County cities and the County of Mendocino. Mendocino Solid Waste Management Authority was created for the purpose of: (a) siting, licensing, developing, constructing, maintaining, and operating disposal sites and sanitary landfills and (b) preparing and implementing a solid waste management plan. Mendocino Solid Waste Management Authority is governed by a commission comprised of one member from each city and two members who are appointed by the Mendocino County Board of Supervisors.

Mendocino Emergency Services Authority:

Mendocino Emergency Services Authority (the Authority) consists of four (4) Mendocino County cities and the County of Mendocino. The Authority was created for the purpose of coordinating disaster and other emergency preparedness planning and recovery programs, training of employees and volunteers, administration of disaster recovery assistance programs, and other related activities. The Authority is governed by a commission comprised of one member from each member agency.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 12 - JOINT POWERS AGREEMENTS (concluded)

Solid Waste Disposal Facility Operations Agreement:

The City and the County of Mendocino have entered into an agreement for the purpose of joint ownership, maintenance and operation of the solid waste landfill serving the City and certain unincorporated areas of the County of Mendocino. The City has been granted complete control of and authority over the administration, operation and maintenance of the landfill. The City and County will equally share the costs associated with the landfill including the purchase of equipment and closure/post-closure costs. Due to the City's overall control of the landfill activity, the accompanying financial statements include 100% of the landfill activity, including the liability for closure/post-closure costs described in Note 9 above.

NOTE 13 - DEFERRED COMPENSATION PLAN

The City offers its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all City employees, permit employees to defer a portion of their salary until future years. Participation in the plans is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. As explained previously, the City has adopted the provisions of GASB No. 32 and, therefore, assets and liabilities of these plans have been excluded from the accompanying financial statements.

NOTE 14 - DEFINED BENEFIT PENSION PLAN

A. Public Employees Retirement System

Plan Description: Based on PERS eligibility criteria all qualified permanent and probationary employees are eligible to participate in the City's following cost-sharing multiple employer defined benefit pension plans (Plans):

- City Miscellaneous (Tier 1)
- City Miscellaneous (Tier 2 - PEPRA)
- City Safety (Tier 1)
- City Safety (Tier 2 - PEPRA)

The Plans are administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for 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 applicable PERS plan depends on the employee classification and hire date. In some situations hiring of an employee who was previously an active member in PERS results in the "Classic" Plan benefit regardless of the date of hiring.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (continued)

A. Public Employees Retirement System (continued)

The Plan provisions and benefits in effect at June 30, 2015, are summarized as follows:

	City Miscellaneous		
	Prior to January 1, 2012	On or after January 1, 2013	
Hire date			
Benefit formula	2.5% @ 55	2% @ 62	
Benefit vesting schedule	5 years service	5 years service	
Benefit payments	monthly for life	monthly for life	
Retirement age	50 - 55	52 - 67	
Monthly benefits, as a % of eligible compensations	2.0% to 2.5%	1.0% to 2.5%	
Required employee contribution rates	8%	6.25%	
Required employer contribution rates	21.229%	6.25%	
	City Safety		
	Prior to January 1, 2012	On or after January 1, 2012 (or Classic)	On or after January 1, 2013
Hire date			
Benefit formula	3% @ 50	3% @ 55	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 55	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensations	3%	2.4 to 3%	2.0% to 2.7%
Required employee contribution rates	9%	9%	11.5%
Required employer contribution rates	43.587%	20.774%	11.5%

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 rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2015, the contributions recognized as part of pension expense for each Plan were as follows:

	Misc Tier 1	Misc Tier 2
Employer Contributions	\$351,264	\$0
	Safety Tier 1	Safety Tier 2
Employer Contributions	\$263,299	\$0

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (continued)

A. Public Employees Retirement System (continued)

As of June 30, 2015, the City reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous and Safety Plans as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	\$ 3,434,583
Safety	2,623,500
Total Net Pension Liability	\$ 6,058,083

The City's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2014, 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, 2013 rolled forward to June 30, 2014 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, 2013 and 2014 was as follows:

<u>City Miscellaneous Plan</u>	Miscellaneous
Proportion - June 30, 2013	.13%
Proportion - June 30, 2014	.075%
Change – Increase (Decrease)	.0106%
 <u>City Safety Plan</u>	 Safety
Proportion - June 30, 2013	.064%
Proportion - June 30, 2014	.070%
Change – Increase (Decrease)	.006%

For the year ended June 30, 2015, the District recognized pension expense of (\$981,114). At June 30, 2015, 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	\$ 607,282	\$ -
Differences between actual and expected experience	-	-
Changes in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	7,281	(44,091)
Net differences between projected and actual earnings on plan investments	-	(1,274,154)
Total	\$ 614,563	\$ (1,318,245)

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (continued)

A. Public Employees Retirement System (continued)

\$614,563 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, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2015	\$ (332,339)
2016	(332,339)
2017	(329,578)
2018	(318,540)
2019	-
Thereafter	-

Actuarial Assumptions - The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	All Plans(3)
Measurement Date	June 30, 2013
Actuarial Cost Method	June 30, 2014
Actuarial Assumptions:	Entry-Age Normal Cost Method
Discount Rate	7.5%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	Derived using CalPERS Membership Data for all Funds (3)
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, including inflation
- (3) 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 CalPERS website.
- (4) All of the City's plans for miscellaneous employed the same assumptions.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 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 found on the CalPERS website.

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (continued)

A. Public Employees Retirement System (continued)

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

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (continued)

A. Public Employees Retirement System (continued)

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10⁽¹⁾</u>	<u>Real Return Years 11+(²)</u>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

(1) An expected inflation of 2.5% used for this period

(2) 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 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:

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	6.5%	6.5%
Net Pension Liability	\$5,475,513	\$3,856,154
Current Discount Rate	7.50%	7.50%
Net Pension Liability	\$3,434,584	\$2,623,500
1% Increase	8.50%	8.50%
Net Pension Liability	\$1,740,806	\$1,607,846

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

As of June 30, 2015

Last 10 Years*

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

2014

<u>City Safety Plan</u>	<u>City Safety Plan</u>	<u>Miscellaneous Plan</u>
Proportion of the net pension liability	0.04216%	0.05520%
Proportionate share of the net pension liability	\$2,623,500	\$3,434,584
Covered - employee payroll	\$773,076	\$1,612,018
Proportionate Share of the net pension liability as percentage of covered-employee payroll	339.36%	213.06%
Plan fiduciary net position as a percentage of the total pension liability	71.49%	77.67%

City of Willits
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2015

NOTE 14 - DEFINED BENEFIT PENSION PLAN (concluded)

A. Public Employees Retirement System (concluded)

Notes to Schedule:

Benefit changes. In 2014, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes in assumptions. In 2014, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

As of June 30, 2015
 Last 10 Years*
SCHEDULE OF CONTRIBUTIONS
 2014

	Safety Plan	Miscellaneous Plan
Contractually required contribution (actuarially determined)	\$ 285,632	\$ 332,087
Contributions in relation to the actuarially determined contributions	(285,632)	(332,087)
	\$ -	\$ -
Contribution deficiency (excess)	-	-
Covered-employee payroll	\$773,076	\$1,612,018
Contributions as a percentage of covered-employee payroll	36.95%	20.60%

Notes to Schedule:

Valuation date:

6/30/2013

Methods and assumptions used to determine contribution rates:

Single and Agent Employers Example	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increases	4.5%, average, including inflation of 3.0%
Investment rate of return	7.75%, net of pension plan investment expense, incl. inflation
Retirement age	57 yrs.
Mortality	RP-2000 Healthy Annuitant Mortality Table

* Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

The prior period adjustment of \$(6,712,190) represents the change to the July 1, 2014 net position resulting from the GASB 68 implementation and the recording of the net pension liability.

City of Willits
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
Budget and Actual
For the year ended June 30, 2015
(UNAUDITED)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Taxes	\$ 2,764,145	\$ 2,764,145	\$ 2,896,602	\$ 132,457
Licenses and permits	430,230	430,230	480,480	50,250
Fines and forfeitures	5,200	5,200	9,734	4,534
Charges for services	48,060	48,060	46,647	(1,413)
Use of money and property	8,100	8,100	16,833	8,733
Intergovernmental revenue	147,451	147,451	142,814	(4,637)
Other revenues	<u>793,831</u>	<u>793,831</u>	<u>853,190</u>	<u>59,359</u>
Total revenues	<u>4,197,017</u>	<u>4,197,017</u>	<u>4,446,300</u>	<u>249,283</u>
Expenditures:				
Current:				
General government	1,060,085	1,060,085	1,003,063	57,022
Public safety	2,475,997	2,475,997	2,317,117	158,880
Public works	427,394	427,394	437,541	(10,147)
Planning	45,710	45,710	101,430	(55,720)
Community services	53,712	53,712	53,712	-
Parks and recreation	215,642	215,642	178,655	36,987
Debt service:				
Principal	14,082	14,082	6,114	7,968
Interest	<u>1,087</u>	<u>1,087</u>	<u>4,612</u>	<u>(3,525)</u>
Total expenditures	<u>4,293,709</u>	<u>4,293,709</u>	<u>4,102,244</u>	<u>191,465</u>
Excess of revenues over (under) expenditures	<u>(96,692)</u>	<u>(96,692)</u>	<u>344,056</u>	<u>440,748</u>
Other financing sources (uses):				
Transfers in	15,000	15,000	15,000	-
Transfers out	<u>(42,157)</u>	<u>(42,157)</u>	<u>(36,601)</u>	<u>5,556</u>
Total other financing sources (uses)	<u>(27,157)</u>	<u>(27,157)</u>	<u>(21,601)</u>	<u>5,556</u>
Excess (deficit) of revenues and other sources over (under) expenditures and other uses	<u>\$ (123,849)</u>	<u>\$ (123,849)</u>	<u>322,455</u>	<u>\$ 446,304</u>
Fund balance, beginning of period			<u>1,999,156</u>	
Fund balance, end of period			<u>\$ 2,321,611</u>	

City of Willits
SALES TAX
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Budget and Actual
For the year ended June 30, 2015
(UNAUDITED)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 901,418	\$ 901,418	\$ 919,520	\$ 18,102
Other revenues	7,500	7,500	11,693	4,193
Total revenues	908,918	908,918	931,213	22,295
Expenditures:				
Current:				
Public works	279,649	279,649	186,221	93,428
Total expenditures	279,649	279,649	186,221	93,428
Excess of revenues over (under) expenditures	629,269	629,269	744,992	115,723
Other financing sources (uses):				
Transfers out	(256,346)	(256,346)	(657,844)	(401,498)
Total other financing sources (uses)	(256,346)	(256,346)	(657,844)	(401,498)
Excess (deficit) of revenues and other sources over (under) expenditures and other uses	\$ 372,923	\$ 372,923	87,148	\$ (285,775)
Fund balance, beginning of period			2,087,084	
Fund balance, end of period			\$ 2,174,232	

City of Willits

GAS TAX

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Budget and Actual

For the year ended June 30, 2015

(UNAUDITED)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Taxes	\$ 152,297	\$ 152,297	\$ 153,063	\$ 766
Charges for services	271,788	271,788	21,296	(250,492)
Other revenues	-	-	594	594
Total revenues	<u>424,085</u>	<u>424,085</u>	<u>174,953</u>	<u>(249,132)</u>
Expenditures:				
Current:				
General government	99,658	99,658	108,720	(9,062)
Public works	415,073	415,073	280,262	134,811
Total expenditures	<u>514,731</u>	<u>514,731</u>	<u>388,982</u>	<u>125,749</u>
Excess of revenues over (under) expenditures	<u>(90,646)</u>	<u>(90,646)</u>	<u>(214,029)</u>	<u>(123,383)</u>
Other financing sources (uses):				
Transfers out	90,646	90,646	201,464	110,818
Total other financing sources (uses)	<u>90,646</u>	<u>90,646</u>	<u>201,464</u>	<u>110,818</u>
Excess (deficit) of revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	(12,565)	<u>\$ (12,565)</u>
Fund balance, beginning of period			<u>(20,320)</u>	
Fund balance, end of period			<u>\$ (32,885)</u>	

DRAFT

1/28/2016

To be used only for management discussion purposes; engagement is incomplete; this draft is subject to final review and possible revision. **Report/Letter date is TENTATIVE-TBD**

CITY OF WILLITS
MANAGEMENT REPORT
For the Year Ended
JUNE 30, 2015

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DRAFT

Honorable Members of the City Council
City of Willits
Willits, California

In planning and performing our audit of the basic financial statements of City of Willits for the fiscal year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of City of Willits' internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist City of Willits in implementing the recommendations.

This report is intended solely for the information and use of management of City of Willits and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

We thank City of Willits' staff for its cooperation during the course of our audit.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California

City of Willits
MANAGEMENT REPORT
For the Year Ended June 30, 2015

We have audited the basic financial statements of City of Willits for the year ended June 30, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 10, 2015, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of City of Willits. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Willits are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by City of Willits during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole. The most sensitive estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences;
- Capital asset lives and depreciation expense;
- Liability for solid waste landfill post closure costs;
- Pension plan actuarial assumptions;
- Accrual and disclosure of leases;
- Amortization of deferred costs;
- Fair value of investments and financial instruments.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

City of Willits
MANAGEMENT REPORT
For the Year Ended June 30, 2015

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Of the misstatements detected as a result of audit procedures and corrected by management most were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 25, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to City of Willits' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year, prior to retention as City of Willits' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

City of Willits
MANAGEMENT REPORT
For the Year Ended June 30, 2015

Current Year Observations

There were no current year observations.

Prior Years' Observations

1) GASB 54 Formal Policy

Observation:

During the course of the audit we noted the City has not adopted a formal GASB 54 fund balance policy as discussed in the notes to the audited financial statements.

Recommendation:

We recommended the City formalize their fund balance policy and have it approved by the City Council.

Status:

This recommendation has not been implemented.

Management Response:

Management agrees that a formal, Council adopted fund balance policy is desirable for the City. Review of this recommendation will be on the task list for the new Finance Director.

2) City Finance Committee

Observation:

Although not required by professional standards, the City Finance Committee does not perform periodic analysis of the City's monthly financial statements with previous months or quarters as needed.

Recommendation:

The City's Finance Committee provides oversight of the management of the City. The Finance Committee should compare current financial information with previous months, quarters, years and current budget as needed. Written responses from management should be provided to document explanation of fluctuations. The Finance Committee should be knowledgeable of the City's internal control systems and policies and ensure the controls are working.

Status:

This recommendation has not been implemented.

Management Response:

Management agrees that periodic review of monthly financial statements can be beneficial. Review of this recommendation will be on the task list for the new Finance Director.

City of Willits
MANAGEMENT REPORT
For the Year Ended June 30, 2015

3) Pool Cash Collections

Observation:

During the course of our audit it was noted that controls over Pool Cash Receipts are weak. The Pool Manager does not use a sign-in sheet with a liability waiver. In addition, prenumbered duplicate copy cash receipts are not used for concession sales. A reconciliation of daily cash receipts to the related sign-in sheet and prenumbered cash receipts is not prepared.

Recommendation:

We recommended the Pool Manager have all customers sign a sign-in sheet with a liability waiver. Prenumbered cash receipts should be given to customers of concession sales. Further, reconciliation should be prepared to reconcile cash receipts each day to the related sign-in sheet and copies of prenumbered cash receipts.

Status:

This recommendation has not been implemented.

Management Response:

Review of this recommendation will be on the task list for the new Finance Director.

4) Written Accounting, Administrative and Fraud Procedures Manual

Observation:

During the course of our audit it was noted that the City does not have a formal accounting, administrative and fraud procedures manual. This manual would document the City's internal controls to safeguard assets and accounting records. This manual would also note the City's policies regarding prevention, detection and deterrence of fraud and would serve as a training guide for new employees.

Recommendation:

We recommended the City develop and maintain an up to date accounting, administrative policies and procedures manual.

Status:

The City completed a cash handling policy but has not formally documented the other controls over assets.

Management Response:

Management agrees that an up-to-date accounting, administrative policies and procedures manual is desirable. Review of this recommendation will be on the task list for the new Finance Director. Limitations of staff resources to prepare such a comprehensive manual may make this recommendation difficult to accomplish.

City of Willits
MANAGEMENT REPORT
For the Year Ended June 30, 2015

5) Non Recurring General Journal Entries and Bank Reconciliation Review

Observation:

During the course of the audit we noted that the review of non-recurring general journal entries was not always documented. We also noted the monthly bank reconciliations and related statements are not reviewed by someone outside the Finance Department.

Recommendation:

We recommended the Finance Committee and/or the City Manager perform a periodic review of non-recurring journal entries, bank statements and related reconciliations. This control procedure will help mitigate the risk of management's override of internal controls as well as collusion.

Status:

This recommendation has not been implemented.

Management Response:

Management agrees that periodic review of significant non-recurring journal entries, bank statements and related reconciliations, is a good procedure. Review of this recommendation will be on the task list for the new Finance Director.

6) Approval of Vendor Invoices

Observation:

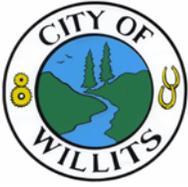
During the course of the audit we noted that the approval of vendor invoices by a department head was not documented on the invoice.

Recommendation:

We recommend the City document the approval of vendor invoices by the appropriate department head by either initialing the invoice or an attached approval form.

Status:

This recommendation has been implemented.



Item No. 4

Meeting Date: March 21, 2016

AGENDA SUMMARY REPORT

To: Honorable Mayor and Council Members

From: Susie Holmes, Finance Director/City Treasurer

Agenda Title: RENEWAL OF 3-YEAR TOTAL SERVICE AGREEMENT WITH ACS FOR ACCOUNTING SOFTWARE, HARDWARE, AND SUPPORT SERVICES

Type: Presentation Consent Regular Agenda Public Hearing Urgent Time: 5 min.

Summary of Request: ACS/Xerox has provided accounting software, hardware, and support for the City since the year 2000. The current service agreement will expire at the end of March. This agreement includes an AS400 file server update and unlimited software support. On-site installation of the updated operating service and software is included in the agreement. We have experienced prompt response to requests for support in the past.

Staff is interested in researching alternative financial systems, but that is a very expensive and time consuming project. If we decide to change vendors, we would need additional staff time and approximately 18 months to convert our data and get a new system up and running.

Recommended Action: Approve renewal of 3-year Total Service Agreement with ACS/Xerox for accounting software, hardware, and support services.

Alternative(s): None recommended.

Fiscal Impact: The monthly support cost will increase by 4% each year during the 3-year agreement. See page 3 of the attached contract for annual cost.

Personnel Impact: ACS/Xerox will be on-site to update the operating system the file server and install the most recent upgrade to the software. This should take about 4 days, but the old hardware and software will be functional until the new system is installed, so there will be little, if any, downtime.

Reviewed by: City Manager City Attorney Finance Director Human Resources Risk

Council Action: Approved Denied Other: _____

Records: Agreement Resolution # _____ Ordinance # _____ Other _____



TOTAL SERVICE AGREEMENT

("Agreement")

This Total Service Agreement (hereinafter the "Agreement") is entered into by and between City of Willits 111 E Commercial Street Willits, CA 95490(hereinafter "Customer"), and ACS Enterprise Solutions LLC, A Xerox Company with offices located at 8260 Willow Oaks Corporate Drive, Fairfax, VA 22031 (hereinafter "ACS"), referred to individually as Party and collectively as Parties.

ACS SOFTWARE APPLICATION LICENSES:

ACS grants Client a limited license to use the ACS proprietary software applications listed in this section (the "ACS Licensed Software") during the term of this Agreement, and in accordance with the licensing terms and conditions specified in Section 7(a) of Exhibit A (Standard Terms and Conditions):

- ACS Government Financial Software (Budgeting, Project Accounting, Check Reconciliation, Standard & Designer Reporting, 1099-Misc Reporting, and Encumbrance Accounting, Accounts Receivable)
- ACS Paymate Payroll Software
- ACS Utility Billing
- ACS Business License
- ACS Cash Register/Receipts

THIRD PARTY SOFTWARE:

ACS grants Client a limited license to use the third party software and documentation listed in this section (the "Third Party Licensed Software"), in accordance with the licensing terms and conditions specified in Section 7(b) of Exhibit A (Standard Terms and Conditions):

ACS SOFTWARE SUPPORT SERVICES:

In connection with the above-referenced ACS Licensed Software, ACS shall provide the following support services: **(1)** Unlimited 800# phone support for the ACS Licensed Software; **(2)** training/retraining for normally scheduled sessions at an ACS location of ACS' choice; **(3)** all Federal/State mandated changes to the ACS Licensed Software; **(4)** all ACS-determined enhancements to the ACS Licensed Software; and **(5)** attendance at regularly scheduled ACS sponsored seminars and User Group Participation.

SERVER & HARDWARE:

DESCRIPTION:	MODEL	QTY.	MNTCE.	DESCRIPTION
IBM eServer 8202-E4C	8202-E4C	1	Y	Upgrade AS400 to V7R2.

Tape cartridges will be the responsibility of the customer to purchase additional cartridges during contract term.

IBM SOFTWARE SUBSCRIPTION AND SOFTWARE MAINTENANCE:

3-Year IBM Software Subscription & Maintenance included. IBM Software Subscription is a prepayment plan that entitles the holder to secure update to the OS/400 Operating System at no additional charge. ACS is also able to perform onsite upgrade assistance on a time-and-material basis.

ADDITIONAL SERVICES - ACS INSTALLATION & SUPPORT PLUS:

An ACS Network Engineer will be onsite for approximately four days to upgrade to the new AS400 Server, Peripheral Equipment, and Misc. Other Equipment, and to install the new version of IBM's Client Access to each PC connected to the AS/400.

ACS will also: Optimize System Value Performance, Setup Job Scheduling (Nightly backups), establish and test modem communications, Verify machine definition (memory, DASD), Initiate IBM license program security codes and Enroll Users in System Directories

ACS "Support Plus" – ACS will provide Level 2 phone support (as defined below) during the hours Monday-Friday, 7:00am-5:00pm Central Time except on the following holidays: New Year's Day, Memorial Day, Independence Day,

TOTAL SERVICE AGREEMENT

("Agreement")

Labor Day, Thanksgiving Day, and Christmas Day. Level 2 support is defined as troubleshooting issues within the network or server environment located within the Client's organization.

The following services are provided by ACS under the Level 2 support framework:

- Remote troubleshooting of IBM AS/400 software and hardware issues, inclusion of IBM software and Hardware support contract in certain cases may require calls to IBM. Those customers under an alternate IR (Independent Reseller) will be given contact information to place IBM direct calls (1-800-IBM-SERV)
- Environment wiring installed by a third party under ACS control is covered by such third party's standard warranties. ACS makes no additional warranties whatsoever for third party installed wiring.
- Client Access, New Vision and PACE desktop clients.
- Problem determination based on IP, DHCP and network related problems.
- Printers attached in the following manners.
 - Jet Direct network attachment for use with the AS400 or I-series machines
 - Parallel attachment for use with the AS400 or I-series machines
 - External Jet Direct modules for use with the AS400 or I-series machines
 - WYCOM modular check signing converters for use with the AS400 or I-series machines
 - Large volume printers such as copier will be attempted on a model by model basis.
 - Those printers under contract installed by ACS personnel
 - New Vision printer setup and PC defined printer selection against session.
- Hand held scanners, multiple styles (Keyboard, wedge, USB etc.)
- Table top scanners (Legatto & USSI(UITI))
- Remote workstation controllers (Perle or IBM 394,494 5394/494)
- Land rover remote communications devices
- KVM switch boxes
- Routers Installed by ACS
- Twinax terminals
- Twinax Console
- ASYNC Console
- Ethernet Hubs/Switches Installed by ACS
- UPS systems
- Remote troubleshooting of the data backup management application on servers installed by ACS.
- I-series or AS400 nightly/entire machine backups. Define and institute these saves at Client's request. Also investigate problems. ACS is not responsible for the actual data backup. Client is responsible for checking system log (DSPLOG) daily.
- Meter read handheld data migration to and from the 400. The third party software vendor is responsible for supplying the location to/from which directory on the PC, the data files are moved to/from.

Items not covered under this Agreement:

- Training for Microsoft products. It is assumed that users of PC's will have pre training; at their own cost to accommodate normal PC usage. ACS is not responsible for providing training to Client Personnel on Microsoft products. The Client understands and agrees that Client Personnel who do not have training on PC usage can increase the problem determination process.
- Microsoft Office assistance, except for those customers with ODBC/Microsoft query/client access data extractions.
- Spyware, Adware, Data Mining and other infections that may be sustained during Internet usage. The effects of these elements are also to be removed or corrected at Client cost. This includes those computers owned by ACS.
- Daily monitoring of servers or network devices.
- Pre existing Twinax and Category 5, once a diagnosis has been done wiring issues are passed back to the Client for investigation.
- Client Data. Client responsible for monitoring nightly backups. Will assist with problem determination if the backups are not successful.



TOTAL SERVICE AGREEMENT

("Agreement")

- Network Services does not restore software package data files but will direct Client to the correct software group for assistance.

Additional charges may apply if connectivity is not to current network configuration, or if additional hardware/software/labor is required due to Client owned PC's and/or Printer's configurations. See Services and Installation Section.

In order to obtain maximum performance from both the iSeries and ACS application software packages, it is a requirement that all Users be within two release levels of IBM's most current operating system release. Under this Agreement ACS will own responsibility for keeping the operating system within two release levels. Users may be required to purchase additional hardware to support this operating system upgrade. Any additional costs to the User will be itemized prior to any upgrades being performed. In the event that additional hardware is required to be purchased due to the operating system upgrade the Client has the option to terminate this Agreement under terms of early termination set forth under the Contract Terms section below.

The addition of other software products to the iSeries platform, purchased from ACS or another vendor, may require additional hardware purchases.

ACS will make commercially reasonable efforts to size the iSeries to accommodate moderate Client growth. Significant growth may require additional hardware purchases by the Client.

INITIAL DOWN PAYMENT AND MONTHLY PAYMENTS SCHEDULE:

For each contract year, the monthly payments will increase 4% over the previous year. The monthly payments are as follows:

TERM DATES	MONTHS	MONTHLY AMOUNT	ANNUAL AMOUNT
4/1/2016 - 3/31/2017	12	\$3,539.00	\$42,168.00
4/1/2017 - 3/31/2018	12	\$3,680.00	\$43,860.00
4/1/2018 - 3/31/2019	12	\$3,827.00	\$45,612.00

CONTRACT TERMS:

In the event of Client terminates this Agreement prior to completion of the second automatic renewal period, Client shall equitably compensate ACS for any unamortized costs associated with the hardware and/or software provided by ACS or a third party, as well as any other reasonable costs incurred by ACS in the provision of services under this Agreement. Client will also pay all outstanding amounts due at the time of termination, including any amounts payable under agreed-to installment plans.

COMMENCEMENT DATE: April 1, 2016

TERMINATION DATE: March 31, 2019

**TOTAL SERVICE AGREEMENT
("Agreement")**

KEY ASSUMPTIONS AND SPECIAL INSTRUCTIONS:

- Customization of ACS software is not included in this Agreement.
- Non-ACS software may reside on the AS/400 and may be maintained by a Client-authorized vendor; however, no vendor other than ACS is allowed to access ACS' software without the expressed written consent of ACS.
- Any non-ACS software that is loaded and produces negative results to the listed hardware or peripherals is not covered under this Agreement and ACS' correction efforts will be billable at ACS' then current pricing.
- Client may not load unlicensed software on any hardware covered under the Agreement.
- Changes may be made to the hardware / software configuration with a corresponding adjustment to the monthly payment under this Agreement.
- Only data included under the "MY DOCUMENTS" folder will be transferred by ACS to upgraded ACS owned PC's. All other data transfers will be the responsibility of Client. Program files will not be electronically transferred. Microsoft Office software will be upgraded on all ACS owned PC's if pre-installed.
- ACS is not responsible for: 1) any hardware or software components for which maintenance has been performed by a third party not authorized by ACS; 2) any components that have been damaged through the negligence or misconduct of parties other than ACS or its employees or agents; 3) any components which have been damaged as a result of Client's failure to operate them in accordance with the operating instructions of the manufacturer or ACS; or 4) failures due to force majeure event(s), or exposure to unusual physical or electrical stress.
- Under no circumstances will ACS be responsible for the loss of data associated with this Agreement.

STANDARD TERMS AND CONDITIONS:

The Standard Terms and Conditions annexed hereto as Exhibit A, are hereby incorporated in and made a part of this Agreement.

APPROVALS AND SIGNATURES:

City of Willits, CA

ACS Enterprise Solutions, LLC

Client: _____

ACS: _____

Name: _____

Name: John Hlavac

Title: _____

Title: Director

Date: _____

Date: _____



TOTAL SERVICE AGREEMENT ("Agreement")

EXHIBIT A - STANDARD TERMS AND CONDITIONS

1. Services. In consideration of the payments to be made by Client and the Covenants and agreements of Client hereinafter set forth, ACS hereby agrees to render the consulting, training or other professional services (the "Services") described in this Total Service Agreement ("Agreement").

2. Payment. Client shall pay ACS, as consideration for the Services, a monthly payment in the amount described in this Agreement (the "Payments"). The Payments shall be due and payable in advance on the first day of each calendar month during the term of this Agreement. If the Commencement Date is other than the first day of the month, Client shall make a payment on the Commencement Date, reduced pro rata for any part of the month less than a full month. Payments shall be made to ACS at the address of ACS set forth on the face hereof or at any other place ACS designates in writing. The Payments are exclusive of import duties, government license fees, taxes or assessments that ACS must pay as a result of its performance of this Agreement.

3. Penalty for Late Payment. If ACS has not received Payments or other sums owed to it by Client pursuant to this Agreement by the date such Payment or other sum is due, ACS may charge Client interest on such overdue amount at the highest lawful rate of interest allowed at such time and from time to time thereafter.

4. Delivery of Hardware. If, as described in this Agreement, computer hardware and peripheral equipment ("Hardware") is included in this Agreement, ACS shall place the Hardware listed on Client's premises for use by Client during the term of this Agreement. The Hardware includes all parts, cables, features and accessories incorporated therein at the time of delivery.

5. Site Preparation. If Hardware is included in this Agreement, Client will provide, at its own expense, a site adequate in space and design for installation and operation of the Hardware. Client shall be responsible to provide a site that is temperature and humidity-controlled, that has all necessary electric current outlets, circuits and wiring for the Hardware and electric current of sufficient quality and quantity to operate the Hardware. ACS shall have no liability for or arising from actual site preparation or inspection.

6. Installation. If Hardware is included in this Agreement, ACS shall provide or cause to be provided installation of any Hardware requiring installation at the site designated and prepared by Client. ACS shall also provide or cause to be provided training of Client's employees, to the extent described in this Agreement. If requested in writing by Client, ACS will provide training of Client's employees in addition to the training described in this Agreement at ACS's then applicable rates for such training services.

7. License.

(a) ACS grants to the Client a non-exclusive, nontransferable, revocable license to use the ACS Licensed Software (as listed in this Agreement) during the term of this Agreement only, and solely for the Client's own internal business purposes. Client is not authorized to sublicense, assign or sublease any of its rights hereunder. The software will be delivered to the Client's premises and installed on the Hardware, and will consist of object programs, control language procedures and documentation. Client may use the ACS Licensed Software in object form only. Client is prohibited from causing or permitting the reverse engineering, disassembly or decompilation of the ACS Licensed Software. Client is also prohibited from modifying, improving, sublicensing or otherwise enhancing the ACS Licensed Software. ACS shall own all rights and title to the ACS Licensed Software and ACS reserves all rights not expressly granted to Client in this Agreement. Client recognizes that the ACS Licensed Software is subject to the proprietary rights of ACS. The Client agrees that the ACS Licensed Software is a trade secret of ACS, is protected by civil and criminal law and by the law of copyright, and is very valuable to ACS and that its use and disclosure must be carefully and continuously controlled. The Client further understands that operator manuals, training aids, and other written materials for such ACS Licensed Software are subject to the Copyright Act of the United States. Upon any termination, cancellation or expiration of this Agreement, Client shall immediately return the ACS Licensed Software and all copies thereof to ACS.

(b) All Third Party Licensed Software delivered in connection with this Agreement will be licensed to Client by the manufacturer, and is subject to licensing terms and conditions of use specified in one or more licensing agreements. Some or all of the Third Party Licensed Software components delivered hereunder may qualify as "shrink-wrap" software which is delivered along with standard licensing terms. Other Third Party Licensed Software components may qualify as "click-wrap" software and will require the end-user to accept standard licensing terms upon installation of the Third Party Licensed Software. For purposes of this Agreement, all license agreements, including all standard licensing terms delivered with "shrink-wrap" and/or "click-wrap" software, will be referred to as the "Third Party License Agreements."

The Client hereby accepts all provisions contained in the Third Party License Agreements that relate to the Third Party Licensed Software, and agrees to abide by, and to perform all licensee obligations specified in the Third Party License Agreements. For all "click-wrap" software components, the Client hereby authorizes and appoints ACS to accept such licensing terms on its behalf at the time of installation. Client acknowledges that (i) the software licensor is the owner and holds title to the Third Party Licensed Software, and that Client is the licensee or sub-licensee of the Third Party Licensed Software, and (ii) Client may use the Third Party Licensed Software only for its own internal business purposes.

8. Proprietary Rights. Client recognizes that the software products licensed under this Agreement are proprietary; and that ACS or the owner of the licensed software products described in Section 7 above RETAINS OWNERSHIP OF ALL RIGHTS, TITLE AND INTEREST TO ITS LICENSED SOFTWARE PRODUCTS, which include source programs, object programs, control language procedures, systems design, modular program structure, system logic flow, technical documentation, report and video formats, subroutines, processing techniques and procedures and report generation. All enhancements made on behalf of Client by ACS will be proprietary to ACS.

9. Warranty and Disclaimer of Warranties.

(A) The Services to be performed by ACS will be done by qualified personnel, properly supervised, and will meet such other specifications as are mutually agreed to by the parties and/or as set forth on page one hereof.

(B) Following the execution of this Agreement, ACS will proceed in good faith and with due diligence to cause the Hardware and ACS Licensed Software to be delivered and installed at such location or locations and upon such dates as reasonably requested by Client, if required. ACS warrants that the ACS Licensed Software and associated documentation ("Materials") will be installed so it is in operational condition, by making any necessary adjustments as promptly as possible after its installation.

TOTAL SERVICE AGREEMENT

("Agreement")

(C) Warranty on Third Party Licensed Software: All Third Party Licensed Software provided to the Client hereunder constitutes commercial off the shelf software ("COTS"). Client and ACS agree that for all Third Party Licensed Software, ACS shall pass through to the Client all available warranties provided by the manufacturer. ACS shall only provide the standard available warranties offered by the manufacturer themselves.

ACS MAKES NO OTHER WARRANTIES WHATSOEVER, EXPRESS OR IMPLIED, WITH REGARD TO THE SOFTWARE, HARDWARE AND SERVICES PROVIDED UNDER THIS TSA, IN WHOLE OR IN PART. THE FOREGOING WARRANTIES ARE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AS SUCH PERTAIN TO THE MATERIALS.

10. Limitation of Liability. ACS'S ENTIRE LIABILITY FOR ANY LOSSES OR DAMAGES OF ANY NATURE, WHETHER DIRECT OR INDIRECT, AND REGARDLESS OF THE FORM OF ACTION, ARISING FROM ACS'S PERFORMANCE OR FAILURE TO PERFORM WILL BE 20% ABOVE THE AGGREGATE AMOUNT OF PAYMENTS PAID TO ACS UNDER THIS AGREEMENT IN THE TWELVE MONTHS IMMEDIATELY PRECEDING THE LOSS, DAMAGE OR INJURY THAT IS THE BASIS OF THE CLAIM. ACS SHALL NOT BE LIABLE FOR ANY INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES OF ANY NATURE WHATSOEVER, INCLUDING, BUT NOT LIMITED TO, LOSS OF ANTICIPATED REVENUES OR PROFITS IN CONNECTION WITH, OR ARISING OUT OF ANY ASPECT OF ACS'S PERFORMANCE UNDER THIS AGREEMENT.

11. Care and Use, Maintenance and Repair, and Inspection.

(A) Client shall, at its sole expense, at all times during the term of this Agreement, maintain the Materials in good operating condition and repair, and shall protect the Materials from deterioration other than normal wear and tear. Client shall not use the Materials for any purposes other than those for which they were designed hereunder. Client shall bear the risk of loss or damage from fire, the elements, theft or otherwise from the time of and after the delivery of the Materials to the Client's delivery address.

(B) Client acknowledges that the Materials are, and shall at all times remain, the personal property of ACS. The Client shall not, without the prior written consent of ACS, affix or install any accessory, equipment or device to the Materials that will either impair the originally intended function or use of such Materials or that cannot be readily removed without causing material damage to the same. The Client will not, without the prior written consent of ACS and subject to such conditions as ACS may impose for its protection, affix the Materials to any real property if, as a result thereof, such Materials will become a fixture under applicable law.

(C) Client will not move the Materials or permit them to be moved from the original installation address without ACS's prior written consent. Upon the request of ACS, Client shall make the Materials available to ACS during regular business hours for inspection at the place where it is normally located and shall make Client's records pertaining to the Materials available to ACS for inspection.

12. Return of Materials. Except where the parties mutually agree to extend the term of the Agreement past the initial term or any successive renewal period, upon termination (by expiration or otherwise) of this Agreement, Client shall, pursuant to ACS's instructions and at Client's expense, return the Materials and any documentation or other tangible manifestation of the Materials to ACS in the same operating order, repair, condition and appearance as when received, except for normal wear and tear. Client shall return the Materials to ACS at its address set forth herein or at such other address within the United States as directed by ACS.

13. Default. The occurrence of any one or more of the following events ("Events of Default") shall constitute a default under this agreement.

(A) Failure by Client to pay any payments or other amounts payable by Client under this Agreement as and when they are due;

(B) Failure by Client to perform any other term, covenant or condition of this Agreement, which default shall continue for a period of fifteen (15) days after ACS notifies Client of such failure to perform;

(C) Failure by Client's governing body to appropriate funds to make the Payments due for any fiscal year of the Client, and such failure only occurs as a result of or in connection with a determination to replace the Services provided by ACS with other computerized services.

14. Remedies upon Default. Upon the occurrence of any one or more Events of Default, ACS shall be entitled to terminate its provision of services under this Agreement and receive from Client liquidated damages equal to the present value of the remaining monthly amounts owing hereunder for software, Hardware, training, Hardware maintenance and software support discounted at the rate of 8% per annum (the "Liquidated Damages"). The Liquidated Damages shall be paid within ten days after the Event of Default. ACS shall have the right to retake possession of all Materials subject to this Agreement.

15. Indemnification by Customer. Client shall indemnify ACS against all claims, actions, damages (including, but not limited to, reasonable attorney's fees) obligations, liabilities and liens imposed or incurred by or assessed against ACS to its affiliates, successors or assigns, occurring as a result of Client's breach of any provision of this Agreement.

16. No Assignment. Without the prior written consent of the other party, neither party shall assign or transfer this Agreement, except that ACS may transfer this Agreement to any parent and/or affiliate of ACS.

17. Miscellaneous.

(A) If any provision of this Agreement is held to be illegal, invalid, or unenforceable, that provision shall be severed or reformed to be enforceable, and the remaining provisions hereof shall remain in full force.

(B) This Agreement embodies the entire contract of the parties with respect to the subject matter hereof. This Agreement cannot be modified except in written agreement signed by all parties hereto.

(C) This Agreement shall be construed and enforced in accordance with the laws of the State of Maryland.

TOTAL SERVICE AGREEMENT ("Agreement")

(D) This is an Agreement with a maximum term of 36 months from the Commencement Date, and may be renewed on mutual agreement of both parties on the same or altered terms, provided such renewal or extension complies with the laws governing Client's contracting abilities. Either party must give at least 60 days notice prior to the termination, that the Agreement will not be renewed. This Agreement may be terminated in the event that the Client's Board of Commissioners is unable to appropriate funds to make the Payments due hereunder for any fiscal year of the Client, due to lack of funds.

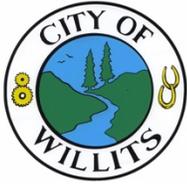
(E) Any action arising out of or in connection herewith must be brought within a reasonable period of time after the cause of action occurred or reasonably became known to the parties hereto.

(F) The parties hereto certify that they are both voluntarily in compliance with the Equal Employment Opportunity Requirements of Executive Order 11246, as amended by Executive Order 11375, Title VII of the Civil Rights Restoration Act of 1987, various state Fair Employment Practices Acts, and any other federal or state laws pertaining to equal employment opportunity, and that they will not discriminate against any employee or applicant for employment on the basis of race, color, religion, disability, age, gender, national origin or ancestry in matters pertaining to recruitment, hiring, training, upgrading, transfer, compensation or termination.

(G) The waiver by either party as to a breach of any provision hereof by the other party, shall not be construed to be a waiver of any succeeding breach of any such provision or a waiver of the provision itself.

(H) Any notices required under this Agreement will be effective when in writing and deposited in the United States mail, properly addressed to the other party where noted herein above, or such other location as determined from time-to-time, with prepaid postage.

18. Acknowledgement. By signing this contract, the Client acknowledges that the Client has read this Agreement, understands it, and agrees to be bound by all of its terms and conditions; and further agrees that it is the complete and exclusive statement of the agreement between the parties, which supersedes all prior and concurrent proposals and understandings, whether oral or written, and all other communications between the parties relating to the subject matter of this Agreement.



Item No. 5

Meeting Date: March 21, 2016

AGENDA SUMMARY REPORT

To: Willits City Council Members

From: Medical Marijuana Regulation Ad Hoc Committee Members Mayor Bruce Burton and Councilmember Larry Stranske

Agenda Title: REPORT AND RECOMMENDATION OF THE MEDICAL MARIJUANA REGULATION AD HOC COMMITTEE TO THE WILLITS CITY COUNCIL, AND REQUEST FOR DIRECTION TO CITY STAFF TO DRAFT AN ORDINANCE PROHIBITING ALL COMMERCIAL MEDICAL MARIJUANA USES, EXPRESSLY BANNING DELIVERIES, IN THE CITY AND PROHIBITING CULTIVATION FOR MEDICAL USE BY A QUALIFIED PATIENT OR PRIMARY CAREGIVER

Type: Presentation Consent Regular Agenda Public Hearing Urgent Time: 60 min.

Summary of Request: The Medical Marijuana Regulation Ad Hoc Committee has carefully reviewed the recently enacted Medical Marijuana Regulation and Safety Act that regulates certain *commercial* medical marijuana related activities, including cultivation, processing, transportation, testing and sale of medical marijuana. The full text of the MMRSA is attached. The MMRSA acknowledges the right of local public agencies to prohibit the medical marijuana business enterprise activities that are now regulated and licensed under the Act. Thus, someone wanting to engage in the business of testing, sales, cultivation, etc., of medical marijuana within a City needs both a state license and a permit or other authorization from the City. The Committee members are of the view that the City of Willits should explicitly prohibit by ordinance the commercial marijuana related land uses and activities that are now allowed under the MMRSA, and that the City should also ban any further cultivation of medical use by qualified patients or primary caregivers. In this regard, Cities may also lawfully ban the non-commercial cultivation of medical marijuana.

The Committee is of the view that the City of Willits has unfortunately developed a national reputation as a place associated with marijuana cultivation, culture and use; and that marijuana cultivation has become an intolerable nuisance for many persons within the City. The Committee also recognizes that the use, cultivation, possession, sale and distribution of any marijuana is unlawful under the Federal Controlled Substances Act. The Committee thus further recommends that the Willits Zoning Ordinance be amended to specifically provide that any land uses and activities that are unlawful under either state or federal law shall be prohibited within all zones of the City.

Based on the foregoing, the Committee recommends adoption of an ordinance substantially similar to the attached ordinance of the City of Merced. Alternatively, the Committee recommends adoption of an ordinance similar to the attached ordinance of the City of Petaluma.

Recommended Action: Provide direction to City Staff concerning the drafting of a proposed new ordinance(s) regulating or banning activities and uses related to medical marijuana within the City of Willits, including cultivation. Upon providing direction staff can then draft the recommended ordinance and notice a public hearing for discussion and review before the Willits Planning Commission.

Alternative(s): None recommended.

Reviewed by: City Manager City Attorney Finance Director Human Resources Risk

Council Action: Approved Denied Other: _____

Records: Agreement Resolution # _____ Ordinance # _____ Other _____

Memo

To: Willits City Council
From: H. James Lance, City Attorney
Date: March 17, 2016
Re: Potential Changes to WMC following Medical Marijuana Regulation and Safety Act

Introduction

This memo outlines some of the key provisions of the recently enacted Medical Marijuana Regulation and Safety Act (“MMRSA” or the “Act”). It also addresses the two existing medical marijuana related ordinances within the Willits Municipal Code (“WMC”).

Summary of the Act

On October 9, 2015 Governor Brown signed three bills into law (AB 266, AB 243 and SB 643) that collectively are known as the Medical Marijuana Regulation and Safety Act. The Act set up a State-licensing scheme for commercial medical marijuana uses while protecting local control by requiring that all such businesses must also have a local license or permit to operate in addition to a State license. The Act allows cities to completely prohibit commercial medical marijuana activities. The Act only addresses “medical marijuana” as recreational marijuana still remains illegal.

Definitions under the Act

Some of the more important definitions under the Act are:

- **Commercial cannabis activity** - includes cultivation, possession, manufacture, processing, storing, laboratory testing, labeling, transporting, distribution, or sale of medical cannabis or a medical cannabis product related to qualifying patients and primary caregivers. These distinct *commercial* cannabis enterprise activities are now subject to state regulation and licensure. The definition of commercial activity under the Act does not include the cultivation, possession, transportation, etc. of medical marijuana by a primary caregiver who does the same for no more than five specified

patients for which s/he is the primary caregiver; therefore such persons do not need state licenses under the Act.

- **Cultivation** – means any activity including the planting, growing, harvesting, drying, curing, grading or trimming of cannabis.
- **Dispensary** – means a facility where medical cannabis, medical cannabis products or devices for use of such products are offered for retail sale, including an establishment that delivers medical cannabis and medical cannabis products as part of a retail sale.
- **Delivery** – means the commercial transfer of medical cannabis or medical cannabis products from a dispensary to a primary caregiver or qualified patient or testing laboratory. Delivery also includes the use by a dispensary of any technology platform that it owns and controls or is independently licensed, that enables qualified patients or primary caregivers to arrange for or facilitate the commercial transfer by a licensed dispensary (i.e., an Uber type of platform)
- **Distributor** – means a person licensed to engage in purchasing medical cannabis or medical cannabis products from a licensed cultivator or manufacturer for sale to a licensed dispensary.
- **Transport** – means the transfer of medical cannabis or medical cannabis products between the permitted business locations of licensees for conducting commercial cannabis activities. With limited exceptions, only licensed transports may transport medical cannabis or medical cannabis products between licensees.

Licenses

There are 17 different new state license categories within the MMRSA that break down into the following subcategories; licensees may only hold state licenses in up to 2 separate categories as specified:

- Cultivation (10 types) – Note: no state license is needed under the Act for cultivation for personal medical use. However, case law holds that a local government may ban this type of cultivation, although not all cities do. *[The WMC cultivation ordinance presently allows persons to cultivate up to 6 plants of medical marijuana as long as it is grown indoors or in a secure outbuilding that meets the code's requirements].*
- Manufacturer – (2 types)
- Testing
- Dispensary (2 types)

- Distribution
- Transporter

Local Control

The state licenses created by the Act do not supersede or limit existing local authority, including local zoning requirements. Furthermore, cities can adopt additional standards and requirement for commercial cannabis activities provided that they are no less stringent than the state standards. However, with respect to Delivery services the Act provides that if a city does not expressly prohibit the delivery of medical marijuana, delivery will be allowed with a state license to do so.

Presently, WMC section 9.20 bans medical marijuana dispensaries in all zones of the city. The WMC defines medical marijuana dispensary as:

“...any facility or location, *whether fixed or mobile*, where medical marijuana is made available to, distributed by, or distributed to two or more of the following: a qualified patient, a person with an identification card, or a primary caregiver.” The specific reference to “mobile” facilities” appears to prohibit the use of a vehicle to transport or deliver medical marijuana to a qualified patient or caregiver. The WMC does not address, however, the transportation or delivery of cannabis from a supplier to a laboratory for testing or the transportation from the lab to a dispensary or other distributor.

If the City Council intends to prohibit the delivery or transportation of medical marijuana then it is recommended that it do so by express prohibition even though the current ordinance bans mobile dispensaries. Copies of the City’s existing ordinances regarding medical marijuana cultivation (WMC 17.86) and medical marijuana dispensaries (WMC 9.20) are attached.

////

Willits Municipal Code

• Chapter 9.20 - MEDICAL MARIJUANA DISPENSARIES

Sections:

• 9.20.010 - Definitions.

For the purposes of this chapter, unless otherwise apparent from the context, the following definitions shall apply:

"Medical marijuana" is marijuana authorized in strict compliance with Health and Safety Code Section 11362.5 et seq.

"Medical marijuana dispensary" means any facility or location, whether fixed or mobile, where medical marijuana is made available to, distributed by, or distributed to two or more of the following: a qualified patient, a person with an identification card, or a primary caregiver.

A medical marijuana dispensary shall not include the following uses, so long as such uses comply with this code, Health and Safety Code Section 11362.5 et seq., and other applicable law:

1. A clinic licensed pursuant to [Chapter 1](#) of [Division 2](#) of the Health and Safety Code;
2. A health care facility licensed pursuant to [Chapter 2](#) of [Division 2](#) of the Health and Safety Code;
3. A residential care facility for persons with chronic life-threatening illness licensed pursuant to Chapter 3.01 of [Division 2](#) of the Health and Safety Code;
4. A residential care facility for the elderly licensed pursuant to Chapter 3.2 of [Division 2](#) of the Health and Safety Code;
5. A hospice or a home health agency, licensed pursuant to [Chapter 8](#) of [Division 2](#) of the Health and Safety Code.

"Person with an identification card" shall have the meaning given that term by Health and Safety Code Section 11362.7.

"Primary caregiver" shall have the meaning given that term by Health and Safety Code Section 11362.7.

"Qualified patient" shall have the meaning given that term by Health and Safety Code Section 11362.7.

(Ord. 06-06 § 2(part)).

• 9.20.020 - Operation of medical marijuana dispensaries prohibited.

No person shall operate or permit to be operated a medical marijuana dispensaries in or upon any premises in the city. A tenant or owner of real property shall be deemed in violation of this chapter if he or she knowingly allows property of which he or she is the tenant or owner to be used in violation of this chapter.

(Ord. 06-06 § 2(part)).

Willits Municipal Code

- **Chapter 17.86 - MARIJUANA CULTIVATION**

Sections:

- **17.86.010 - Definitions.**

As used herein, the following definitions shall apply:

"Cultivation" means the planting, growing, harvesting, drying, or processing of marijuana plants or any part thereof.

"Fully enclosed and secure structure" or "structure(s)," as used within this chapter, means no more than one space within a residential unit which is subject to the requirements of the Uniform Commercial Code; which has a complete roof enclosure supported by connecting walls extending from the ground to the roof; which is secure against unauthorized entry, and which is accessible only through one or more lockable doors; and which is attached to a permanent foundation. The exterior walls shall have a minimum thickness of four inches and shall be sheathed with a minimum one-half inch nominal thickness boards, fiber board, composite wood panels or other material approved by code for residential building construction. The structure shall be adequately sealed to significantly reduce the emission of odor emanating from cultivation. The term "fully enclosed and secure structure" shall not include any building, greenhouse, shed or accessory building which does not meet the requirements of this section.

"Outdoor" means any location within the city of Willits that is not within a "fully enclosed and secure structure" as defined herein.

"Parcel" means property assigned a separate parcel number by the Mendocino County Assessor.

"Primary caregiver" means a "primary caregiver" as defined in Health and Safety Code Section 11362.7(d).

"Qualified patient" means a "qualified patient" as defined in Health and Safety Code Section 11362.7(f).

(Ord. 07-02 § 2).

- **17.86.020 - Outdoor cultivation of marijuana.**

It is declared to be unlawful and a public nuisance for any person owning, leasing, occupying, or having charge or possession of any premises within any zone of the city of Willits to cause or allow such premises to be used for the outdoor cultivation of marijuana plants as described herein or to cultivate or allow the cultivation of marijuana plants in excess of the limitations imposed within [Section 17.86.030](#).

Nothing in this section shall be construed as a limitation on the city's authority to abate any nuisance which may exist from the planting, growing, harvesting, drying, processing or storage of marijuana plants or any part thereof from any location, indoor or outdoor, including from within a fully enclosed and secure building.

(Ord. 07-02 § 3).

- **17.86.030 - Limitation on number of plants.**

The cultivation of more than six marijuana plants within any fully enclosed and secure structure within the city limits is a public nuisance. This limitation shall be imposed regardless of the number of qualified patients residing at such location. Further, this limitation shall be imposed notwithstanding any assertion that the person(s) cultivating marijuana are the caregivers for qualified patients.

(Ord. 07-02 § 4).

- **17.86.040 - Enforcement.**

The violation of this chapter may be abated by the city by the prosecution of a civil action including an action for injunctive relief. The remedy of injunctive relief may take the form of a court order, enforceable through civil contempt proceedings, prohibiting the maintenance of the violation of this chapter or requiring compliance with other terms.

The city may also seek enforcement by abatement as a public nuisance. Such proceedings may include seeking warrants from the Mendocino County Superior Court to inspect property and for nuisance abatement by eradicating marijuana cultivated in violation of this chapter. Nuisance abatement may, at the city's election, be commenced in accordance with the procedures set forth within [Chapter 1.12](#) et seq. of the Willits Municipal Code (WMC).

In any litigation concerning the enforcement of this chapter, the prevailing party shall be entitled to recover its reasonable attorney fees and costs of suit.

(Ord. 07-02 § 5).

- **17.86.050 - Compliance with CEQA.**

The city council finds that this chapter is not subject to the California Environmental Quality Act ("CEQA") pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment), 15061(b)(3) (there is no possibility the activity in question may have a significant effect on the environment). In addition to the foregoing general exemptions, the following categorical exemptions apply, Sections 15308 (actions taken as authorized by local ordinance to assure protection of the environment), and 15321 (action by agency for enforcement of a law, general rule, standard, or objective administered or adopted by the agency, including by direct referral to the city attorney as appropriate for judicial enforcement).

(Ord. 07-02 § 6).

MEDICAL MARIJUANA REGULATION AND SAFETY ACT¹

What Cities Need to Know About the New Law and Delivery Services

OVERVIEW

Here's what you need to know:

- **Local prohibition or regulation:** Cities may prohibit or regulate medical marijuana businesses within their jurisdictions. **Local authority remains intact under the new law.**
- **State license required:** All medical marijuana businesses – dispensary sales, delivery service, cultivation, or transport – must have a State license².
- **State license not enough:** A medical marijuana business in any city may only operate if it has permission from the State **and** permission from the city (“dual licensing”).
- **Enforcement:** Revocation of local permission to operate means a medical marijuana business must terminate operation because the new law requires dual licensing. Upon approval of the State, a city may enforce State law.
- **State law penalties for unlicensed activity:** There are civil penalties and criminal penalties for operating without a State license.

DELIVERY

Here's what you need to know:

If a city does not expressly prohibit the delivery of medical marijuana within its jurisdiction, delivery will be allowed (with a State dispensary license). This means that if your city wishes to prohibit the delivery of medical marijuana within its jurisdiction, the city must adopt an ordinance expressly prohibiting delivery services and mobile dispensaries.

¹ AB 266 (Bonta, Cooley, Jones-Sawyer, Lack, Wood); AB 243 (Wood); and SB 643 (McGuire). Effective 1/1/2016.

² The Department of Consumer Affairs estimates it will begin issuing State licenses in January 2018. The Department of Food and Agriculture and the Department of Public Health also have licensing authority under the new law. Businesses operating in compliance with local ordinances will get priority in the State licensing application process.

October 27, 2015

DELIVERY

Here's what you need to do:

- Determine whether your city currently bans delivery services for medical marijuana.
- If you have a ban, determine whether it is an express ban, or a ban enacted via permissive zoning (i.e., it is not listed in your zoning or other codes as a permitted activity within the city limits).
- If you have an express ban specifically identifying marijuana deliveries as a prohibited activity, you do not need to take further action.
- If you wish to prohibit delivery services but do not have an express ban, **you need to take further action.**

ACTION REQUIRED: Adopt an ordinance expressly banning deliveries within your jurisdiction. If you do not adopt an express ban ordinance before the State begins issuing any State licenses, a State-licensed dispensary will be able to deliver medical marijuana within your jurisdiction. You may adopt an ordinance expressly banning deliveries after the State begins to issue licenses. However, it may be difficult to terminate the State licensee's deliveries at that time. Therefore, best practice is for an ordinance to be in place before the State begins issuing State licenses. The State currently estimates that it will begin issuing dispensary licenses in January 2018, but that could certainly happen sooner.

- A ban enacted via permissive zoning is not an express ban.

Be sure to consult with your city attorney before taking any of the actions recommended in this document.





California
LEGISLATIVE INFORMATION

AB-266 Medical marijuana. (2015-2016)

Assembly Bill No. 266

CHAPTER 689

An act to amend Sections 27 and 101 of, to add Section 205.1 to, and to add Chapter 3.5 (commencing with Section 19300) to Division 8 of, the Business and Professions Code, to amend Section 9147.7 of the Government Code, to amend Section 11362.775 of the Health and Safety Code, to add Section 147.5 to the Labor Code, and to add Section 31020 to the Revenue and Taxation Code, relating to medical marijuana.

[Approved by Governor October 09, 2015. Filed with Secretary of State October 09, 2015.]

LEGISLATIVE COUNSEL'S DIGEST

AB 266, Bonta. Medical marijuana.

(1) Existing law, the Compassionate Use Act of 1996, an initiative measure enacted by the approval of Proposition 215 at the November 5, 1996, statewide general election, authorizes the use of marijuana for medical purposes. Existing law enacted by the Legislature requires the establishment of a program for the issuance of identification cards to qualified patients so that they may lawfully use marijuana for medical purposes, and requires the establishment of guidelines for the lawful cultivation of marijuana grown for medical use. Existing law provides for the licensure of various professions by boards or bureaus within the Department of Consumer Affairs. Existing law, the Sherman Food, Drug, and Cosmetic Law, provides for the regulation of food, drugs, devices, and cosmetics, as specified. A violation of that law is a crime.

This bill, among other things, would enact the Medical Marijuana Regulation and Safety Act for the licensure and regulation of medical marijuana and would establish within the Department of Consumer Affairs the Bureau of Medical Marijuana Regulation, under the supervision and control of the Director of Consumer Affairs. The bill would require the director to administer and enforce the provisions of the act.

This bill would also require the Board of Equalization, in consultation with the Department of Food and Agriculture, to adopt a system for reporting the movement of commercial cannabis and cannabis products.

This bill would impose certain fines and civil penalties for specified violations of the act, and would require moneys collected as a result of these fines and civil penalties to be deposited into the Medical Cannabis Fines and Penalties Account.

(2) Under existing law, certain persons with identification cards, who associate within the state in order collectively or cooperatively to cultivate marijuana for medical purposes, are not solely on the basis of that

fact subject to specified state criminal sanctions.

This bill would repeal these provisions upon the issuance of licenses by licensing authorities pursuant to the Medical Marijuana Regulation and Safety Act, as specified, and would instead provide that actions of licensees with the relevant local permits, in accordance with the act and applicable local ordinances, are not offenses subject to arrest, prosecution, or other sanction under state law.

(3) This bill would provide that its provisions are severable.

(4) Existing constitutional provisions require that a statute that limits the right of access to the meetings of public bodies or the writings of public officials and agencies be adopted with findings demonstrating the interest protected by the limitation and the need for protecting that interest.

This bill would make legislative findings to that effect.

(5) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement. This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to these statutory provisions.

(6) The bill would provide that it shall become operative only if SB 643 and AB 243 of the 2015–16 Regular Session are also enacted and become operative.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: yes

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 27 of the Business and Professions Code is amended to read:

27. (a) Each entity specified in subdivisions (c), (d), and (e) shall provide on the Internet information regarding the status of every license issued by that entity in accordance with the California Public Records Act (Chapter 3.5 (commencing with Section 6250) of Division 7 of Title 1 of the Government Code) and the Information Practices Act of 1977 (Chapter 1 (commencing with Section 1798) of Title 1.8 of Part 4 of Division 3 of the Civil Code). The public information to be provided on the Internet shall include information on suspensions and revocations of licenses issued by the entity and other related enforcement action, including accusations filed pursuant to the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code) taken by the entity relative to persons, businesses, or facilities subject to licensure or regulation by the entity. The information may not include personal information, including home telephone number, date of birth, or social security number. Each entity shall disclose a licensee's address of record. However, each entity shall allow a licensee to provide a post office box number or other alternate address, instead of his or her home address, as the address of record. This section shall not preclude an entity from also requiring a licensee, who has provided a post office box number or other alternative mailing address as his or her address of record, to provide a physical business address or residence address only for the entity's internal administrative use and not for disclosure as the licensee's address of record or disclosure on the Internet.

(b) In providing information on the Internet, each entity specified in subdivisions (c) and (d) shall comply with the Department of Consumer Affairs' guidelines for access to public records.

(c) Each of the following entities within the Department of Consumer Affairs shall comply with the requirements of this section:

(1) The Board for Professional Engineers, Land Surveyors, and Geologists shall disclose information on its registrants and licensees.

(2) The Bureau of Automotive Repair shall disclose information on its licensees, including auto repair dealers,

smog stations, lamp and brake stations, smog check technicians, and smog inspection certification stations.

(3) The Bureau of Electronic and Appliance Repair, Home Furnishings, and Thermal Insulation shall disclose information on its licensees and registrants, including major appliance repair dealers, combination dealers (electronic and appliance), electronic repair dealers, service contract sellers, and service contract administrators.

(4) The Cemetery and Funeral Bureau shall disclose information on its licensees, including cemetery brokers, cemetery salespersons, cemetery managers, crematory managers, cemetery authorities, crematories, cremated remains disposers, embalmers, funeral establishments, and funeral directors.

(5) The Professional Fiduciaries Bureau shall disclose information on its licensees.

(6) The Contractors' State License Board shall disclose information on its licensees and registrants in accordance with Chapter 9 (commencing with Section 7000) of Division 3. In addition to information related to licenses as specified in subdivision (a), the board shall also disclose information provided to the board by the Labor Commissioner pursuant to Section 98.9 of the Labor Code.

(7) The Bureau for Private Postsecondary Education shall disclose information on private postsecondary institutions under its jurisdiction, including disclosure of notices to comply issued pursuant to Section 94935 of the Education Code.

(8) The California Board of Accountancy shall disclose information on its licensees and registrants.

(9) The California Architects Board shall disclose information on its licensees, including architects and landscape architects.

(10) The State Athletic Commission shall disclose information on its licensees and registrants.

(11) The State Board of Barbering and Cosmetology shall disclose information on its licensees.

(12) The State Board of Guide Dogs for the Blind shall disclose information on its licensees and registrants.

(13) The Acupuncture Board shall disclose information on its licensees.

(14) The Board of Behavioral Sciences shall disclose information on its licensees, including licensed marriage and family therapists, licensed clinical social workers, licensed educational psychologists, and licensed professional clinical counselors.

(15) The Dental Board of California shall disclose information on its licensees.

(16) The State Board of Optometry shall disclose information regarding certificates of registration to practice optometry, statements of licensure, optometric corporation registrations, branch office licenses, and fictitious name permits of its licensees.

(17) The Board of Psychology shall disclose information on its licensees, including psychologists, psychological assistants, and registered psychologists.

(d) The State Board of Chiropractic Examiners shall disclose information on its licensees.

(e) The Structural Pest Control Board shall disclose information on its licensees, including applicators, field representatives, and operators in the areas of fumigation, general pest and wood destroying pests and organisms, and wood roof cleaning and treatment.

(f) The Bureau of Medical Marijuana Regulation shall disclose information on its licensees.

(g) "Internet" for the purposes of this section has the meaning set forth in paragraph (6) of subdivision (f) of Section 17538.

SEC. 2. Section 101 of the Business and Professions Code is amended to read:

101. The department is comprised of the following:

- (a) The Dental Board of California.
- (b) The Medical Board of California.
- (c) The State Board of Optometry.
- (d) The California State Board of Pharmacy.
- (e) The Veterinary Medical Board.
- (f) The California Board of Accountancy.
- (g) The California Architects Board.
- (h) The Bureau of Barbering and Cosmetology.
- (i) The Board for Professional Engineers and Land Surveyors.
- (j) The Contractors' State License Board.
- (k) The Bureau for Private Postsecondary Education.
- (l) The Bureau of Electronic and Appliance Repair, Home Furnishings, and Thermal Insulation.
- (m) The Board of Registered Nursing.
- (n) The Board of Behavioral Sciences.
- (o) The State Athletic Commission.
- (p) The Cemetery and Funeral Bureau.
- (q) The State Board of Guide Dogs for the Blind.
- (r) The Bureau of Security and Investigative Services.
- (s) The Court Reporters Board of California.
- (t) The Board of Vocational Nursing and Psychiatric Technicians.
- (u) The Landscape Architects Technical Committee.
- (v) The Division of Investigation.
- (w) The Bureau of Automotive Repair.
- (x) The Respiratory Care Board of California.
- (y) The Acupuncture Board.
- (z) The Board of Psychology.
- (aa) The California Board of Podiatric Medicine.
- (ab) The Physical Therapy Board of California.
- (ac) The Arbitration Review Program.
- (ad) The Physician Assistant Committee.

- (ae) The Speech-Language Pathology and Audiology Board.
- (af) The California Board of Occupational Therapy.
- (ag) The Osteopathic Medical Board of California.
- (ah) The Naturopathic Medicine Committee.
- (ai) The Dental Hygiene Committee of California.
- (aj) The Professional Fiduciaries Bureau.
- (ak) The State Board of Chiropractic Examiners.
- (al) The Bureau of Real Estate.
- (am) The Bureau of Real Estate Appraisers.
- (an) The Structural Pest Control Board.
- (ao) The Bureau of Medical Marijuana Regulation.
- (ap) Any other boards, offices, or officers subject to its jurisdiction by law.

SEC. 3. Section 205.1 is added to the Business and Professions Code, to read:

205.1. Notwithstanding subdivision (a) of Section 205, the Medical Marijuana Regulation and Safety Act Fund is a special fund within the Professions and Vocations Fund, and is subject to subdivision (b) of Section 205.

SEC. 4. Chapter 3.5 (commencing with Section 19300) is added to Division 8 of the Business and Professions Code, to read:

CHAPTER 3.5. Medical Marijuana Regulation and Safety act
Article 1. Definitions

19300. This act shall be known and may be cited as the Medical Marijuana Regulation and Safety Act.

19300.5. For purposes of this chapter, the following definitions shall apply:

(a) "Accrediting body" means a nonprofit organization that requires conformance to ISO/IEC 17025 requirements and is a signatory to the International Laboratory Accreditation Cooperation Mutual Recognition Arrangement for Testing.

(b) "Applicant," for purposes of Article 4 (commencing with Section 19319), means the following:

(1) Owner or owners of a proposed facility, including all persons or entities having ownership interest other than a security interest, lien, or encumbrance on property that will be used by the facility.

(2) If the owner is an entity, "owner" includes within the entity each person participating in the direction, control, or management of, or having a financial interest in, the proposed facility.

(3) If the applicant is a publicly traded company, "owner" means the chief executive officer or any person or entity with an aggregate ownership interest of 5 percent or more.

(c) "Batch" means a specific quantity of medical cannabis or medical cannabis products that is intended to have uniform character and quality, within specified limits, and is produced according to a single manufacturing order during the same cycle of manufacture.

(d) "Bureau" means the Bureau of Medical Marijuana Regulation within the Department of Consumer Affairs.

- (e) "Cannabinoid" or "phytocannabinoid" means a chemical compound that is unique to and derived from cannabis.
- (f) "Cannabis" means all parts of the plant *Cannabis sativa* Linnaeus, *Cannabis indica*, or *Cannabis ruderalis*, whether growing or not; the seeds thereof; the resin, whether crude or purified, extracted from any part of the plant; and every compound, manufacture, salt, derivative, mixture, or preparation of the plant, its seeds, or resin. "Cannabis" also means the separated resin, whether crude or purified, obtained from marijuana. "Cannabis" also means marijuana as defined by Section 11018 of the Health and Safety Code as enacted by Chapter 1407 of the Statutes of 1972. "Cannabis" does not include the mature stalks of the plant, fiber produced from the stalks, oil or cake made from the seeds of the plant, any other compound, manufacture, salt, derivative, mixture, or preparation of the mature stalks (except the resin extracted therefrom), fiber, oil, or cake, or the sterilized seed of the plant which is incapable of germination. For the purpose of this chapter, "cannabis" does not mean "industrial hemp" as defined by Section 81000 of the Food and Agricultural Code or Section 11018.5 of the Health and Safety Code.
- (g) "Cannabis concentrate" means manufactured cannabis that has undergone a process to concentrate the cannabinoid active ingredient, thereby increasing the product's potency. An edible medical cannabis product is not considered food, as defined by Section 109935 of the Health and Safety Code, or a drug, as defined by Section 109925 of the Health and Safety Code.
- (h) "Caregiver" or "primary caregiver" has the same meaning as that term is defined in Section 11362.7 of the Health and Safety Code.
- (i) "Certificate of accreditation" means a certificate issued by an accrediting body to a licensed testing laboratory, entity, or site to be registered in the state.
- (j) "Chief" means Chief of the Bureau of Medical Marijuana Regulation within the Department of Consumer Affairs.
- (k) "Commercial cannabis activity" includes cultivation, possession, manufacture, processing, storing, laboratory testing, labeling, transporting, distribution, or sale of medical cannabis or a medical cannabis product, except as set forth in Section 19319, related to qualifying patients and primary caregivers.
- (l) "Cultivation" means any activity involving the planting, growing, harvesting, drying, curing, grading, or trimming of cannabis.
- (m) "Delivery" means the commercial transfer of medical cannabis or medical cannabis products from a dispensary, up to an amount determined by the bureau to a primary caregiver or qualified patient as defined in Section 11362.7 of the Health and Safety Code, or a testing laboratory. "Delivery" also includes the use by a dispensary of any technology platform owned and controlled by the dispensary, or independently licensed under this chapter, that enables qualified patients or primary caregivers to arrange for or facilitate the commercial transfer by a licensed dispensary of medical cannabis or medical cannabis products.
- (n) "Dispensary" means a facility where medical cannabis, medical cannabis products, or devices for the use of medical cannabis or medical cannabis products are offered, either individually or in any combination, for retail sale, including an establishment that delivers, pursuant to express authorization by local ordinance, medical cannabis and medical cannabis products as part of a retail sale.
- (o) "Dispensing" means any activity involving the retail sale of medical cannabis or medical cannabis products from a dispensary.
- (p) "Distribution" means the procurement, sale, and transport of medical cannabis and medical cannabis products between entities licensed pursuant to this chapter.
- (q) "Distributor" means a person licensed under this chapter to engage in the business of purchasing medical cannabis from a licensed cultivator, or medical cannabis products from a licensed manufacturer, for sale to a licensed dispensary.

- (r) "Dried flower" means all dead medical cannabis that has been harvested, dried, cured, or otherwise processed, excluding leaves and stems.
- (s) "Edible cannabis product" means manufactured cannabis that is intended to be used, in whole or in part, for human consumption, including, but not limited to, chewing gum. An edible medical cannabis product is not considered food as defined by Section 109935 of the Health and Safety Code or a drug as defined by Section 109925 of the Health and Safety Code.
- (t) "Fund" means the Medical Marijuana Regulation and Safety Act Fund established pursuant to Section 19351.
- (u) "Identification program" means the universal identification certificate program for commercial medical cannabis activity authorized by this chapter.
- (v) "Labor peace agreement" means an agreement between a licensee and a bona fide labor organization that, at a minimum, protects the state's proprietary interests by prohibiting labor organizations and members from engaging in picketing, work stoppages, boycotts, and any other economic interference with the applicant's business. This agreement means that the applicant has agreed not to disrupt efforts by the bona fide labor organization to communicate with, and attempt to organize and represent, the applicant's employees. The agreement shall provide a bona fide labor organization access at reasonable times to areas in which the applicant's employees work, for the purpose of meeting with employees to discuss their right to representation, employment rights under state law, and terms and conditions of employment. This type of agreement shall not mandate a particular method of election or certification of the bona fide labor organization.
- (w) "Licensing authority" means the state agency responsible for the issuance, renewal, or reinstatement of the license, or the state agency authorized to take disciplinary action against the license.
- (x) "Cultivation site" means a facility where medical cannabis is planted, grown, harvested, dried, cured, graded, or trimmed, or that does all or any combination of those activities, that holds a valid state license pursuant to this chapter, and that holds a valid local license or permit.
- (y) "Manufacturer" means a person that conducts the production, preparation, propagation, or compounding of manufactured medical cannabis, as described in subdivision (ae), or medical cannabis products either directly or indirectly or by extraction methods, or independently by means of chemical synthesis or by a combination of extraction and chemical synthesis at a fixed location that packages or repackages medical cannabis or medical cannabis products or labels or relabels its container, that holds a valid state license pursuant to this chapter, and that holds a valid local license or permit.
- (z) "Testing laboratory" means a facility, entity, or site in the state that offers or performs tests of medical cannabis or medical cannabis products and that is both of the following:
- (1) Accredited by an accrediting body that is independent from all other persons involved in the medical cannabis industry in the state.
 - (2) Registered with the State Department of Public Health.
- (aa) "Transporter" means a person issued a state license by the bureau to transport medical cannabis or medical cannabis products in an amount above a threshold determined by the bureau between facilities that have been issued a state license pursuant to this chapter.
- (ab) "Licensee" means a person issued a state license under this chapter to engage in commercial cannabis activity.
- (ac) "Live plants" means living medical cannabis flowers and plants, including seeds, immature plants, and vegetative stage plants.

(ad) "Lot" means a batch, or a specifically identified portion of a batch, having uniform character and quality within specified limits. In the case of medical cannabis or a medical cannabis product produced by a continuous process, "lot" means a specifically identified amount produced in a unit of time or a quantity in a manner that ensures its having uniform character and quality within specified limits.

(ae) "Manufactured cannabis" means raw cannabis that has undergone a process whereby the raw agricultural product has been transformed into a concentrate, an edible product, or a topical product.

(af) "Manufacturing site" means a location that produces, prepares, propagates, or compounds manufactured medical cannabis or medical cannabis products, directly or indirectly, by extraction methods, independently by means of chemical synthesis, or by a combination of extraction and chemical synthesis, and is owned and operated by a licensee for these activities.

(ag) "Medical cannabis," "medical cannabis product," or "cannabis product" means a product containing cannabis, including, but not limited to, concentrates and extractions, intended to be sold for use by medical cannabis patients in California pursuant to the Compassionate Use Act of 1996 (Proposition 215), found at Section 11362.5 of the Health and Safety Code. For the purposes of this chapter, "medical cannabis" does not include "industrial hemp" as defined by Section 81000 of the Food and Agricultural Code or Section 11018.5 of the Health and Safety Code.

(ah) "Nursery" means a licensee that produces only clones, immature plants, seeds, and other agricultural products used specifically for the planting, propagation, and cultivation of medical cannabis.

(ai) "Permit," "local license," or "local permit" means an official document granted by a local jurisdiction that specifically authorizes a person to conduct commercial cannabis activity in the local jurisdiction.

(aj) "Person" means an individual, firm, partnership, joint venture, association, corporation, limited liability company, estate, trust, business trust, receiver, syndicate, or any other group or combination acting as a unit and includes the plural as well as the singular number.

(ak) "State license," "license," or "registration" means a state license issued pursuant to this chapter.

(al) "Topical cannabis" means a product intended for external use. A topical cannabis product is not considered a drug as defined by Section 109925 of the Health and Safety Code.

(am) "Transport" means the transfer of medical cannabis or medical cannabis products from the permitted business location of one licensee to the permitted business location of another licensee, for the purposes of conducting commercial cannabis activity authorized pursuant to this chapter.

19300.7. License classifications pursuant to this chapter are as follows:

- (a) Type 1 = Cultivation; Specialty outdoor; Small.
- (b) Type 1A = Cultivation; Specialty indoor; Small.
- (c) Type 1B = Cultivation; Specialty mixed-light; Small.
- (d) Type 2 = Cultivation; Outdoor; Small.
- (e) Type 2A = Cultivation; Indoor; Small.
- (f) Type 2B = Cultivation; Mixed-light; Small.
- (g) Type 3 = Cultivation; Outdoor; Medium.
- (h) Type 3A = Cultivation; Indoor; Medium.
- (i) Type 3B = Cultivation; Mixed-light; Medium.

- (j) Type 4 = Cultivation; Nursery.
- (k) Type 6 = Manufacturer 1.
- (l) Type 7 = Manufacturer 2.
- (m) Type 8 = Testing.
- (n) Type 10 = Dispensary; General.
- (o) Type 10A = Dispensary; No more than three retail sites.
- (p) Type 11 = Distribution.
- (q) Type 12 = Transporter.

Article 2. Administration

19302. There is in the Department of Consumer Affairs the Bureau of Medical Marijuana Regulation, under the supervision and control of the director. The director shall administer and enforce the provisions of this chapter.

19303. Protection of the public shall be the highest priority for the bureau in exercising its licensing, regulatory, and disciplinary functions under this chapter. Whenever the protection of the public is inconsistent with other interests sought to be promoted, the protection of the public shall be paramount.

19304. The bureau shall make and prescribe reasonable rules as may be necessary or proper to carry out the purposes and intent of this chapter and to enable it to exercise the powers and duties conferred upon it by this chapter, not inconsistent with any statute of this state, including particularly this chapter and Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code. For the performance of its duties, the bureau has the power conferred by Sections 11180 to 11191, inclusive, of the Government Code.

19305. Notice of any action of the licensing authority required by this chapter to be given may be signed and given by the director or an authorized employee of the department and may be made personally or in the manner prescribed by Section 1013 of the Code of Civil Procedure.

19306. (a) The bureau may convene an advisory committee to advise the bureau and licensing authorities on the development of standards and regulations pursuant to this chapter, including best practices and guidelines to ensure qualified patients have adequate access to medical cannabis and medical cannabis products. The advisory committee members shall be determined by the chief.

(b) The advisory committee members may include, but not be limited to, representatives of the medical marijuana industry, representatives of medical marijuana cultivators, appropriate local and state agencies, appropriate local and state law enforcement, physicians, environmental and public health experts, and medical marijuana patient advocates.

19307. A licensing authority may make or cause to be made such investigation as it deems necessary to carry out its duties under this chapter.

19308. For any hearing held pursuant to this chapter, the director, or a licensing authority, may delegate the power to hear and decide to an administrative law judge. Any hearing before an administrative law judge shall be pursuant to the procedures, rules, and limitations prescribed in Chapter 5 (commencing with Section 11500) of Part 1 of Division 3 of Title 2 of the Government Code.

19309. In any hearing before a licensing authority pursuant to this chapter, the licensing authority may pay any person appearing as a witness at the hearing at the request of the licensing authority pursuant to a subpoena, his or her actual, necessary, and reasonable travel, food, and lodging expenses, not to exceed the amount authorized for state employees.

19310. The department may on its own motion at any time before a penalty assessment is placed into effect and without any further proceedings, review the penalty, but such review shall be limited to its reduction.

Article 3. Enforcement

19311. Grounds for disciplinary action include:

(a) Failure to comply with the provisions of this chapter or any rule or regulation adopted pursuant to this chapter.

(b) Conduct that constitutes grounds for denial of licensure pursuant to Chapter 3 (commencing with Section 490) of Division 1.5.

(c) Any other grounds contained in regulations adopted by a licensing authority pursuant to this chapter.

(d) Failure to comply with any state law, except as provided for in this chapter or other California law.

19312. Each licensing authority may suspend or revoke licenses, after proper notice and hearing to the licensee, if the licensee is found to have committed any of the acts or omissions constituting grounds for disciplinary action. The disciplinary proceedings under this chapter shall be conducted in accordance with Chapter 5 (commencing with Section 11500) of Part 1 of Division 3 of Title 2 of the Government Code, and the director of each licensing authority shall have all the powers granted therein.

19313. Each licensing authority may take disciplinary action against a licensee for any violation of this chapter when the violation was committed by the licensee's agent or employee while acting on behalf of the licensee or engaged in commercial cannabis activity.

19313.5. Upon suspension or revocation of a license, the licensing authority shall inform the bureau. The bureau shall then inform all other licensing authorities and the Department of Food and Agriculture.

19314. All accusations against licensees shall be filed by the licensing authority within five years after the performance of the act or omission alleged as the ground for disciplinary action; provided, however, that the foregoing provision shall not constitute a defense to an accusation alleging fraud or misrepresentation as a ground for disciplinary action. The cause for disciplinary action in such case shall not be deemed to have accrued until discovery, by the licensing authority, of the facts constituting the fraud or misrepresentation, and, in such case, the accusation shall be filed within five years after such discovery.

19315. (a) Nothing in this chapter shall be interpreted to supersede or limit existing local authority for law enforcement activity, enforcement of local zoning requirements or local ordinances, or enforcement of local permit or licensing requirements.

(b) Nothing in this chapter shall be interpreted to require the Department of Consumer Affairs to undertake local law enforcement responsibilities, enforce local zoning requirements, or enforce local licensing requirements.

(c) Nothing in this chapter shall be interpreted to supersede or limit state agencies from exercising their existing enforcement authority under the Fish and Game Code, the Water Code, the Food and Agricultural Code, or the Health and Safety Code.

19316. (a) Pursuant to Section 7 of Article XI of the California Constitution, a city, county, or city and county

may adopt ordinances that establish additional standards, requirements, and regulations for local licenses and permits for commercial cannabis activity. Any standards, requirements, and regulations regarding health and safety, testing, security, and worker protections established by the state shall be the minimum standards for all licensees statewide.

(b) For facilities issued a state license that are located within the incorporated area of a city, the city shall have full power and authority to enforce this chapter and the regulations promulgated by the bureau or any licensing authority, if delegated by the state. Notwithstanding Sections 101375, 101400, and 101405 of the Health and Safety Code or any contract entered into pursuant thereto, or any other law, the city shall further assume complete responsibility for any regulatory function relating to those licensees within the city limits that would otherwise be performed by the county or any county officer or employee, including a county health officer, without liability, cost, or expense to the county.

(c) Nothing in this chapter, or any regulations promulgated thereunder, shall be deemed to limit the authority or remedies of a city, county, or city and county under any provision of law, including, but not limited to, Section 7 of Article XI of the California Constitution.

19317. (a) The actions of a licensee, its employees, and its agents that are (1) permitted pursuant to both a state license and a license or permit issued by the local jurisdiction following the requirements of the applicable local ordinances, and (2) conducted in accordance with the requirements of this chapter and regulations adopted pursuant to this chapter, are not unlawful under state law and shall not be an offense subject to arrest, prosecution, or other sanction under state law, or be subject to a civil fine or be a basis for seizure or forfeiture of assets under state law.

(b) The actions of a person who, in good faith, allows his or her property to be used by a licensee, its employees, and its agents, as permitted pursuant to both a state license and a local license or permit following the requirements of the applicable local ordinances, are not unlawful under state law and shall not be an offense subject to arrest, prosecution, or other sanction under state law, or be subject to a civil fine or be a basis for seizure or forfeiture of assets under state law.

19318. (a) A person engaging in commercial cannabis activity without a license required by this chapter shall be subject to civil penalties of up to twice the amount of the license fee for each violation, and the court may order the destruction of medical cannabis associated with that violation in accordance with Section 11479 of the Health and Safety Code. Each day of operation shall constitute a separate violation of this section. All civil penalties imposed and collected pursuant to this section by a licensing authority shall be deposited into the Medical Cannabis Fines and Penalties Account established pursuant to Section 19351.

(b) If an action for civil penalties is brought against a licensee pursuant to this chapter by the Attorney General on behalf of the people, the penalty collected shall be deposited into the Medical Cannabis Fines and Penalties Account established pursuant to Section 19351. If the action is brought by a district attorney or county counsel, the penalty collected shall be paid to the treasurer of the county in which the judgment was entered. If the action is brought by a city attorney or city prosecutor, the penalty collected shall be paid to the treasurer of the city or city and county in which the judgment was entered. If the action is brought by a city attorney and is adjudicated in a superior court located in the unincorporated area or another city in the same county, the penalty shall be paid one-half to the treasurer of the city in which the complaining attorney has jurisdiction and one-half to the treasurer of the county in which the judgment is entered.

(c) Notwithstanding subdivision (a), criminal penalties shall continue to apply to an unlicensed person engaging in commercial cannabis activity in violation of this chapter, including, but not limited to, those individuals covered under Section 11362.7 of the Health and Safety Code.

Article 4. Licensing

19320. (a) Licensing authorities administering this chapter may issue state licenses only to qualified

applicants engaging in commercial cannabis activity pursuant to this chapter. Upon the date of implementation of regulations by the licensing authority, no person shall engage in commercial cannabis activity without possessing both a state license and a local permit, license, or other authorization. A licensee shall not commence activity under the authority of a state license until the applicant has obtained, in addition to the state license, a license or permit from the local jurisdiction in which he or she proposes to operate, following the requirements of the applicable local ordinance.

(b) Revocation of a local license, permit, or other authorization shall terminate the ability of a medical cannabis business to operate within that local jurisdiction until the local jurisdiction reinstates or reissues the local license, permit, or other required authorization. Local authorities shall notify the bureau upon revocation of a local license. The bureau shall inform relevant licensing authorities.

(c) Revocation of a state license shall terminate the ability of a medical cannabis licensee to operate within California until the licensing authority reinstates or reissues the state license. Each licensee shall obtain a separate license for each location where it engages in commercial medical cannabis activity. However, transporters only need to obtain licenses for each physical location where the licensee conducts business while not in transport, or any equipment that is not currently transporting medical cannabis or medical cannabis products, permanently resides.

(d) In addition to the provisions of this chapter, local jurisdictions retain the power to assess fees and taxes, as applicable, on facilities that are licensed pursuant to this chapter and the business activities of those licensees.

(e) Nothing in this chapter shall be construed to supersede or limit state agencies, including the State Water Resources Control Board and Department of Fish and Wildlife, from establishing fees to support their medical cannabis regulatory programs.

19321. (a) The Department of Consumer Affairs, the Department of Food and Agriculture, and the State Department of Public Health shall promulgate regulations for implementation of their respective responsibilities in the administration of this chapter.

(b) A license issued pursuant to this section shall be valid for 12 months from the date of issuance. The license shall be renewed annually. Each licensing authority shall establish procedures for the renewal of a license.

(c) Notwithstanding subdivision (a) of Section 19320, a facility or entity that is operating in compliance with local zoning ordinances and other state and local requirements on or before January 1, 2018, may continue its operations until its application for licensure is approved or denied pursuant to this chapter. In issuing licenses, the licensing authority shall prioritize any facility or entity that can demonstrate to the authority's satisfaction that it was in operation and in good standing with the local jurisdiction by January 1, 2016.

(d) Issuance of a state license or a determination of compliance with local law by the licensing authority shall in no way limit the ability of the City of Los Angeles to prosecute any person or entity for a violation of, or otherwise enforce, Proposition D, approved by the voters of the City of Los Angeles on the May 21, 2013, ballot for the city, or the city's zoning laws. Nor may issuance of a license or determination of compliance with local law by the licensing authority be deemed to establish, or be relied upon, in determining satisfaction with the immunity requirements of Proposition D or local zoning law, in court or in any other context or forum.

Article 5. Medical Marijuana Regulation

19326. (a) A person other than a licensed transporter shall not transport medical cannabis or medical cannabis products from one licensee to another licensee, unless otherwise specified in this chapter.

(b) All licensees holding cultivation or manufacturing licenses shall send all medical cannabis and medical

cannabis products cultivated or manufactured to a distributor, as defined in Section 19300.5, for quality assurance and inspection by the Type 11 licensee and for a batch testing by a Type 8 licensee prior to distribution to a dispensary. Those licensees holding a Type 10A license in addition to a cultivation license or a manufacturing license shall send all medical cannabis and medical cannabis products to a Type 11 licensee for presale inspection and for a batch testing by a Type 8 licensee prior to dispensing any product. The licensing authority shall fine a licensee who violates this subdivision in an amount determined by the licensing authority to be reasonable.

(c) (1) Upon receipt of medical cannabis or medical cannabis products by a holder of a cultivation or manufacturing license, the Type 11 licensee shall first inspect the product to ensure the identity and quantity of the product and then ensure a random sample of the medical cannabis or medical cannabis product is tested by a Type 8 licensee prior to distributing the batch of medical cannabis or medical cannabis products.

(2) Upon issuance of a certificate of analysis by the Type 8 licensee that the product is fit for manufacturing or retail, all medical cannabis and medical cannabis products shall undergo a quality assurance review by the Type 11 licensee prior to distribution to ensure the quantity and content of the medical cannabis or medical cannabis product, and for tracking and taxation purposes by the state. Licensed cultivators and manufacturers shall package or seal all medical cannabis and medical cannabis products in tamper-evident packaging and use a unique identifier, as prescribed by the Department of Food and Agriculture, for the purpose of identifying and tracking medical cannabis or medical cannabis products. Medical cannabis and medical cannabis products shall be labeled as required by Section 19347. All packaging and sealing shall be completed prior to medical cannabis or medical cannabis products being transported or delivered to a licensee, qualified patient, or caregiver.

(3) This section does not limit the ability of licensed cultivators, manufacturers, and dispensaries to directly enter into contracts with one another indicating the price and quantity of medical cannabis or medical cannabis products to be distributed. However, a Type 11 licensee responsible for executing the contract is authorized to collect a fee for the services rendered, including, but not limited to, costs incurred by a Type 8 licensee, as well as applicable state or local taxes and fees.

(d) Medical cannabis and medical cannabis products shall be tested by a registered testing laboratory, prior to retail sale or dispensing, as follows:

(1) Medical cannabis from dried flower shall, at a minimum, be tested for concentration, pesticides, mold, and other contaminants.

(2) Medical cannabis extracts shall, at a minimum, be tested for concentration and purity of the product.

(3) This chapter shall not prohibit a licensee from performing on-site testing for the purposes of quality assurance of the product in conjunction with reasonable business operations. On-site testing by the licensee shall not be certified by the State Department of Public Health.

(e) All commercial cannabis activity shall be conducted between licensees, when these are available.

19327. (a) A licensee shall keep accurate records of commercial cannabis activity.

(b) All records related to commercial cannabis activity as defined by the licensing authorities shall be maintained for a minimum of seven years.

(c) The bureau may examine the books and records of a licensee and inspect the premises of a licensee as the licensing authority or a state or local agency deems necessary to perform its duties under this chapter. All inspections shall be conducted during standard business hours of the licensed facility or at any other reasonable time.

(d) Licensees shall keep records identified by the licensing authorities on the premises of the location licensed. The licensing authorities may make any examination of the records of any licensee. Licensees shall

also provide and deliver copies of documents to the licensing agency upon request.

(e) A licensee or its agent, or employee, that refuses, impedes, obstructs, or interferes with an inspection of the premises or records of the licensee pursuant to this section has engaged in a violation of this chapter.

(f) If a licensee or an employee of a licensee fails to maintain or provide the records required pursuant to this section, the licensee shall be subject to a citation and fine of thirty thousand dollars (\$30,000) per individual violation.

19328. (a) A licensee may only hold a state license in up to two separate license categories, as follows:

(1) Type 1, 1A, 1B, 2, 2A, or 2B licensees may also hold either a Type 6 or 7 state license.

(2) Type 6 or 7 licensees, or a combination thereof, may also hold either a Type 1, 1A, 1B, 2, 2A, or 2B state license.

(3) Type 6 or 7 licensees, or a combination thereof, may also hold a Type 10A state license.

(4) Type 10A licensees may also hold either a Type 6 or 7 state license, or a combination thereof.

(5) Type 1, 1A, 1B, 2, 2A, or 2B licensees, or a combination thereof, may also hold a Type 10A state license.

(6) Type 10A licensees may apply for Type 1, 1A, 1B, 2, 2A, or 2B state license, or a combination thereof.

(7) Type 11 licensees shall apply for a Type 12 state license, but shall not apply for any other type of state license.

(8) Type 12 licensees may apply for a Type 11 state license.

(9) A Type 10A licensee may apply for a Type 6 or 7 state license and hold a 1, 1A, 1B, 2, 2A, 2B, 3, 3A, 3B, 4 or combination thereof if, under the 1, 1A, 1B, 2, 2A, 2B, 3, 3A, 3B, 4 or combination of licenses thereof, no more than four acres of total canopy size of cultivation by the licensee is occurring throughout the state during the period that the respective licenses are valid. All cultivation pursuant to this section shall comply with local ordinances. This paragraph shall become inoperative on January 1, 2026.

(b) Except as provided in subdivision (a), a person or entity that holds a state license is prohibited from licensure for any other activity authorized under this chapter, and is prohibited from holding an ownership interest in real property, personal property, or other assets associated with or used in any other license category.

(c) (1) In a jurisdiction that adopted a local ordinance, prior to July 1, 2015, allowing or requiring qualified businesses to cultivate, manufacture, and dispense medical cannabis or medical cannabis products, with all commercial cannabis activity being conducted by a single qualified business, upon licensure that business shall not be subject to subdivision (a) if it meets all of the following conditions:

(A) The business was cultivating, manufacturing, and dispensing medical cannabis or medical cannabis products on July 1, 2015, and has continuously done so since that date.

(B) The business has been in full compliance with all applicable local ordinances at all times prior to licensure.

(C) The business is registered with the State Board of Equalization.

(2) A business licensed pursuant to paragraph (1) is not required to conduct all cultivation or manufacturing within the bounds of a local jurisdiction, but all cultivation and manufacturing shall have commenced prior to July 1, 2015, and have been in full compliance with applicable local ordinances.

(d) This section shall remain in effect only until January 1, 2026, and as of that date is repealed.

19329. A licensee shall not also be licensed as a retailer of alcoholic beverages pursuant to Division 9 (commencing with Section 23000).

19330. This chapter and Article 2 (commencing with Section 11357) and Article 2.5 (commencing with Section 11362.7) of Chapter 6 of Division 10 of the Health and Safety Code shall not interfere with an employer's rights and obligations to maintain a drug and alcohol free workplace or require an employer to permit or accommodate the use, consumption, possession, transfer, display, transportation, sale, or growth of cannabis in the workplace or affect the ability of employers to have policies prohibiting the use of cannabis by employees and prospective employees, or prevent employers from complying with state or federal law.

Article 7. Licensed Distributors, Dispensaries, and Transporters

19334. (a) State licenses to be issued by the Department of Consumer Affairs are as follows:

(1) "Dispensary," as defined in this chapter. This license shall allow for delivery pursuant to Section 19340.

(2) "Distributor," for the distribution of medical cannabis and medical cannabis products from manufacturer to dispensary. A Type 11 licensee shall hold a Type 12, or transporter, license and register each location where product is stored for the purposes of distribution. A Type 11 licensee shall not hold a license in a cultivation, manufacturing, dispensing, or testing license category and shall not own, or have an ownership interest in, a facility licensed in those categories other than a security interest, lien, or encumbrance on property that is used by a licensee. A Type 11 licensee shall be bonded and insured at a minimum level established by the licensing authority.

(3) "Transport," for transporters of medical cannabis or medical cannabis products between licensees. A Type 12 licensee shall be bonded and insured at a minimum level established by the licensing authority.

(4) "Special dispensary status" for dispensers who have no more than three licensed dispensary facilities. This license shall allow for delivery where expressly authorized by local ordinance.

(b) The bureau shall establish minimum security requirements for the commercial transportation and delivery of medical cannabis and products.

(c) A licensed dispensary shall implement sufficient security measures to both deter and prevent unauthorized entrance into areas containing medical cannabis or medical cannabis products and theft of medical cannabis or medical cannabis products at the dispensary. These security measures shall include, but not be limited to, all of the following:

(1) Preventing individuals from remaining on the premises of the dispensary if they are not engaging in activity expressly related to the operations of the dispensary.

(2) Establishing limited access areas accessible only to authorized dispensary personnel.

(3) Storing all finished medical cannabis and medical cannabis products in a secured and locked room, safe, or vault, and in a manner as to prevent diversion, theft, and loss, except for limited amounts of cannabis used for display purposes, samples, or immediate sale.

(d) A dispensary shall notify the licensing authority and the appropriate law enforcement authorities within 24 hours after discovering any of the following:

(1) Significant discrepancies identified during inventory. The level of significance shall be determined by the bureau.

(2) Diversion, theft, loss, or any criminal activity involving the dispensary or any agent or employee of the dispensary.

(3) The loss or unauthorized alteration of records related to cannabis, registered qualifying patients, primary

caregivers, or dispensary employees or agents.

(4) Any other breach of security.

Article 9. Delivery

19340. (a) Deliveries, as defined in this chapter, can only be made by a dispensary and in a city, county, or city and county that does not explicitly prohibit it by local ordinance.

(b) Upon approval of the licensing authority, a licensed dispensary that delivers medical cannabis or medical cannabis products shall comply with both of the following:

(1) The city, county, or city and county in which the licensed dispensary is located, and in which each delivery is made, do not explicitly by ordinance prohibit delivery, as defined in Section 19300.5.

(2) All employees of a dispensary delivering medical cannabis or medical cannabis products shall carry a copy of the dispensary's current license authorizing those services with them during deliveries and the employee's government-issued identification, and shall present that license and identification upon request to state and local law enforcement, employees of regulatory authorities, and other state and local agencies enforcing this chapter.

(c) A county shall have the authority to impose a tax, pursuant to Article 11 (commencing with Section 19348), on each delivery transaction completed by a licensee.

(d) During delivery, the licensee shall maintain a physical copy of the delivery request and shall make it available upon request of the licensing authority and law enforcement officers. The delivery request documentation shall comply with state and federal law regarding the protection of confidential medical information.

(e) The qualified patient or primary caregiver requesting the delivery shall maintain a copy of the delivery request and shall make it available, upon request, to the licensing authority and law enforcement officers.

(f) A local jurisdiction shall not prevent carriage of medical cannabis or medical cannabis products on public roads by a licensee acting in compliance with this chapter.

Article 10. Licensed Manufacturers and Licensed Laboratories

19341. The State Department of Public Health shall promulgate regulations governing the licensing of cannabis manufacturers and testing laboratories. Licenses to be issued are as follows:

(a) "Manufacturing level 1," for manufacturing sites that produce medical cannabis products using nonvolatile solvents.

(b) "Manufacturing level 2," for manufacturing sites that produce medical cannabis products using volatile solvents. The State Department of Public Health shall limit the number of licenses of this type.

(c) "Testing," for testing of medical cannabis and medical cannabis products. Testing licensees shall have their facilities licensed according to regulations set forth by the division. A testing licensee shall not hold a license in another license category of this chapter and shall not own or have ownership interest in a facility licensed pursuant to this chapter.

19342. (a) For the purposes of testing medical cannabis or medical cannabis products, licensees shall use a licensed testing laboratory that has adopted a standard operating procedure using methods consistent with general requirements for the competence of testing and calibration activities, including sampling, using standard methods established by the International Organization for Standardization, specifically ISO/IEC 17020 and ISO/IEC 17025 to test medical cannabis and medical cannabis products that are approved by an accrediting body that is a signatory to the International Laboratory Accreditation Cooperation Mutual

Recognition Arrangement.

(b) An agent of a licensed testing laboratory shall obtain samples according to a statistically valid sampling method for each lot.

(c) A licensed testing laboratory shall analyze samples according to either of the following:

(1) The most current version of the cannabis inflorescence monograph published by the American Herbal Pharmacopoeia.

(2) Scientifically valid methodology that is demonstrably equal or superior to paragraph (1), in the opinion of the accrediting body.

(d) If a test result falls outside the specifications authorized by law or regulation, the licensed testing laboratory shall follow a standard operating procedure to confirm or refute the original result.

(e) A licensed testing laboratory shall destroy the remains of the sample of medical cannabis or medical cannabis product upon completion of the analysis.

19343. A licensed testing laboratory shall not handle, test, or analyze medical cannabis or medical cannabis products unless the licensed testing laboratory meets all of the following:

(a) Is registered by the State Department of Public Health.

(b) Is independent from all other persons and entities involved in the medical cannabis industry.

(c) Follows the methodologies, ranges, and parameters that are contained in the scope of the accreditation for testing medical cannabis or medical cannabis products. The testing lab shall also comply with any other requirements specified by the State Department of Public Health.

(d) Notifies the State Department of Public Health within one business day after the receipt of notice of any kind that its accreditation has been denied, suspended, or revoked.

(e) Has established standard operating procedures that provide for adequate chain of custody controls for samples transferred to the licensed testing laboratory for testing.

19344. (a) A licensed testing laboratory shall issue a certificate of analysis for each lot, with supporting data, to report both of the following:

(1) Whether the chemical profile of the lot conforms to the specifications of the lot for compounds, including, but not limited to, all of the following:

(A) Tetrahydrocannabinol (THC).

(B) Tetrahydrocannabinolic Acid (THCA).

(C) Cannabidiol (CBD).

(D) Cannabidiolic Acid (CBDA).

(E) The terpenes described in the most current version of the cannabis inflorescence monograph published by the American Herbal Pharmacopoeia.

(F) Cannabigerol (CBG).

(G) Cannabinol (CBN).

(H) Any other compounds required by the State Department of Public Health.

(2) That the presence of contaminants does not exceed the levels that are the lesser of either the most

current version of the American Herbal Pharmacopoeia monograph or the State Department of Public Health. For purposes of this paragraph, contaminants includes, but is not limited to, all of the following:

- (A) Residual solvent or processing chemicals.
 - (B) Foreign material, including, but not limited to, hair, insects, or similar or related adulterant.
 - (C) Microbiological impurity, including total aerobic microbial count, total yeast mold count, *P. aeruginosa*, *aspergillus spp.*, *s. aureus*, aflatoxin B1, B2, G1, or G2, or ochratoxin A.
 - (D) Whether the batch is within specification for odor and appearance.
- (b) Residual levels of volatile organic compounds shall be below the lesser of either the specifications set by the United States Pharmacopeia (U.S.P. Chapter 467) or those set by the State Department of Public Health.

19345. (a) Except as provided in this chapter, a licensed testing laboratory shall not acquire or receive medical cannabis or medical cannabis products except from a licensed facility in accordance with this chapter, and shall not distribute, sell, deliver, transfer, transport, or dispense medical cannabis or medical cannabis products, from which the medical cannabis or medical cannabis products were acquired or received. All transfer or transportation shall be performed pursuant to a specified chain of custody protocol.

(b) A licensed testing laboratory may receive and test samples of medical cannabis or medical cannabis products from a qualified patient or primary caregiver only if he or she presents his or her valid recommendation for cannabis for medical purposes from a physician. A licensed testing laboratory shall not certify samples from a qualified patient or caregiver for resale or transfer to another party or licensee. All tests performed by a licensed testing laboratory for a qualified patient or caregiver shall be recorded with the name of the qualified patient or caregiver and the amount of medical cannabis or medical cannabis product received.

(c) The State Department of Public Health shall develop procedures to ensure that testing of cannabis occurs prior to delivery to dispensaries or any other business, specify how often licensees shall test cannabis and that the cost of testing shall be borne by the licensed cultivators, and require destruction of harvested batches whose testing samples indicate noncompliance with health and safety standards promulgated by the State Department of Public Health, unless remedial measures can bring the cannabis into compliance with quality assurance standards as promulgated by the State Department of Public Health.

(d) The State Department of Public Health shall establish a licensing fee, and laboratories shall pay a fee to be licensed. Licensing fees shall not exceed the reasonable regulatory cost of the licensing activities.

19347. (a) Prior to delivery or sale at a dispensary, medical cannabis products shall be labeled and in a tamper-evident package. Labels and packages of medical cannabis products shall meet the following requirements:

- (1) Medical cannabis packages and labels shall not be made to be attractive to children.
- (2) All medical cannabis product labels shall include the following information, prominently displayed and in a clear and legible font:
 - (A) Manufacture date and source.
 - (B) The statement "SCHEDULE I CONTROLLED SUBSTANCE."
 - (C) The statement "KEEP OUT OF REACH OF CHILDREN AND ANIMALS" in bold print.
 - (D) The statement "FOR MEDICAL USE ONLY."
 - (E) The statement "THE INTOXICATING EFFECTS OF THIS PRODUCT MAY BE DELAYED BY UP TO TWO HOURS."

(F) The statement "THIS PRODUCT MAY IMPAIR THE ABILITY TO DRIVE OR OPERATE MACHINERY. PLEASE USE EXTREME CAUTION."

(G) For packages containing only dried flower, the net weight of medical cannabis in the package.

(H) A warning if nuts or other known allergens are used.

(I) List of pharmacologically active ingredients, including, but not limited to, tetrahydrocannabinol (THC), cannabidiol (CBD), and other cannabinoid content, the THC and other cannabinoid amount in milligrams per serving, servings per package, and the THC and other cannabinoid amount in milligrams for the package total.

(J) Clear indication, in bold type, that the product contains medical cannabis.

(K) Identification of the source and date of cultivation and manufacture.

(L) Any other requirement set by the bureau.

(M) Information associated with the unique identifier issued by the Department of Food and Agriculture pursuant to Section 11362.777 of the Health and Safety Code.

(b) Only generic food names may be used to describe edible medical cannabis products.

Article 14. Reporting

19353. Beginning on March 1, 2023, and on or before March 1 of each following year, each licensing authority shall prepare and submit to the Legislature an annual report on the authority's activities and post the report on the authority's Internet Web site. The report shall include, but not be limited to, the following information for the previous fiscal year:

(a) The amount of funds allocated and spent by the licensing authority for medical cannabis licensing, enforcement, and administration.

(b) The number of state licenses issued, renewed, denied, suspended, and revoked, by state license category.

(c) The average time for processing state license applications, by state license category.

(d) The number and type of enforcement activities conducted by the licensing authorities and by local law enforcement agencies in conjunction with the licensing authorities or the bureau.

(e) The number, type, and amount of penalties, fines, and other disciplinary actions taken by the licensing authorities.

19354. The bureau shall contract with the California Marijuana Research Program, known as the Center for Medicinal Cannabis Research, authorized pursuant to Section 11362.9 of the Health and Safety Code, to develop a study that identifies the impact that cannabis has on motor skills.

Article 15. Privacy

19355. (a) Information identifying the names of patients, their medical conditions, or the names of their primary caregivers received and contained in records kept by the office or licensing authorities for the purposes of administering this chapter are confidential and shall not be disclosed pursuant to the California Public Records Act (Chapter 3.5 (commencing with Section 6250) of Division 7 of Title 1 of the Government Code), except as necessary for authorized employees of the State of California or any city, county, or city and county to perform official duties pursuant to this chapter, or a local ordinance.

(b) Information identifying the names of patients, their medical conditions, or the names of their primary

caregivers received and contained in records kept by the bureau for the purposes of administering this chapter shall be maintained in accordance with Chapter 1 (commencing with Section 123100) of Part 1 of Division 106 of the Health and Safety Code, Part 2.6 (commencing with Section 56) of Division 1 of the Civil Code, and other state and federal laws relating to confidential patient information.

(c) Nothing in this section precludes the following:

(1) Employees of the bureau or any licensing authorities notifying state or local agencies about information submitted to the agency that the employee suspects is falsified or fraudulent.

(2) Notifications from the bureau or any licensing authorities to state or local agencies about apparent violations of this chapter or applicable local ordinance.

(3) Verification of requests by state or local agencies to confirm licenses and certificates issued by the regulatory authorities or other state agency.

(4) Provision of information requested pursuant to a court order or subpoena issued by a court or an administrative agency or local governing body authorized by law to issue subpoenas.

(d) Information shall not be disclosed by any state or local agency beyond what is necessary to achieve the goals of a specific investigation, notification, or the parameters of a specific court order or subpoena.

SEC. 5. Section 9147.7 of the Government Code is amended to read:

9147.7. (a) For the purpose of this section, "eligible agency" means any agency, authority, board, bureau, commission, conservancy, council, department, division, or office of state government, however denominated, excluding an agency that is constitutionally created or an agency related to postsecondary education, for which a date for repeal has been established by statute on or after January 1, 2011.

(b) The Joint Sunset Review Committee is hereby created to identify and eliminate waste, duplication, and inefficiency in government agencies. The purpose of the committee is to conduct a comprehensive analysis over 15 years, and on a periodic basis thereafter, of every eligible agency to determine if the agency is still necessary and cost effective.

(c) Each eligible agency scheduled for repeal shall submit to the committee, on or before December 1 prior to the year it is set to be repealed, a complete agency report covering the entire period since last reviewed, including, but not limited to, the following:

(1) The purpose and necessity of the agency.

(2) A description of the agency budget, priorities, and job descriptions of employees of the agency.

(3) Any programs and projects under the direction of the agency.

(4) Measures of the success or failures of the agency and justifications for the metrics used to evaluate successes and failures.

(5) Any recommendations of the agency for changes or reorganization in order to better fulfill its purpose.

(d) The committee shall take public testimony and evaluate the eligible agency prior to the date the agency is scheduled to be repealed. An eligible agency shall be eliminated unless the Legislature enacts a law to extend, consolidate, or reorganize the eligible agency. No eligible agency shall be extended in perpetuity unless specifically exempted from the provisions of this section. The committee may recommend that the Legislature extend the statutory sunset date for no more than one year to allow the committee more time to evaluate the eligible agency.

(e) The committee shall be comprised of 10 members of the Legislature. The Senate Committee on Rules shall appoint five members of the Senate to the committee, not more than three of whom shall be members

of the same political party. The Speaker of the Assembly shall appoint five members of the Assembly to the committee, not more than three of whom shall be members of the same political party. Members shall be appointed within 15 days after the commencement of the regular session. Each member of the committee who is appointed by the Senate Committee on Rules or the Speaker of the Assembly shall serve during that committee member's term of office or until that committee member no longer is a Member of the Senate or the Assembly, whichever is applicable. A vacancy on the committee shall be filled in the same manner as the original appointment. Three Assembly Members and three Senators who are members of the committee shall constitute a quorum for the conduct of committee business. Members of the committee shall receive no compensation for their work with the committee.

(f) The committee shall meet not later than 30 days after the first day of the regular session to choose a chairperson and to establish the schedule for eligible agency review provided for in the statutes governing the eligible agencies. The chairperson of the committee shall alternate every two years between a Member of the Senate and a Member of the Assembly, and the vice chairperson of the committee shall be a member of the opposite house as the chairperson.

(g) This section shall not be construed to change the existing jurisdiction of the budget or policy committees of the Legislature.

(h) This section shall not apply to the Bureau of Medical Marijuana Regulation.

SEC. 6. Section 11362.775 of the Health and Safety Code is amended to read:

11362.775. (a) Subject to subdivision (b), qualified patients, persons with valid identification cards, and the designated primary caregivers of qualified patients and persons with identification cards, who associate within the State of California in order collectively or cooperatively to cultivate cannabis for medical purposes, shall not solely on the basis of that fact be subject to state criminal sanctions under Section 11357, 11358, 11359, 11360, 11366, 11366.5, or 11570.

(b) This section shall remain in effect only until one year after the Bureau of Medical Marijuana Regulation posts a notice on its Internet Web site that the licensing authorities have commenced issuing licenses pursuant to the Medical Marijuana Regulation and Safety Act (Chapter 3.5 (commencing with Section 19300) of Division 8 of the Business and Professions Code), and is repealed upon issuance of licenses.

SEC. 7. Section 147.5 is added to the Labor Code, to read:

147.5. (a) By January 1, 2017, the Division of Occupational Safety and Health shall convene an advisory committee to evaluate whether there is a need to develop industry-specific regulations related to the activities of facilities issued a license pursuant to Chapter 3.5 (commencing with Section 19300) of Division 8 of the Business and Professions Code.

(b) By July 1, 2017, the advisory committee shall present to the board its findings and recommendations for consideration by the board. By July 1, 2017, the board shall render a decision regarding the adoption of industry-specific regulations pursuant to this section.

SEC. 8. Section 31020 is added to the Revenue and Taxation Code, to read:

31020. The board, in consultation with the Department of Food and Agriculture, shall adopt a system for reporting the movement of commercial cannabis and cannabis products throughout the distribution chain. The system shall not be duplicative of the electronic database administered by the Department of Food and Agriculture specified in Section 19335 of the Business and Professions Code. The system shall also employ secure packaging and be capable of providing information to the board. This system shall capture, at a minimum, all of the following:

(a) The amount of tax due by the designated entity.

- (b) The name, address, and license number of the designated entity that remitted the tax.
- (c) The name, address, and license number of the succeeding entity receiving the product.
- (d) The transaction date.
- (e) Any other information deemed necessary by the board for the taxation and regulation of marijuana and marijuana products.

SEC. 9. The provisions of this act are severable. If any provision of this act or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

SEC. 10. The Legislature finds and declares that Section 4 of this act, which adds Section 19355 to the Business and Professions Code, thereby imposes a limitation on the public's right of access to the meetings of public bodies or the writings of public officials and agencies within the meaning of Section 3 of Article I of the California Constitution. Pursuant to that constitutional provision, the Legislature makes the following findings to demonstrate the interest protected by this limitation and the need for protecting that interest:

The limitation imposed under this act is necessary for purposes of compliance with the federal Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. Sec. 1320d et seq.), the Confidentiality of Medical Information Act (Part 2.6 (commencing with Section 56) of Division 1 of the Civil Code), and the Insurance Information and Privacy Protection Act (Article 6.6 (commencing with Section 791) of Part 2 of Division 1 of the Insurance Code).

SEC. 11. If the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code.

SEC. 12. This act shall become operative only if Senate Bill 643 and Assembly Bill 243 of the 2015-16 Regular Session are also enacted and become operative.

ORDINANCE NO. 2454

**AN ORDINANCE OF THE CITY COUNCIL OF
THE CITY OF MERCED, CALIFORNIA, ADDING
CHAPTER 20.84, “MEDICAL MARIJUANA AND
CULTIVATION” TO THE MERCED MUNICIPAL
CODE PROHIBITING ALL COMMERCIAL
MEDICAL MARIJUANA USES IN THE CITY AND
PROHIBITING CULTIVATION FOR MEDICAL
USE BY A QUALIFIED PATIENT OR PRIMARY
CAREGIVER**

**THE CITY COUNCIL OF THE CITY OF MERCED DOES ORDAIN
AS FOLLOWS:**

SECTION 1. FINDINGS AND PURPOSE. The City Council finds and declares as follows:

A. In 1996, the voters of the State of California approved Proposition 215 (codified as California Health and Safety Code Section 11362.5 and entitled “The Compassionate Use Act of 1996” or “CUA”).

B. The intent of Proposition 215 was to enable persons who are in need of marijuana for medical purposes to use it without fear of criminal prosecution under limited, specified circumstances. The proposition further provides that “nothing in this section shall be construed to supersede legislation prohibiting persons from engaging in conduct that endangers others, or to condone the diversion of marijuana for non-medical purposes.” The ballot arguments supporting Proposition 215 expressly acknowledged that “Proposition 215 does not allow unlimited quantities of marijuana to be grown anywhere.”

C. In 2004, the Legislature enacted Senate Bill 420 (codified as California Health and Safety Code § 11362.7 *et seq.* and referred to as the “Medical Marijuana Program” or “MMP”) to clarify the scope of Proposition 215 and to provide qualifying patients and primary caregivers who collectively or cooperatively cultivate marijuana for medical purposes with a limited defense to certain specified State criminal statutes. Assembly Bill 2650 (2010) and Assembly Bill 1300 (2011) amended the Medical Marijuana Program to expressly recognize

the authority of counties and cities to “[a]dopt local ordinances that regulate the location, operation, or establishment of a medical marijuana cooperative or collective” and to civilly and criminally enforce such ordinances.

D. In *City of Riverside v. Inland Empire Patients Health and Wellness Center, Inc.*, (2013) 56 Cal.4th 729, the California Supreme Court held that “[n]othing in the CUA or the MMP expressly or impliedly limits the inherent authority of a local jurisdiction, by its own ordinances, to regulate the use of its land. . . .” Additionally, in *Maral v. City of Live Oak* (2013) 221 Cal.App.4th 975, the Court of Appeal held that “there is no right – and certainly no constitutional right – to cultivate medical marijuana. . . .” The Court in *Maral* affirmed the ability of a local governmental entity to prohibit the cultivation of marijuana under its land use authority.

E. The Federal Controlled Substances Act, 21 U.S.C. Section 801 *et seq.*, classifies marijuana as a Schedule 1 Drug, which is defined as a drug or other substance that has a high potential for abuse, that has no currently accepted medical use in treatment in the United States, and that has not been accepted as safe for use under medical supervision. The Federal Controlled Substances Act makes it unlawful under federal law for any person to cultivate, manufacture, distribute or dispense, or possess with intent to manufacture, distribute or dispense, marijuana.

F. On October 9, 2015, Governor Brown signed three bills into law (AB 266, AB 243, and SB 643) which collectively are known as the Medical Marijuana Regulation and Safety Act (hereafter “MMRSA”). MMRSA set up a state licensing scheme for commercial medical marijuana uses while protecting local control by requiring that all such businesses must have a local license or permit to operate in addition to a state license. MMRSA allows the City to completely prohibit commercial medical marijuana activities.

G. The City Council finds that commercial medical marijuana activities, as well as cultivation for personal medical use as allowed by the CUA and MMP can adversely affect the health, safety, and well-being of City residents. Citywide prohibition is proper and necessary to avoid the risks of criminal activity, degradation of the natural environment, malodorous smells and indoor electrical fire hazards that may result from such activities. Further, as recognized by the Attorney General’s August 2008 Guidelines for the Security and Non-Diversion of Marijuana Grown for Medical Use, marijuana cultivation or other concentration of

marijuana in any location or premises without adequate security increases the risk that surrounding homes or businesses may be negatively impacted by nuisance activity such as loitering or crime.

H. The limited immunity from specified state marijuana laws provided by the Compassionate Use Act and Medical Marijuana Program does not confer a land use right or the right to create or maintain a public nuisance.

I. MMRSA contains language that requires the City to prohibit cultivation uses by March 1, 2016, either expressly or otherwise under the principles of permissive zoning, or the State of California will become the sole licensing authority. MMRSA also contains language that requires delivery services to be expressly prohibited by local ordinance, if the City wishes to do so. MMRSA is silent as to how the City must prohibit other type of commercial medical marijuana activities.

J. While the City Council believes that cultivation and all commercial medical marijuana uses are prohibited pursuant to Merced Municipal Code Section 20.060.050(E), it desires to enact this Ordinance to expressly make clear that all such uses are prohibited in all zones throughout the City.

SECTION 2. AUTHORITY. This Ordinance is adopted pursuant to the authority granted by the California Constitution and State law, including but not limited to, Article XI, Section 7 of the California Constitution, the Compassionate Use Act, the Medical Marijuana Program, and The Medical Marijuana Regulation and Safety Act.

SECTION 3. ADOPTION OF CHAPTER 20.84. Chapter 20.84, Medical Marijuana and Cultivation,” is hereby added to the Merced Municipal Code to read as follows:

**“Chapter 20.84
MEDICAL MARIJUANA AND CULTIVATION**

Section:

- 20.84.010 Definitions.**
- 20.84.020 Prohibition.**
- 20.84.030 Public Nuisance.**
- 20.84.040 Civil Penalties.**

20.84.010 Definitions.

‘Cannabis’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(f) as the same may be amended from time to time.

‘Caregiver’ or ‘primary caregiver’ shall have the same meaning as set forth in Health and Safety Code Section 11362.7 as the same may be amended from time to time.

‘Commercial cannabis activity’ shall have the same meaning as that set forth in Business and Professions Code Section 19300.5(k) as the same may be amended from time to time.

‘Cooperative’ shall mean two or more persons collectively or cooperatively cultivating, using, transporting, possessing, administering, delivering or making available medical marijuana, with or without compensation.

‘Cultivation’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(l) as the same may be amended from time to time.

‘Cultivation site’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(x) as the same may be amended from time to time.

‘Delivery’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(m) as the same may be amended from time to time.

‘Dispensary’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(n) as the same may be amended from time to time. For purposes of this Chapter, ‘Dispensary’ shall also include a cooperative. ‘Dispensary’ shall not include the following uses:

- (1) A clinic licensed pursuant to Chapter 1 of Division 2 of the California Health and Safety Code,
- (2) A health care facility licensed pursuant to Chapter 2 of Division 2 of the California Health and Safety Code,
- (3) A residential care facility for persons with chronic life-threatening illnesses licensed pursuant to Chapter 3.01 of Division 2 of the California Health and Safety Code,
- (4) A residential care facility for the elderly licensed pursuant to Chapter 3.2 of Division 2 of the California Health and Safety Code,
- (5) A residential hospice or home health agency licensed pursuant to Chapter 8 of Division 2 of the California Health and Safety Code.

‘Dispensing’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(o) as the same may be amended from time to time.

‘Distribution’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(p) as the same may be amended from time to time.

‘Distributor’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(q) as the same may be amended from time to time.

‘Manufacturer’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(y) as the same may be amended from time to time.

‘Manufacturing site’ shall have the same meaning as set forth in Business and Professions Code Section

19300.5(af) as the same may be amended from time to time.

‘Medical cannabis,’ ‘medical cannabis product,’ or ‘cannabis product’ shall have the same meanings as set forth in Business & Professions Code § 19300.5(ag) as the same may be amended from time to time.

‘Medical Marijuana Regulation and Safety Act’ or ‘MMRSA’ shall mean the following bills signed into law on October 9, 2015 as the same may be amended from time to time: AB 243, AB 246, and SB 643.

‘Nursery’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(ah) as the same may be amended from time to time.

‘Qualifying patient’ or ‘Qualified patient’ shall have the same meaning as set forth in Health and Safety Code Section 11362.7 as the same may be amended from time to time.

‘Testing laboratory’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(z) as the same may be amended from time to time.

‘Transport’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(am) as the same may be amended from time to time.

‘Transporter’ shall have the same meaning as set forth in Business and Professions Code Section 19300.5(aa) as the same may be amended from time to time.

20.84.020 Prohibition.

A. Commercial cannabis activities of all types are expressly prohibited in all zones and all specific plan areas in the City of Merced. No person shall establish,

operate, conduct or allow a commercial cannabis activity anywhere within the City.

B. To the extent not already covered by subsection A above, all deliveries of medical cannabis are expressly prohibited within the City of Merced. No person shall conduct any deliveries that either originate or terminate within the City.

C. This Section is meant to prohibit all activities for which a state license is required. Accordingly, the City shall not issue any permit, license or other entitlement for any activity for which a state license is required under the MMRSA.

D. Cultivation of cannabis for non-commercial purposes, including cultivation by a qualified patient or a primary caregiver, is expressly prohibited in all zones and all specific plan areas in the City of Merced. No person, including a qualified patient or primary caregiver, shall cultivate any amount of cannabis in the City, even for medical purposes.

20.84.030 Public Nuisance.

Any use or condition caused, or permitted to exist, in violation of any provision of this Chapter 20.84 shall be, and hereby is declared to be, a public nuisance and may be summarily abated by the City pursuant to Code of Civil Procedure Section 731 or any other remedy available to the City.

20.84.040 Civil Penalties.

In addition to any other enforcement permitted by this Chapter 20.84, the City Attorney may bring a civil action for injunctive relief and civil penalties against any person or entity that violates this Chapter. In any civil action brought pursuant to this Chapter, a court of competent jurisdiction may award reasonable attorney fees and costs to the prevailing party.”

SECTION 4. CEQA. This Ordinance is exempt from CEQA pursuant to CEQA Guidelines Section 15305, minor alterations in land use limitations in areas with an average slope of less than 20% that do not result in any changes in land use or density and Section 15061(b)(3) which is the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment and CEQA does not apply where it can be seen with certainty that there is no possibility that the activity may have a significant effect on the environment. Merced Municipal Code Section 20.06.050(E) already prohibits all uses that are being expressly prohibited by this Ordinance. Therefore, this Ordinance has no impact on the physical environment as it will not result in any changes.

SECTION 5. SEVERABILITY. If any section, subsection, subdivision, sentence, clause, phrase, or portion of this Ordinance, is for any reason held to be invalid or unconstitutional by the decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance. The City Council hereby declares that it would have adopted this Ordinance, and each section, subsection, subdivision, sentence, clause, phrase, or portion thereof, irrespective of the fact that any one or more sections, subsections, subdivisions, sentences, clauses, phrases, or portions thereof be declared invalid or unconstitutional.

SECTION 6. PUBLICATION. The City Clerk is directed to cause a summary of this Ordinance to be published in the official newspaper at least once within fifteen (15) days after its adoption showing the vote thereon.

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The foregoing Ordinance was introduced at a regular meeting of the City Council of the City of Merced on the 4th day of January, 2016, and was passed and adopted at a regular meeting of said City Council held on the 19th day of January, 2016, by the following called vote:

AYES: 7 **Council Members:** BELLUOMINI, BLAKE, DOSSETTI, LOR, MURPHY, PEDROZO, THURSTON

NOES: 0 **Council Members:** NONE

ABSTAIN: 0 **Council Members:** NONE

ABSENT: 0 **Council Members:** NONE

APPROVED:

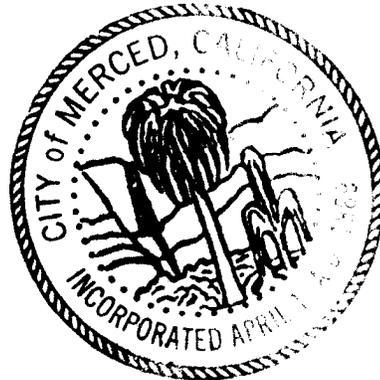


Mayor

ATTEST:
JOHN M. BRAMBLE, CITY CLERK

BY: 
Assistant/Deputy City Clerk

(SEAL)



APPROVED AS TO FORM


City Attorney Date

**EFFECTIVE DATE
OF ORDINANCE**

February 25, 2016

ORDINANCE NO. 2563 N.C.S.

1 Introduced by

Seconded by

2
3
4 Chris Albertson

Mike Healy

5
6
7 **AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF PETALUMA AMENDING CHAPTER 10.15,**
8 **"MEDICAL MARIJUANA" OF THE CITY OF PETALUMA MUNICIPAL CODE PROHIBITING**
9 **DISPENSARIES IN THE CITY TO ALSO PROHIBIT SPECIFIED COMMERCIAL CANNABIS ACTIVITY,**
10 **CULTIVATION AND DELIVERY OF MEDICAL MARIJUANA IN THE CITY OF PETALUMA**
11

12
13 **WHEREAS**, in 1996 the voters of the state of California approved Proposition 215 which
14 was codified as Health and Safety Code Section 11362.5, *et seq.*, and entitled "The
15 Compassionate Use Act of 1996" ("**CUA**"); and
16

17 **WHEREAS**, the intent of the CUA was to enable persons who are in need of marijuana for
18 medical purposes to obtain and use it under limited, specific circumstances; and
19

20 **WHEREAS**, on January 1, 2004, Senate Bill 420, known as the "Medical Marijuana
21 Program" (codified at Health and Safety Code Sections 11362.7 through 11362.83) ("**MMP**")
22 became effective to clarify the scope of the CUA; and
23

24 **WHEREAS**, the CUA is limited in scope in that it provides a defense from criminal
25 prosecution under state law for possession and cultivation of marijuana for qualified patients
26 and their primary caregivers; establishes a statewide identification program and affords
27 qualified patients, persons with identification cards and their primary caregivers an affirmative
28 defense to certain enumerated criminal sanctions that would otherwise apply to transporting,
29 processing, administering or distributing marijuana; and
30

31 **WHEREAS**, neither the CUA nor the MMP requires or imposes an affirmative duty or
32 mandate upon local governments, such as the City of Petaluma, to allow, authorize or sanction
33 the establishment and the operation of facilities cultivating, distributing, or processing medical
34 marijuana within their boundaries; and
35

36 **WHEREAS**, on May 5, 2013, the California Supreme Court issued its opinion in *City of*
37 *Riverside v. Inland Empire Patients Health and Wellness Center, Inc.*, (2013) 56 Cal.4th 729, which
38 held that neither the CUA nor the MMP expressly or impliedly preempts the authority of California
39 cities and counties, under their traditional land use and police powers, to restrict, limit, or entirely

1 exclude facilities that distribute medical marijuana, and to enforce such policies by nuisance
2 actions; and

3
4 **WHEREAS**, on November 26, 2013, the Third District Court of Appeal issued its opinion in
5 *Maral v. City of Live Oak* (2013) 221 Cal.App.4th 975, which held that the CUA and the MMP do
6 not preempt a city's police power to prohibit the cultivation of all marijuana within that city; and
7

8 **WHEREAS**, during the 2014/2015 legislative session, the Legislature enacted three bills
9 regulating medical marijuana collectively entitled the "Medical Marijuana Regulation and
10 Safety Act" ("MMRSA"): AB-243, AB- 266, and SB-643; and
11

12 **WHEREAS**, Health and Safety Code Section 11362.777, which is part of the MMRSA,
13 provides in subdivision (b) that cultivation of medical marijuana prior to obtaining both a permit
14 from the city, county or city and county in which the cultivation will occur and a state license is
15 prohibited, and that if a city, county, or city and county does not have land use regulations or
16 ordinances regulating or prohibiting the cultivation of marijuana, either expressly or otherwise
17 under principles of permissive zoning, then commencing March 1, 2016 the state will be the sole
18 licensing authority for medical marijuana cultivation applicants in that city, county, or city and
19 county; and
20

21 **WHEREAS**, Health and Safety Code Section 11362.777 provides in subdivision (g) that that
22 section does not apply to qualified patients cultivating marijuana pursuant to Health and Safety
23 Code Section 11362.5 in cultivation areas that do not exceed 100 square feet for their personal
24 medical use and not for sale, distribution, donation, or provision to any other person or entity, or
25 to primary care givers cultivating marijuana pursuant to Health and Safety Code Section 11362.5
26 in cultivation areas that do not exceed 500 square feet exclusively for the personal medical use
27 of not more than five specified qualified patients for whom they are the primary caregiver within
28 the meaning of Health and Safety Code Section 11362.7 without compensation except in full
29 compliance with Health and Safety Code section 11362.765, subdivision (c); and
30

31 **WHEREAS**, Health and Safety Code Section 11362.777 further provides in subdivision (g)
32 that the exemptions from the requirements of that section do not prevent a city, county or city
33 and county from regulating or banning the cultivation, storage, manufacture, transport,
34 provision or other activity by the exempt person, or impair the enforcement of that regulation or
35 ban; and
36

37 **WHEREAS**, Business and Professions Code Section 19340, which is part of the MMRSA,
38 provides in subdivision (a) that medical marijuana deliveries as defined can only be made by a
39 dispensary and in a city, county or city and county that does not explicitly prohibit it by a local
40 ordinance; and
41

42 **WHEREAS**, on December 1, 2015, the Fifth District Court of Appeal issued its opinion in
43 *Kirby v. County of Fresno*, (2015), which upheld a county ordinance banning medical marijuana

1 dispensaries, cultivation and storage, but invalidated the ordinance's classification of local
2 medical marijuana cultivation as a misdemeanor, holding that section 113662.71 of the MMP
3 preempts local criminalization of medical marijuana cultivation; and
4

5 **WHEREAS**, although the court in *Kirby v. County of Fresno* invalidated on preemption
6 grounds the local criminalization of medical marijuana cultivation as a misdemeanor, the court
7 noted that local prosecution of the failure to abate a public nuisance involving medical
8 marijuana cultivation is not preempted, because the Legislature recognizes the failure to abate
9 a public nuisance after notice as a separate crime; and
10

11 **WHEREAS**, in 2007 the Petaluma City Council adopted Chapter 10.15 of the Petaluma
12 Municipal Code prohibiting medical marijuana dispensaries in the City to promote the public
13 health, safety and welfare and protect citizens from impacts associated with medical marijuana
14 dispensaries, including, but not limited to, increased public consumption of marijuana and the
15 potential for increased marijuana DUIs, illegal resale of marijuana obtained at low cost from
16 dispensaries, loitering, fraud in obtaining or use of medical marijuana identification cards,
17 robbery, assaults and other crimes, and increased demands for police response resulting from
18 activities at medical marijuana dispensaries reducing the ability of the City's public safety
19 officers to respond to other calls for service; and
20

21 **WHEREAS**, marijuana remains an illegal substance under the Federal Controlled
22 Substances Act, 21 U.S.C. 801, *et seq.*, which makes it unlawful for any person to cultivate,
23 manufacture, distribute, dispense, or possess with intent to manufacture, distribute or dispense
24 marijuana for any reason, even though state law decriminalizes under specified state laws
25 specified use of medical marijuana by specified persons; and
26

27 **WHEREAS**, the City of Petaluma Police Department, City residents and other public
28 entities have reported adverse impacts from the outdoor cultivation of marijuana within the City,
29 including offensive odors, increased risk of trespassing and burglary, and acts of violence in
30 connection with the commission of such crimes or the occupants' attempts to prevent such
31 crimes; and
32

33 **WHEREAS**, the strong odor of marijuana plants, which increases as the plants mature, is
34 offensive to many individuals and creates an attractive nuisance, alerting people to the
35 location of valuable marijuana plants and creating an increased risk of crime; and
36

37 **WHEREAS**, Petaluma has experienced structure fires and building damage threatening
38 the quality and safety of City neighborhoods as a result of indoor marijuana cultivation within the
39 City, with 7 such incidents occurring between December, 2010 and May, 2015, and a total of 33
40 structure fires within the Sonoma County area have been attributed to illegal indoor marijuana
41 cultivation operations; and
42

1 **WHEREAS**, Petaluma has experienced property loss valued at approximately \$344,000,
2 and the Sonoma County area has suffered property loss estimated at approximately \$1,693,000
3 as a result of commercial cannabis activity, due to such causes as substandard wiring and
4 electrical systems, grow lights, and use of butane to illegally extract hash oil; and
5

6 **WHEREAS**, to protect the public health, safety, and welfare, it is the desire of the City
7 Council to add to existing provisions in the City of Petaluma Municipal Code prohibiting medical
8 marijuana dispensaries new provisions prohibiting cultivation, commercial cannabis activity, and
9 delivery of marijuana within the City, subject to specified exceptions; and
10

11 **WHEREAS**, it is the Council's intention that nothing in this chapter shall be deemed to
12 conflict with federal law as contained in the Controlled Substances Act, 21 U.S.C. Section 841, by
13 permitting, or otherwise authorizing, any activity which is lawfully and constitutionally prohibited
14 under that law; and
15

16 **WHEREAS**, mindful of the fact that marijuana possession and use is prohibited under
17 federal law and partially decriminalized under state law, it is the Council's intention that nothing
18 in this chapter shall be construed, in any way, to expand the rights of anyone to use or possess
19 marijuana under state law; engage in any public nuisance; violate federal law, or engage in
20 any activity in relation to the cultivation, distribution, or consumption of marijuana that is
21 otherwise illegal;
22

23 **NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF PETALUMA AS**
24 **FOLLOWS:**
25

26 **Section 1: Chapter 10.15, Medical Marijuana**, of the Petaluma Municipal Code is hereby
27 amended as follows:
28

29 **Section 10.15.010, Purpose**, is hereby amended to read as follows:
30

31 **Section 10.15.010 Purpose.**

32 The purpose of this chapter is to promote the public health, safety and welfare by:
33

34 A. Protecting citizens from the secondary impacts associated with medical
35 marijuana dispensaries and commercial cannabis activity, including, but not limited to,
36 increased public consumption of marijuana and the potential for increased marijuana
37 DUIs, illegal resale of marijuana obtained at low cost from dispensaries, loitering, fraud in
38 obtaining or use of medical marijuana identification cards, robbery, assaults, and other
39 crimes.
40

41 B. Protecting citizens from secondary impacts associated with commercial cannabis
42 activity such as medical marijuana cultivation, including, but not limited to, electrical fires
43 and ignition of chemical substances utilized in the cultivation process, crimes occurring

1 at grow sites, and neighborhood concerns regarding odors, late night traffic, and related
2 nuisances.

3
4 C. Protecting citizens from secondary impacts of medical marijuana delivery,
5 including, but not limited to, delivery for recreational use, delivery of quantities of
6 marijuana exceeding the reasonable requirements of qualified patients and primary
7 caregivers, delivery during nighttime hours, and delivery by minors.

8
9 D. Preventing increased demands for police response resulting from activities at
10 medical marijuana dispensaries and cultivation sites, commercial cannabis activity and
11 medical marijuana delivery and thereby avoiding reduction in the ability of the city's
12 public safety officers to respond to other calls for service.

13
14 **Section 10.15.020 Definitions** is hereby amended to read as follows:

15
16 "Commercial cannabis activity" means cultivation, possession, manufacture, processing,
17 storing, laboratory testing, labeling, transporting, distribution, or sale of medical cannabis or a
18 medical cannabis product, except as set forth in California Business and Professions Code
19 Section 19319, related to qualifying patients and primary caregivers, in accordance with the
20 definition in California Business and Professions Code Section 19300.5, subdivision (k), as that
21 section and subdivision may be amended or interpreted by the California courts or
22 superseded by any successor statute.

23
24 "Cultivation" means any activity involving the planting, growing, harvesting, drying, curing,
25 grading, or trimming of cannabis, in accordance with the definition in California Business and
26 Professions Code Section 19300.5, subdivision (l), as that section and subdivision may be
27 amended or interpreted by the California courts or superseded by any successor statute.

28
29 "Delivery" means the commercial transfer of medical cannabis or medical cannabis
30 products from a dispensary up to an amount determined by the Bureau of Medical
31 Marijuana Regulation to a primary caregiver or a qualified patient as defined in Section
32 11362.7 of the California Health and Safety Code , or a testing laboratory, in accordance
33 with the definition in California Business and Professions Code section 19300.5, subdivision
34 (m), as that section and subdivision may be amended or interpreted by the California courts
35 or superseded by any successor statute.

36
37 "Dispensary" means a facility where medical cannabis, medical cannabis products, or
38 devices for the use of medical cannabis or medical cannabis products are offered, either
39 individually, or in any combination, for retail sale, including an establishment that delivers,
40 pursuant to express authorization by local ordinance, medical cannabis and medical
41 cannabis products as part of a retail sale, in accordance with the definition in California
42 Business and Professions Code Section 19300.5, subdivision (n), as that section and
43 subdivision may be amended or interpreted by the California courts or superseded by any

1 successor statute. Dispensary does not include the following uses, so long as the location of
2 such uses is otherwise regulated by and strictly complies with this code and other applicable
3 law, including California Health and Safety Code Sections 11362.5 and 11362.7, *et seq*, as
4 such sections may be amended from time to time:

- 5
- 6 A. A clinic licensed pursuant to Chapter 1 of Division 2 of the Health and Safety Code.
- 7 B. A health care facility licensed pursuant to Chapter 2 of Division 2 of the Health and
8 Safety Code.
- 9 C. A residential care facility for persons with chronic life-threatening illness licensed pursuant
10 to Chapter 3.01 of Division 2 of the Health and Safety Code.
- 11 D. A residential care facility for the elderly licensed pursuant to Chapter 3.2 of Division 2 of
12 the Health and Safety Code.
- 13 E. The delivery, administration or provision of medical marijuana by a designated primary
14 caregiver to the qualified patient of the primary caregiver or to the person with an
15 identification card who has designated the individual as a primary caregiver at the
16 primary residence of the qualified patient or person with an identification card who has
17 designated the individual as a primary caregiver.

18
19 "Fully enclosed and secure structure" means a code compliant space within a building,
20 greenhouse or other structure which has a complete roof enclosure supported by
21 connecting walls extending from the ground to the roof, which is secure against
22 unauthorized entry, provides complete visual screening, and which is accessible only
23 through one or more locking doors.

24
25 "Mature plant" means a plant that has flowers, or is more than 12 inches wide, or more than
26 12 inches tall.

27
28 "Primary caregiver" shall have the same definition as set forth in California Health and Safety
29 Code Section 11362.7, as it may be amended or superseded by any successor statute,
30 and as interpreted by the California courts, including but not limited to the California
31 Supreme Court case of *People v. Mentch* (2008) 45 Cal. 4th 274.

32
33 "Qualified patient" shall have the same definition as set forth in California Health and Safety
34 Code Section 11362.7, as it may be amended or superseded by any successor statute,
35 and as interpreted by the California courts.

36
37 "Residence" means a legal dwelling unit and all detached structures such as garages,
38 sheds, greenhouses, and other structures on the same legal parcel(s) as the dwelling unit.

39
40 **Section 10.15.030, Prohibition of medical marijuana dispensaries**, is hereby amended to read
41 as follows:
42

1 **10.15.030 Prohibition of Medical Marijuana Dispensaries and Commercial Cannabis**
2 **Activity**

3 It shall be unlawful for any person to engage in, conduct or carry on, or to permit to be
4 engaged in, conducted or carried on, in the City of Petaluma, the operation of a
5 dispensary or commercial cannabis activity except as otherwise expressly provided in this
6 chapter.

7
8 **Section 10.15.040, Establishment or maintenance of medical marijuana dispensaries**
9 **declared a public nuisance, is hereby repealed in its entirety and replaced with:**

10
11 **10.15.040 Prohibition of Medical Marijuana Cultivation**

12 It shall be unlawful for any person to engage in, conduct or carry on, or to permit to be
13 engaged in, conducted or carried on, in the City of Petaluma, the cultivation of
14 marijuana other than:

15
16 1. Indoor cultivation that is solely for the personal use of one qualified patient and
17 that at all times remains an accessory use to the primary residence of either the qualified
18 patient or his or her primary caregiver; where the cultivation area does not exceed 50%
19 or 100 square feet of the non-living or garage area of the residence, or a lesser amount
20 in accordance with paragraph 2 of this section, whichever is less; that does not displace
21 any required on-site parking; that is within a fully-enclosed and secure structure with no
22 visual or olfactory evidence of cultivation detectable from the public right of way or
23 other private property; that does not utilize lighting that exceeds 1,200 watts; that does
24 not require the use of an electric generator; and that does not use gas products (CO2,
25 butane, etc.); and

26
27 2. Outdoor cultivation that is solely for the personal use of one qualified patient that
28 at all times remains an accessory use to the primary residence of either the qualified
29 patient or his or her primary caregiver; where the cultivation area does not exceed 100
30 square feet, or a lesser amount so that the total cultivation area pursuant to this section
31 including indoor and outdoor cultivation at the residence does not exceed a combined
32 total of 100 square feet; that does not exceed three (3) mature plants, with no visual or
33 olfactory evidence of cultivation detectable from the public right of way or other private
34 property; that does not utilize lighting that exceeds 1,200 watts; that does not require the
35 use of an electric generator; and that does not use gas products (CO2, butane, etc.).

36
37 **Section 10.15.050, Prohibition of Medical Marijuana Delivery, is hereby added to read as**
38 **follows:**

39
40 **10.15.050 Prohibition of Medical Marijuana Delivery**
41

1 It shall be unlawful for any person to engage in, conduct or carry on, or to permit to be
2 engaged in, conducted or carried on, in the City of Petaluma, the delivery of medical
3 marijuana, except for delivery of medical marijuana:
4

5 From a dispensary outside the city that is operating in accordance with
6 applicable state and local law to a qualified patient or primary caregiver within the city
7 in accordance with the requirements of Health and Safety Code Section 19340, any
8 successor statute, and any regulations promulgated under California Health and Safety
9 Code Section 19340 or any successor statute, where:

- 10
- 11 1. Persons delivering medical marijuana in the city possess no more than 1 pound of
12 medical marijuana at any time while making medical marijuana deliveries in the city;
13 and
 - 14 2. The delivery is carried out by a person at least 18 years of age; and
 - 15 3. The delivery occurs between the hours of 8:00 a.m. and 8:00 p.m.
16
17

18
19 **Section 10.15.060, Prohibition of Medical Marijuana Entitlements** is hereby added to read as
20 follows:
21

22 **Section 10.15.060, Prohibition of Medical Marijuana Entitlements**

23
24 No medical marijuana dispensary, commercial cannabis activity, medical marijuana
25 cultivation operation, or medical marijuana delivery operation, however described by
26 the applicant, will eligible for or be issued any entitlement, license or permit to operate in
27 the city, or have any such entitlement renewed, including, but not limited to, any
28 business license or home occupation permit, and any such application shall be denied
29 citing this section.
30

31 **Section 10.15.0700, Public Nuisance**, is hereby added to read as follows:
32

33 **Section 10.15.070 Public Nuisance.** Any medical marijuana dispensary, commercial
34 cannabis activity, cultivation, delivery or other use or activity caused or permitted to exist
35 in the city in violation of any provision of this chapter shall be and is hereby declared a
36 public nuisance. Violations of this chapter may be enforced by any applicable laws or
37 ordinances, including, but not limited to, Chapter 1.10 of this code.
38

39 **Section 2:** The City Council finds that adoption of this ordinance is exempt from the
40 California Environmental Quality Act ("CEQA"), pursuant to Section 15061(b)(3) of the CEQA
41 Guidelines (Title 14, Chapter 3 of the California Code of Regulations) because there is no
42 possibility that the activity may have a significant impact on the environment.
43

1 **Section 3:** If any section, subsection, sentence, clause, phrase or word of this ordinance is for
2 any reason held to be unconstitutional, unlawful or otherwise invalid by a court of competent
3 jurisdiction or preempted by state legislation, such decision or legislation shall not affect the
4 validity of the remaining portions of this ordinance. The City Council of the City of Petaluma
5 hereby declares that it would have passed and adopted this ordinance and each and all
6 provisions thereof irrespective of the fact that any one or more of said provisions be declared
7 unconstitutional, unlawful or otherwise invalid.
8

9 **Section 4:** The City Clerk is hereby directed to publish or post this ordinance or a synopsis for
10 the period and in the manner provided by the City Charter and any other applicable law.
11

12 **INTRODUCED** and ordered posted/published this 4th day of January, 2016.
13

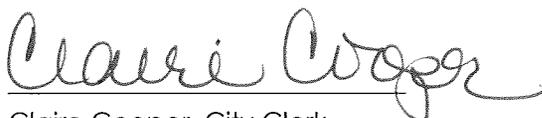
14 **ADOPTED** this 25th day of January, 2016 by the following vote:
15

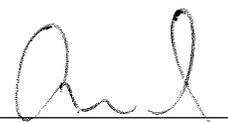
16 Ayes: Albertson, Healy, Kearney, Vice Mayor King, Miller
17 Noes: Barrett
18 Abstain: None
19 Absent: Mayor Glass
20

21
22
23
24 
25
26
27
28 Dave King, Vice Mayor

29 ATTEST:

APPROVED AS TO FORM:

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31 
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33 Claire Cooper, City Clerk

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Eric W. Danly, City Attorney