

NEW ISSUE - FULL BOOK-ENTRY**RATING: S&P: "AA"**

See "Rating"

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is exempt from California personal income taxes. The interest on the Bonds is not excluded from gross income for federal income tax purposes. See "TAX MATTERS."



City of Napa
\$12,500,000
Solid Waste Revenue Bonds,
Series 2016 (Federally Taxable)
(Napa Materials Diversion Facility)
(Green Bonds)

Dated: Date of Delivery

Due: August 1, as shown on inside cover

Authority for Issuance. The bonds captioned above (the "Bonds") are being issued by the City of Napa (the "City") under an Indenture of Trust dated as of October 1, 2016 (the "Indenture"), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee. See "THE BONDS – Authority for Issuance."

Security for the Bonds. The Bonds are special obligations of the City, payable solely from the Net Revenues (as defined herein) of the "Solid Waste Enterprise System," which is defined as the existing solid waste collection, recycling and disposal system of the City, comprising all facilities for the collection, disposal or recycling of solid waste generated by residents and commercial and industrial entities in the City, including refuse and recyclables. The Bonds are also secured by amounts on deposit in the funds and accounts established under the Indenture, including a reserve fund established for the Bonds which will be funded with a reserve fund insurance policy, as and to the extent provided in the Indenture. See "SECURITY FOR THE BONDS."

Future Parity Debt. Additional series of bonds or other debt may be issued that are payable from Net Revenues on a parity with the Bonds, subject to the conditions contained in the Indenture. See "SECURITY FOR THE BONDS – Parity Debt."

Use of Proceeds. The Bonds are being issued for the purpose of (i) financing improvements to the City's Solid Waste Enterprise System, (ii) paying the premium for a reserve fund insurance policy for the Bonds, and (iii) paying certain costs of issuing the Bonds. See "FINANCING PLAN."

Bond Terms; Book-Entry Only. The Bonds will bear interest at the rates shown on the inside cover, payable semiannually on August 1 and February 1 of each year, commencing on February 1, 2017, and will be issued in fully registered form without coupons in the denomination of \$5,000 or any integral multiple of \$5,000. The Bonds will be issued in book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Payments of the principal of, premium, if any, and interest on the Bonds will be made to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the Bonds. See "THE BONDS – General Provisions."

Redemption. The Bonds are subject to optional redemption and mandatory sinking fund redemption prior to maturity. See "THE BONDS – Redemption."

NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE BONDS OR INTEREST THEREON. THE BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, OR LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES OF THE SOLID WASTE ENTERPRISE SYSTEM AND AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE AS AND TO THE EXTENT PROVIDED IN THE INDENTURE.

MATURITY SCHEDULE
(see inside cover)

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE OF BONDS. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE PURCHASE OF THE BONDS. INVESTMENT IN THE BONDS INVOLVES RISKS THAT MAY NOT BE APPROPRIATE FOR SOME INVESTORS. SEE "RISK FACTORS."

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will also be passed upon for the City by Jones Hall, A Professional Law Corporation, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the City Attorney. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, as Underwriter's Counsel. It is anticipated that the Bonds, in book-entry only form, will be available through the facilities of DTC on or about October 20, 2016.

The date of this Official Statement is: September 28, 2016

MATURITY SCHEDULE

\$5,195,000 Serial Bonds (Base CUSIP†: 630337)

Maturity (August 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP†
2018	\$545,000	1.090%	1.090%	100.000%	AE3
2019	550,000	1.210	1.210	100.000	AF0
2020	555,000	1.450	1.450	100.000	AG8
2021	565,000	1.630	1.630	100.000	AH6
2022	570,000	1.870	1.870	100.000	AJ2
2023	585,000	2.070	2.070	100.000	AK9
2024	595,000	2.200	2.200	100.000	AL7
2025	610,000	2.330	2.330	100.000	AM5
2026	620,000	2.440	2.440	100.000	AN3

\$3,375,000 2.890% Term Bond due August 1, 2031, Yield: 2.890%, Price: 100.000%
CUSIP† No. 630337 AP8

\$3,930,000 3.400% Term Bond due August 1, 2036, Yield: 3.400%, Price: 100.000%
CUSIP† No. 630337 AQ6

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CITY OF NAPA

CITY COUNCIL

Jill Techel, *Mayor*
Mary Luros, *Vice-Mayor*
Peter Mott, *Councilmember*
Juliana Inman, *Councilmember*
Scott Sedgley, *Councilmember*

CITY OFFICIALS

Mike Parness, *City Manager*
Nancy Weiss, *Assistant City Manager*
Jacques LaRochelle, *Public Works Director*
Philip Brun, *Deputy Public Works Director (Operations)*
Roberta Raper, *Finance Director*
Kevin Miller, *Materials Diversion Administrator (Recycling Manager)*
Michael W. Barrett, *City Attorney*
Dorothy Roberts, *City Clerk*

BOND COUNSEL AND DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

MUNICIPAL ADVISOR

NHA Advisors, LLC
San Rafael, California

TRUSTEE

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

No Offering May Be Made Except by this Official Statement. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations with respect to the Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized.

No Unlawful Offers or Solicitations. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the City or the Solid Waste Enterprise System since the date of this Official Statement.

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

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

Document References and Summaries. All references to and summaries of the Indenture of Trust or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

Stabilization of and Changes to Offering Prices. The Underwriters may over allot or take other steps that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

Bonds are Exempt from Securities Laws Registration. The issuance and sale of the Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Estimates and Projections. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

Internet Site. The City maintains an internet site; however, none of the information contained on that internet site is incorporated by reference in this Official Statement.

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NAPA MDF AERIAL
JANUARY 2014

OFFICIAL STATEMENT

**City of Napa
\$12,500,000
Solid Waste Revenue Bonds,
Series 2016 (Federally Taxable)
(Napa Materials Diversion Facility)
(Green Bonds)**

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. Capitalized terms used but not defined in this Official Statement have the meanings given in the Indenture (as defined below). See "APPENDIX C – Summary of Certain Provisions of the Indenture."

Authority for Issuance. The bonds captioned above (the "**Bonds**") are being issued by the City of Napa (the "**City**") under an Indenture of Trust dated as of October 1, 2016 (the "**Indenture**"), by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "**Trustee**"). See "THE BONDS – Authority for Issuance."

Security for the Bonds. The Bonds are special obligations of the City, payable solely from the Net Revenues (as defined herein) of the existing solid waste collection, recycling and disposal system of the City, comprising all facilities for the collection, disposal or recycling of solid waste generated by residents and commercial and industrial entities in the City, including refuse and recyclables (as used in this Official Statement, the "**Solid Waste Enterprise System**" and as defined in the Indenture, the "**Solid Waste System**"). The Bonds are also secured by amounts on deposit in the funds and accounts established under the Indenture, including a reserve fund established for the Bonds which will be funded with a reserve fund insurance policy, as and to the extent provided in the Indenture. See "SECURITY FOR THE BONDS."

Future Parity Debt. Additional series of bonds or other debt may be issued that are payable from Net Revenues on a parity with the Bonds, subject to the conditions contained in the Indenture. See "SECURITY FOR THE BONDS – Parity Obligations."

Purpose of the Bonds. The Bonds are being issued to provide funds to:

- (i) finance improvements to the City's Solid Waste Enterprise System,
- (ii) pay the premium for a reserve fund insurance policy for the Bonds, and
- (iii) pay certain costs of issuing the Bonds.

See "FINANCING PLAN."

Rate Covenant. Under the Indenture, the City is obligated to fix, prescribe, revise, and collect charges for the Solid Waste Enterprise System during each Fiscal Year that are sufficient to yield Net Revenues of at least 125% of Debt Service on the Bonds in that Fiscal Year. See "SECURITY FOR THE BONDS – Rate Covenants."

Risks of Investment. The Bonds are repayable only from certain money available to the City from the Solid Waste Enterprise System. For a discussion of some of the risks associated with the purchase of the Bonds, see "RISK FACTORS."

THE BONDS ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE, OR LIEN, OR ENCUMBRANCE UPON, ANY OF THE PROPERTY OF THE CITY OR ANY OF ITS INCOME OR RECEIPTS, EXCEPT THE NET REVENUES OF THE SOLID WASTE ENTERPRISE SYSTEM AND AMOUNTS ON DEPOSIT IN THE FUNDS AND ACCOUNTS ESTABLISHED UNDER THE INDENTURE AS AND TO THE EXTENT PROVIDED IN THE INDENTURE.

FINANCING PLAN

General

The Bonds are being issued for the primary purpose of financing the City's acquisition and construction of capital improvements to the Solid Waste Enterprise System, which are anticipated to consist generally of improvements to the City-owned Materials Diversion Facility ("**Napa MDF**") including a Covered Composting System, Stormwater Upgrades and other Capital Improvements to the Napa MDF. See "THE SOLID WASTE ENTERPRISE SYSTEM – Capital Improvement Program" for additional details on these anticipated improvements.

Although the City anticipates using the proceeds of the Bonds to fund the improvements to the Napa MDF described above under "THE SOLID WASTE ENTERPRISE SYSTEM – Capital Improvement Program" (and certain of the City's projections herein assume completion of such projects), the City has not entered into a construction contract for those improvements, and no assurance can be given that such a contract will be entered into in a timely manner, if at all. If for any reason the City chooses not to fund these improvements, the Indenture permits moneys in the Improvement Fund held by the Trustee under the Indenture to be used for any addition, extension, improvement, equipment, machinery or other facilities to or for the Solid Waste Enterprise System. See "RISK FACTORS – Use of Bond Proceeds; Financial Projections" herein.

Issuance as Green Bonds

The City is issuing the Bonds as "Green Bonds" due to the intended use of the proceeds. The designation of the Bonds as Green Bonds is intended to allow investors the opportunity to invest directly in bonds that finance environmentally beneficial projects. The term "Green Bonds" is not defined in the Indenture, and its use in this Official Statement is for identification purposes only and is not intended to provide or imply that the holders of the Bonds are entitled to any additional terms or security in addition to those provided in the Indenture.

Use of the proceeds of the Bonds will be tracked by the City. The City will post updates regarding the use of proceeds of the Bonds with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system, currently located at www.emma.msrb.org (which website is not incorporated into this Official Statement by reference), annually, and will post a final list of projects funded once all proceeds of the Bonds have been spent. A form of this report is attached as APPENDIX G.

The City currently expects the projects to be completed by the end of 2018. Once all proceeds of the Bonds have been spent, no further updates regarding the projects will be provided or filed.

Estimated Sources and Uses of Funds

The table below sets forth the estimated sources and uses of Bond proceeds:

Sources of Funds

Par Amount of Bonds	\$12,500,000.00
<i>Total Sources</i>	<u>\$12,500,000.00</u>

Uses of Funds

Deposit to Improvement Fund	\$12,230,878.86
Deposit to Costs of Issuance Fund [1]	198,068.14
Underwriter's Discount	71,053.00
<i>Total Uses</i>	<u>\$12,500,000.00</u>

[1] Includes initial Trustee fees and expenses, Municipal Advisor fees, legal fees for Bond Counsel and Disclosure Counsel, rating agency fees, printing costs, reserve fund insurance policy premium, and other miscellaneous bond issuance and delivery costs.

THE BONDS

This section provides summaries of the Bonds and certain provisions of the Indenture. See APPENDIX C for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX C.

Authority for Issuance

The Bonds are being issued pursuant to (i) the charter of the City, specifically Section 4 thereof, (ii) the Indenture, and (iii) a resolution adopted by the City Council of the City on September 20, 2016.

General Bond Terms

Bond Terms. The Bonds will be dated their date of delivery and issued in fully registered form without coupons in denominations of \$5,000 or any integral multiple of \$5,000, so long as no Bond has more than one maturity date. The Bonds will mature in the amounts and on the dates, and bear interest at the rates per annum, set forth on the inside cover page of this Official Statement.

Payments. Interest on the Bonds will be payable on February 1 and August 1 of each year to maturity, beginning February 1, 2017 (each an “**Interest Payment Date**”).

Interest on the Bonds will be payable on each Interest Payment Date to the person whose name appears on the Bond Registration Books as the Owner thereof as of the Record Date immediately preceding each such Interest Payment Date, such interest to be paid by check or draft of the Trustee mailed by first class mail to the Owner or, at the option of any Owner of at least \$1,000,000 aggregate principal amount of the Bonds with respect to which written instructions have been filed with the Trustee prior to the Record Date, by wire transfer, at the address of such Owner as it appears on the Bond Registration Books.

If there exists a default in payment of interest due on such Interest Payment Date, such interest shall be payable on a payment date established by the Trustee to the persons in whose names the Bonds are registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Trustee to the registered Owners of the Bonds not less than 15 days preceding such special record date.

Principal of and premium (if any) on any Bond will be paid upon presentation and surrender thereof at the Principal Corporate Trust Office of the Trustee in San Francisco, California.

Both the principal of and interest and premium (if any) on the Bonds shall be payable in lawful money of the United States of America.

However, as long as Cede & Co. is the registered owner of the Bonds, as described below, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to DTC, or its nominee, Cede & Co.

Calculation of Interest. The Bonds will be dated the Closing Date and bear interest based on a 360-day year comprised of twelve 30-day months from the Interest Payment Date

next preceding the date of authentication thereof, unless that date of authentication is an Interest Payment Date, in which event such interest is payable from such date of authentication, and unless said date of authentication is prior to January 15, 2017, in which event such interest is payable from the Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the date to which interest has previously been paid or made available for payment thereon in full.

Record Date. The Indenture defines the “**Record Date**” for the Bonds as the 15th calendar day of the month immediately preceding an Interest Payment Date.

Book-Entry Only System. The Bonds will be registered in the name of Cede & Co., as nominee of the Depository Trust Company (“DTC”) as the initial securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only. Purchasers of the Bonds will not receive physical bonds representing their ownership interests in the Bonds purchased.

Principal and interest payments with respect to the Bonds are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Bonds. See APPENDIX E.

So long as the Bonds are registered in the name of Cede & Co., as nominee of DTC, references in this Official Statement to the “owners” mean Cede & Co., and not the purchasers or Beneficial Owners of the Bonds. See APPENDIX E.

Redemption

Optional Redemption. Bonds maturing prior to August 1, 2027, are not subject to optional redemption. The Bonds maturing on or after August 1, 2027, are subject to redemption prior to their respective maturity dates, as a whole or in part, at the option of the City, on any date occurring on or after August 1, 2026, at the Redemption Price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 2031, and August 1, 2036 (collectively, the “**Term Bonds**”), are also subject to mandatory redemption in part, by lot, from sinking fund payments made by the City to the Debt Service Fund pursuant to the Indenture, at a Redemption Price equal to the principal amount thereof to be redeemed, without premium, in the aggregate respective principal amounts and on August 1 in the respective years as set forth in the following tables.

Term Bonds Maturing August 1, 2031

Year (August 1)	Principal Amount
2027	\$635,000
2028	655,000
2029	675,000
2030	695,000
2031 (Maturity)	715,000

Term Bonds Maturing August 1, 2036

Year (August 1)	Principal Amount
2032	\$735,000
2033	760,000
2034	785,000
2035	810,000
2036 (Maturity)	840,000

If some but not all of the Term Bonds have been redeemed pursuant to the optional redemption provisions of the Indenture, the total amount of all future sinking fund payments shall be reduced by the aggregate principal amount of the Term Bonds so redeemed, to be allocated among such sinking fund payments on a pro rata basis in integral multiples of \$5,000 (as set forth in a schedule provided by the City to the Trustee).

Notice of Redemption. Unless waived by any Owner of Bonds to be redeemed, notice of any redemption of Bonds will be given, at the expense of the City, by the Trustee by mailing a copy of a redemption notice by first class mail at least 30 days and not more than 60 days prior to the date fixed for redemption to the Owner of the Bond or Bonds to be redeemed at the address shown on the Bond Registration Books; provided, that neither the failure to receive such notice nor any immaterial defect in any notice will affect the sufficiency of the proceedings for the redemption of the Bonds.

Such redemption notices may be conditional.

Rescission of Redemption. The City has the right to rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any such notice of optional redemption will be canceled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the outstanding Bonds then called for redemption, and such cancellation will not constitute an Event of Default under the Indenture. The City and the Trustee will have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Effect of Notice. If notice of redemption has been given as set forth in the Indenture, the Bonds or portions of Bonds so to be redeemed will, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City defaults in the payment of the redemption price) such Bonds or portions of Bonds will cease to have interest accrue thereon.

Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds will be paid by the Trustee at the redemption price. Installments of interest due on or prior to the redemption date will be payable as provided in the Indenture for payment of interest.

Upon surrender for any partial redemption of any Bond, there will be prepared for the Owner a new Bond or Bonds of the same maturity in the amount of the unredeemed principal.

All Bonds that have been redeemed will be cancelled and destroyed by the Trustee and will not be redelivered.

Neither the failure of any Bond Owner to receive any notice so mailed nor any defect therein will affect the sufficiency of the proceedings for redemption of any Bonds nor the cessation of accrual of interest thereon.

Selection of Bonds for Redemption. If only a portion of any Bond is called for redemption, then upon surrender of such Bond redeemed in part only, the City will execute and the Trustee will authenticate and deliver to the Owner, at the expense of the City, a new Bond or Bonds, of the same maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Registration, Transfer and Exchange

Bond Registration Books. The Trustee will keep or cause to be kept at its trust office sufficient Bond Registration Books for the registration and transfer of the Bonds, which will at all times during regular business hours, and upon reasonable notice, be open to inspection by the City; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as provided in the Indenture.

Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred upon the Bond Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed.

Whenever any Bond is surrendered for transfer, the City will execute and the Trustee will thereupon authenticate and deliver to the transferee a new Bond or Bonds of like tenor, maturity and aggregate principal amount.

No Bonds the notice of redemption of which has been mailed pursuant to the Indenture will be subject to transfer pursuant to this provision of the Indenture.

Exchange of Bonds. Bonds may be exchanged at the Principal Corporate Trust Office of the Trustee, for Bonds of the same tenor and maturity and of other authorized denominations. No Bonds the notice of redemption of which has been mailed pursuant to the Indenture will be subject to exchange pursuant to this provision of the Indenture.

Debt Service Schedule

The following table sets forth the annual debt service on the Bonds (assuming no Optional Redemption of the Bonds).

Debt Service Schedule

August 1	Principal	Interest	Total Debt Service
2017	\$ --	\$254,624.64	\$254,624.64
2018	545,000.00	326,209.50	871,209.50
2019	550,000.00	320,269.00	870,269.00
2020	555,000.00	313,614.00	868,614.00
2021	565,000.00	305,566.50	870,566.50
2022	570,000.00	296,357.00	866,357.00
2023	585,000.00	285,698.00	870,698.00
2024	595,000.00	273,588.50	868,588.50
2025	610,000.00	260,498.50	870,498.50
2026	620,000.00	246,285.50	866,285.50
2027	635,000.00	231,157.50	866,157.50
2028	655,000.00	212,806.00	867,806.00
2029	675,000.00	193,876.50	868,876.50
2030	695,000.00	174,369.00	869,369.00
2031	715,000.00	154,283.50	869,283.50
2032	735,000.00	133,620.00	868,620.00
2033	760,000.00	108,630.00	868,630.00
2034	785,000.00	82,790.00	867,790.00
2035	810,000.00	56,100.00	866,100.00
2036	840,000.00	28,560.00	868,560.00
Totals	\$12,500,000.00	\$4,258,903.64	\$16,758,903.64

SECURITY FOR THE BONDS

This section provides summaries of the security for the Bonds and certain provisions of the Indenture. See APPENDIX C for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX C.

The General Fund of the City is not liable, and the credit or taxing power of the City is not pledged, for the payment of the principal or redemption price of and interest on the Bonds. The principal or redemption price of and interest on the Bonds are not a debt of the City for purposes of the California Constitutional debt limit applicable to cities, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues. The Owners of the Bonds may not compel the exercise of the taxing power by the City or the forfeiture of its property.

Gross Revenues, Net Revenues and Maintenance and Operation Costs

Pledge of Net Revenues. Under the Indenture, the City transfers, places a charge upon, assigns and sets over to the Trustee, for the benefit of the Owners of the Bonds and any Parity Bonds issued under the Indenture, and the owners of any other Parity Bonds, that portion of the Net Revenues that is necessary to pay the principal or redemption price of and interest on the Bonds or any Parity Bonds in any Fiscal Year.

In addition, under the Indenture the City transfers, places a charge upon, assigns and sets over to the Trustee, for the benefit of the Owners of the Bonds issued pursuant to the Indenture, all moneys on deposit in the Debt Service Fund.

The foregoing pledge described constitutes a first, direct and exclusive charge and lien on the Net Revenues and the moneys in the Debt Service Fund, as applicable, in accordance with the terms of the Indenture.

Under the Indenture, the City also transfers, places a charge upon, assigns and sets over to the 2016 Reserve Insurer that portion of the Net Revenues that is necessary in any Fiscal Year to pay the 2016 Reserve Insurer any amounts owed to the 2016 Reserve Insurer under the 2016 Financial Guaranty Agreement. This pledge constitutes a charge and lien on the Net Revenues subject only to the lien granted to the Trustee, for the benefit of the Owners of the Bonds and any Parity Bonds issued under the Indenture, and the owners of any other Parity Bonds.

Definition of Net Revenues. As used herein, the following terms have the following meanings:

“Net Revenues” means Gross Revenues minus Maintenance and Operation Costs.

“Gross Revenues” means, with respect to Solid Waste Enterprise System, all revenue received by the City from the levy of Charges, and all other gross income and receipts derived by the City from the ownership and operation of the Solid Waste Enterprise System or otherwise arising with respect to the Solid Waste Enterprise System, including but not limited to investment earnings thereon; but excluding (a) the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the City relating to the Solid Waste Enterprise System and (b) the

proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Solid Waste Enterprise System.

“Maintenance and Operation Costs” means the reasonable and necessary costs spent or incurred by the City or a Contractor for collecting, recycling and disposing of Solid Waste, and all reasonable and necessary expenses of management (including a reasonable profit for the Contractor, if applicable) and repair and other expenses to collect, recycle and dispose of Solid Waste, and including all reasonable and necessary administrative costs of the City or the Contractor attributable to the collection, recycling and disposal of Solid Waste, such as landfill closure costs, salaries and wages and the necessary contribution to retirement of employees, overhead, insurance, taxes (if any), expenses, compensation and indemnification of the Trustee, and fees of auditors, accountants, attorneys or engineers, and including all other reasonable and necessary costs of the City or the Contractor or charges required to be paid by the City or the Contractor to comply with the terms of the Bonds or the Indenture, but excluding depreciation, interest expense, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature. Although it would be consistent with generally accepted accounting principles to characterize it as a Maintenance and Operation Cost, the Solid Waste Enterprise System’s contribution to the City’s Street Resurfacing Fund to pay for the impact of refuse vehicles on City streets shall not be paid as a Maintenance and Operation Cost pursuant to the Indenture.

Receipt, Deposit and Application of Gross Revenues. Under the Indenture, the City covenants and agrees that all Gross Revenues, when and as received, will be held by the City in the Solid Waste and Materials Diversion Fund, and will be deposited by the City, or caused to be deposited, in the Solid Waste and Materials Diversion Fund, and will be accounted for through and held in trust in the Solid Waste and Materials Diversion Fund, and the City will only have such beneficial right or interest in any of such money as provided in this Indenture.

All such Gross Revenues will be transferred, disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the City and the Contractor.

The City covenants to hold the Solid Waste and Materials Diversion Fund in trust for the benefit of the Owners of the Bonds. For purposes of record-keeping, the City may establish and maintain separate accounts within the Solid Waste and Materials Diversion Fund.

Gross Revenues deposited in the Solid Waste and Materials Diversion Fund will be applied by the City to pay the following amounts when due, in the following order of priority:

- (i) to pay Maintenance and Operation Costs;
- (ii) no later than the 5th Business Day preceding each Interest Payment Date and Principal Payment Date, to transfer to the Trustee for deposit in the Debt Service Fund held by the Trustee an amount sufficient to pay Debt Service on the Bonds and any Parity Bonds issued pursuant to a Supplemental Indenture and to transfer an amount sufficient to pay debt service on any other Parity Bonds (in the event of a shortfall, amounts will be used to pay Debt Service on the Bonds and any Parity Bonds on a pro rata basis based on the amounts required to be deposited, and the amounts

distributed shall not take into account the existence of the 2016 Reserve Insurance Policy or any Qualified Surety Bond for any other series of Bonds);

(iii) to transfer to the Trustee for and as required to make a deposit into a debt service reserve fund (if any) for any Parity Bonds issued under a Parity Bonds Instrument an amount necessary to bring the funds then on hand in the debt service reserve fund (if any) for any Parity Bonds to its required level (in the event of a shortfall, amounts will be transferred to the Trustee to reimburse the 2016 Reserve Insurer and as required to make a deposit into such other debt service reserve fund on a pro rata basis based on the required amounts); and

(iv) to pay for any lawful purpose of the Solid Waste Enterprise System.

Rate Covenants

Sum Sufficient. The City is obligated under the Indenture to fix, prescribe, revise and cause to be collected Charges during each Fiscal Year which will yield Gross Revenues that are at least sufficient, after making allowances for contingencies and error in the estimates and not including any transfers to the Solid Waste and Materials Diversion Fund from a Rate Stabilization Fund, for the purpose of paying the following (in the following order):

- (i) all Maintenance and Operation Costs estimated by the City to become due and payable in such Fiscal Year,
- (ii) debt service on the Bonds and any Parity Bonds issued by the City,
- (iii) any amounts owed to the 2016 Reserve Insurer under the 2016 Financial Guaranty Agreement, and replenishment of the debt service reserve fund for any Parity Bonds, if needed,
- (iv) any other payments required for compliance with the Indenture and any instruments under which any Parity Bonds were issued, and
- (v) all payments required to meet the City's other obligations that are charges, liens, encumbrances upon or payable from the Gross Revenues.

Coverage from Net Revenues. In addition, the City is obligated to fix, prescribe, revise and cause to be collected Charges during each Fiscal Year that are sufficient to yield Net Revenues at least equal to 125% of the debt service on the Bonds and any Parity Bonds in such Fiscal Year. The Indenture defines "Net Revenues" as Gross Revenues minus Maintenance and Operation Costs. However, for purposes of this covenant, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (i) any transfers into the Solid Waste and Materials Diversion Fund in that Fiscal Year from the Rate Stabilization Fund are included in the calculation of aggregate Net Revenues, and (ii) any deposits into the Rate Stabilization Fund in that Fiscal Year are deducted from the amount of Net Revenues, but only to the extent such deposits are made from Gross Revenues received by the City during that Fiscal Year.

The City covenants that it will cause to be prepared annually, and filed with the Trustee, not more than 270 days after the close of each Fiscal Year, a certificate stating that the City is in compliance with the rate covenant set forth in the Indenture.

Rate Stabilization Fund

Rate Stabilization Fund. The City has the right at any time to establish a rate stabilization fund (a “**Rate Stabilization Fund**”) to be held by it and administered in accordance with the Indenture, for the purpose of stabilizing the Charges imposed by the City with respect to the Solid Waste Enterprise System. From time to time the City may deposit amounts in the Rate Stabilization Fund, from any source of legally available funds.

The City may, but is not required to, withdraw from any amounts on deposit in a Rate Stabilization Fund and deposit such amounts in the Solid Waste and Materials Diversion Fund in any Fiscal Year. Amounts so transferred from the Rate Stabilization Fund to the Solid Waste and Materials Diversion Fund will constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and will be applied for the purposes of the Solid Waste and Materials Diversion Fund.

Amounts on deposit in a Rate Stabilization Fund will not be pledged to or otherwise secure the Bonds or any Parity Bonds.

All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein or, at the option of the City, be applied for any other lawful purposes of the Solid Waste Enterprise System. The City has the right at any time to withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the Solid Waste Enterprise System.

The City has in the past, and currently intends to, maintain a Rate Stabilization Fund. See “THE SOLID WASTE ENTERPRISE SYSTEM – Rate Stabilization Account” herein.

Creation and Application of Debt Service Fund by Trustee

The Trustee will establish and hold a Debt Service Fund under the Indenture for the Bonds. Amounts held in the Debt Service Fund shall be used to make interest and principal payments on the Bonds.

Interest. The Trustee will withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement on the Bonds (and Parity Bonds, if any) issued and outstanding pursuant to the Indenture and payable on that Interest Payment Date, and apply that amount to the payment of interest when due.

Principal. The Trustee will withdraw from the Debt Service Fund, prior to each Principal Payment Date, an amount equal to the principal amount of the outstanding Bonds that are Serial Bonds (and Parity Bonds, if any) issued and outstanding pursuant to the Indenture, if any, maturing on that Principal Payment Date and any Sinking Fund Installments due and payable with respect to any Term Bonds are Bonds on that Principal Payment Date, and apply that amount to the payment of the principal of those Bonds (and Parity Bonds, if any) when due.

Reserve Account

General. The Trustee shall establish and hold a Reserve Account under the Indenture for the Bonds, which will be funded solely with a reserve fund insurance policy (the “2016 Reserve Insurance Policy”) issued by National Public Finance Guarantee Corporation (including any successor or assignee, the “2016 Reserve Insurer”). Amounts, if any, drawn on the 2016

Reserve Insurance Policy shall be available only for the purposes specified in the Indenture. The provisions governing the administration of the 2016 Reserve Insurance Policy are set forth in the 2016 Financial Guaranty Agreement to be entered into between the City and the 2016 Reserve Insurer on the Closing Date.

The Reserve Requirement for the Bonds shall be satisfied by the delivery of the 2016 Reserve Insurance Policy by the 2016 Reserve Insurer to the Trustee on the Closing Date. The Trustee shall draw on the 2016 Reserve Insurance Policy in accordance with its terms and conditions and the terms of the Indenture.

If at any time there shall not be sufficient amounts in the Debt Service Fund to pay Principal Installments or Redemption Price of or interest on the Bonds when due, the Trustee shall provide notice of such insufficiency to the City and draw amounts available under the 2016 Reserve Insurance Policy solely for the purpose of making transfers to the Debt Service Fund or the Redemption Account. Amounts drawn on the 2016 Reserve Insurance Policy are not available to pay debt service on any Parity Bonds other than the Bonds.

The Trustee shall comply with all documentation relating to the 2016 Reserve Insurance Policy as shall be required to maintain the 2016 Reserve Insurance Policy in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under the Indenture.

The City shall have no obligation to replace the 2016 Reserve Insurance Policy or to fund the Reserve Account with cash if, at any time that the Bonds are Outstanding, amounts are not available under the 2016 Reserve Insurance Policy.

2016 Reserve Insurance Policy. The 2016 Reserve Insurer has provided a commitment to issue the 2016 Reserve Insurance Policy. The 2016 Reserve Insurance Policy provides that upon notice from the Trustee to the 2016 Reserve Insurer to the effect that insufficient amounts are on deposit in the Debt Service Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Bonds, the 2016 Reserve Insurer will promptly deposit with the Trustee an amount sufficient to pay the principal of and interest on the Bonds or the available amount of the 2016 Reserve Insurance Policy, whichever is less. Upon the later of: (i) three (3) days after receipt by the 2016 Reserve Insurer of a Demand for Payment in the form attached to the 2016 Reserve Insurance Policy, duly executed by the Trustee; or (ii) the payment date of the Bonds as specified in the Demand for Payment presented by the Trustee to the 2016 Reserve Insurer, the 2016 Reserve Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Trustee, of amounts which are then due to the Trustee (as specified in the Demand for Payment) subject to the Surety Bond Coverage (as defined in the Agreement referred to below).

The available amount of the 2016 Reserve Insurance Policy is the initial face amount of the 2016 Reserve Insurance Policy less the amount of any previous deposits by the 2016 Reserve Insurer with the Trustee which have not been reimbursed by the City. The City and the 2016 Reserve Insurer will enter into a Financial Guaranty Agreement dated as of October 1, 2016 (the "Agreement"). Pursuant to the Agreement, the City is required to reimburse the 2016 Reserve Insurer, with interest, within one year of any deposit, the amount of such deposit made by the 2016 Reserve Insurer with the Trustee under the 2016 Reserve Insurance Policy.

No optional redemption of Bonds may be made until the 2016 Reserve Insurance Policy is reinstated. The 2016 Reserve Insurance Policy is held by the Trustee in the Reserve Account under the Indenture and is provided as an alternative to the City depositing funds equal to the Reserve Requirement for the Bonds.

In the event the 2016 Reserve Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Flow Control

Municipal Code. The City's Municipal Code requires all businesses and residents of the City, with certain exceptions, to dispose of their garbage, trash, rubbish and/or recyclable material with the contractor designated by the City to operate the Solid Waste Enterprise System (see "THE SOLID WASTE ENTERPRISE SYSTEM"). The Municipal Code further requires the contractor to charge the rates established by the City, and all businesses and residents to pay the rates charged by the contractor.

The Municipal Code establishes certain exceptions to the obligation to utilize the services of the Solid Waste Enterprise System, including the following:

- Businesses and residents may sell and donate recyclables.
- Businesses and residents may self-haul or contract with a third-party hauler to dispose of construction/demolition debris and wastes.
- Landscapers and gardeners may transport and dispose of lawn, tree and garden trimmings as an incidental part of their landscaping/gardening service.
- Residents and businesses that were not using the services of the Solid Waste Enterprise System as of the effective date of the ordinance (August 3, 1999) are not required to use the services of the Solid Waste Enterprise System.
- Businesses and residents that can demonstrate they do not need trash/recycling service because either (A) they do not generate sufficient refuse to require the service and the business/resident disposes of its own refuse at a permitted facility or (B) the business/resident has arranged to share service with another structure receiving service from the Solid Waste Enterprise System.

The City does not believe that a significant number of residents or businesses avail themselves of the exceptions described in the final two bullets above.

For additional details on the Solid Waste Enterprise System and the Contractor, see "THE SOLID WASTE ENTERPRISE SYSTEM."

Maintenance and Operation of Solid Waste Enterprise System in Efficient and Economical Manner; Contractor

Under the Indenture, the City covenants and agrees to maintain and operate, or cause a Contractor to maintain and operate, the Solid Waste Enterprise System in an efficient and economical manner and to operate, maintain and preserve, or cause a Contractor to maintain and operate, the Solid Waste Enterprise System in good repair and working order.

No later than one year prior to the termination date of a contract with a Contractor for which the City does not plan to exercise an option to extend the contract, the City shall either (i) initiate a process for identifying a new company that is experienced in the operations of solid waste enterprises like the Solid Waste Enterprise System or (ii) initiate a process for assuming responsibility for managing the Solid Waste Enterprise System itself.

Investment of Funds

Solid Waste Fund. Amounts held by the City in the Solid Waste and Materials Diversion Enterprise Fund will be invested by the City in any investments authorized by law, consistent with the City's investment policy.

Trustee-held Funds and Accounts. Moneys held by the Trustee in the Debt Service Fund (including the Reserve Account), the Improvement Fund, the Costs of Issuance Fund or any other moneys held by the Trustee under the Indenture may be invested by the Trustee solely in Authorized Investments, as directed by the City.

See APPENDIX C.

Parity Obligations

No Senior Obligations Payable from Revenues. The City covenants in the Indenture that no additional bonds or other obligations will be issued or incurred having any priority in payment of principal or interest out of the Net Revenues over the Bonds.

Test for Issuing Parity Bonds. In addition to the Bonds, the City may issue or incur other loans, advances or indebtedness ("**Parity Bonds**") payable from Net Revenues, in such principal amount as shall be determined by the City. The City may issue or incur Parity Bonds upon execution of a "Parity Bonds Instrument" and upon compliance with the following conditions:

Compliance with Covenants. The City must be in compliance with all covenants set forth in the Indenture, unless any non-compliance will be cured as a result of the issuance of the Parity Bonds.

Debt Service Coverage. The Net Revenues of the Solid Waste Enterprise System (excluding any amounts derived from a Rate Stabilization Fund), calculated in accordance with sound accounting principles, as shown by the books of the City for the most recent completed Fiscal Year for which audited financial statements of the City are available, or for any more recent consecutive 12 month period selected by the City, in either case verified by an Independent Accountant or an Independent Consultant or shown in the audited financial statements of the City, plus (at the option of the City) any Additional Revenues, must at least equal 125% of maximum scheduled Debt Service for the current or any future Bond Year (taking into account the Parity Bonds then proposed to be issued); provided, however, that in the event that all or a portion of the Parity Bonds being issued are to be issued for the purpose of refunding and retiring all or a portion of the unpaid Bonds, then the Debt Service on the Bonds to be so refunded and retired from the proceeds of such Parity Bonds being issued shall be excluded from the foregoing computation of maximum scheduled Debt Service; provided, further, however, that the City may at any time enter into or incur Parity Bonds without compliance with the foregoing condition if the aggregate annual Debt Service for all Bonds for each Bond

Year during which such Parity Bonds being issued will be outstanding will not be increased by reason of the entry into or incurrence of such Parity Bonds.

Parity Bonds Instrument. The Parity Bonds Instrument providing for the issuance of the Parity Bonds must provide that:

(i) The proceeds of the Parity Bonds will be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Solid Waste Enterprise System, or otherwise for facilities, improvements or property that the City determines are of benefit to the Solid Waste Enterprise System, or for the purpose of refunding any Bonds (and Parity Bonds, if any) in whole or in part, including all costs (including costs of issuing such Parity Bonds and including capitalized interest on such Parity Bonds during any period which the City deems necessary or advisable) relating thereto;

(ii) Interest on the Parity Bond will be payable on an Interest Payment Date and principal on the Parity Bonds will be payable on a Principal Payment Date; and

(iii) Money or a Qualified Surety Bond may (but is not required to) be deposited in a reserve account for the Parity Bonds from the proceeds of the sale of the Parity Bonds or otherwise in an amount defined in the Parity Bonds Instrument.

Additional Revenues. As used in the Parity Bonds test, "Additional Revenues" means any or all of the following amounts:

(i) An allowance for Net Revenues from any additions or improvements to or extensions of the Solid Waste Enterprise System to be financed from the proceeds of the proposed series of Parity Bonds or from any other source but in any case which, during all or any part of the most recent completed Fiscal Year for which audited financial statements are available or for any other 12-month period selected by the City under the Indenture, were not in service, all in an amount equal to 80% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the City.

(ii) An allowance for Net Revenues arising from any increase in the Charges made for service from the Solid Waste Enterprise System which has become effective prior to the incurring of the proposed Parity Bonds but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown by the certificate or opinion of an Independent Accountant.

Subordinate Bonds

In addition to the Bonds and any Parity Bonds, the City may issue or incur other bonds, notes or other obligations secured by a lien on Net Revenues that is subordinate to the lien established under the Indenture, upon the terms and conditions and in such principal amounts as the City may determine. See “APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE.”

Insurance; Condemnation Awards

Insurance. The City will agree in the Indenture to maintain such insurance on the Solid Waste Enterprise System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any part of the Solid Waste Enterprise System that is essential to the proper operation of the Solid Waste Enterprise System or to the maintenance of the Net Revenues is damaged or destroyed, the City will restore that part to use. The City may determine whether the Net Proceeds of insurance against accident to or destruction of the physical assets of the Solid Waste Enterprise System shall be (i) used by the City to repair or rebuild the damaged or destroyed portions of the Solid Waste Enterprise System (to the extent that such repair or rebuilding is determined by the City to be useful or of continuing value to the Solid Waste Enterprise System), (ii) transferred to the Trustee at the same time that the City delivers a Certificate of the City directing the Trustee to use the Net Proceeds for the redemption or purchase of the Bonds of each Series then outstanding in the proportion which the principal amount of the outstanding Bonds of each Series bears to the aggregate principal amount of all Bonds then outstanding or (iii) deposited in the Solid Waste and Materials Diversion Fund if the City delivers a Certificate of the City to the Trustee in which it describes the City’s determination that that it is not necessary to repair or rebuild the damaged or destroyed portions of the Solid Waste Enterprise System or redeem Bonds because the damaged or destroyed portions of the Solid Waste Enterprise System are not essential to the proper operation of the Solid Waste Enterprise System or to the maintenance of the Net Revenues. See “THE BONDS – Redemption.” The term “Net Proceeds” is defined in the Indenture as gross proceeds from the sale of property or insurance or a condemnation award remaining after payment of all expenses (including attorneys’ fees and any extraordinary expenses of the Trustee) incurred in the collection of such gross proceeds.

For the redemption provisions applicable to the Bonds, see “THE BONDS – Redemption” above.

The City must maintain insurance in the form of policies or contracts for insurance with insurers of good standing and the insurance proceeds must be payable to the City, or may be in the form of self-insurance by the City. The City must establish such fund or funds or reserves as it determines, in its sole judgment, are necessary to provide for its share of any such self-insurance. See “THE SOLID WASTE ENTERPRISE SYSTEM – Insurance” for information about the insurance maintained by the City and the Contractor with respect to the Solid Waste Enterprise System.

Certain processing equipment at Napa MDF (e.g., sorting line and baler for recyclables) is owned and insured by the City’s contracted Operator and replacement of such Operator-owned and maintained equipment is the responsibility of Operator. See “THE SOLID WASTE ENTERPRISE SYSTEM – Insurance” herein.

Condemnation Awards. If all or any part of the Solid Waste Enterprise System is taken by eminent domain proceedings, the City is obligated by the Indenture to deposit the resulting Net Proceeds with the Trustee in a special fund in trust and to apply the Net Proceeds to the cost of acquiring or constructing or financing Improvements to the Solid Waste Enterprise System if the City first secures and files with the Trustee a Certificate of the City (i) showing the estimated loss in annual Net Revenues, if any, suffered, or to be suffered, by the City by reason of such eminent domain proceedings, (ii) describing the Improvements to the Solid Waste Enterprise System then proposed to be acquired or constructed by the City from such Net Proceeds, (iii) estimating the additional net Revenues to be derived from such Improvements; and (iv) stating that such additional Net Revenues will sufficiently offset the loss of Net Revenues, resulting from such eminent domain proceedings so that the ability of the City to meet its obligations under the Indenture will not be substantially impaired, which determination shall be final and conclusive.

If the foregoing conditions are met, the City must then promptly proceed with the acquisition, construction or financing of such Improvements substantially in accordance with the Certificate of the City and payments for the acquisition, construction or financing of the Improvements will be made by the Trustee from Net Proceeds and from other moneys of the City lawfully available therefor. Any balance of such Net Proceeds not required by the City for the purposes aforesaid shall be deposited in the Solid Waste and Materials Diversion Fund.

If the foregoing conditions are not met, then the Net Proceeds will be applied by the Trustee pro rata to the redemption or purchase of the Bonds and any Parity Bonds then outstanding in the proportion which the principal amount of the outstanding Bonds of each Series bears to the aggregate principal amount of all Bonds then outstanding. If the Trustee is unable to purchase or redeem Bonds in amounts sufficient to exhaust the available moneys allocable to each such Series, the remainder of such moneys for each such Series shall be held in trust by the Trustee and applied to the payment of such Bonds as the same become due by their terms, and, pending such application, any remaining moneys may be invested by the Trustee in the manner specified in writing by the City.

For the redemption provisions applicable to the Bonds, see "THE BONDS – Redemption" above.

THE SOLID WASTE ENTERPRISE SYSTEM

General

The City has been responsible for the collection and disposal of solid waste in the City of Napa for over 100 years. Currently, the City's activities related to the Solid Waste Enterprise System consist of the following:

- Collecting through a private contractor solid waste, green waste and food scraps (known as "compostables"), recyclable materials, and construction and demolition debris in the City;
- Operating the City-owned Napa Materials Diversion Facility (referred to herein as the "**Napa MDF**"); and
- Transporting through a private contractor recyclables and compostables to the Napa MDF, and solid waste to a Transfer Facility owned and operated by the Napa-Vallejo Waste Management Authority (the "**Authority**"), which is a joint powers authority formed by the City, the County of Napa, the City of Vallejo and the City of American Canyon. See " –The Authority and the Authority Agreement" below.

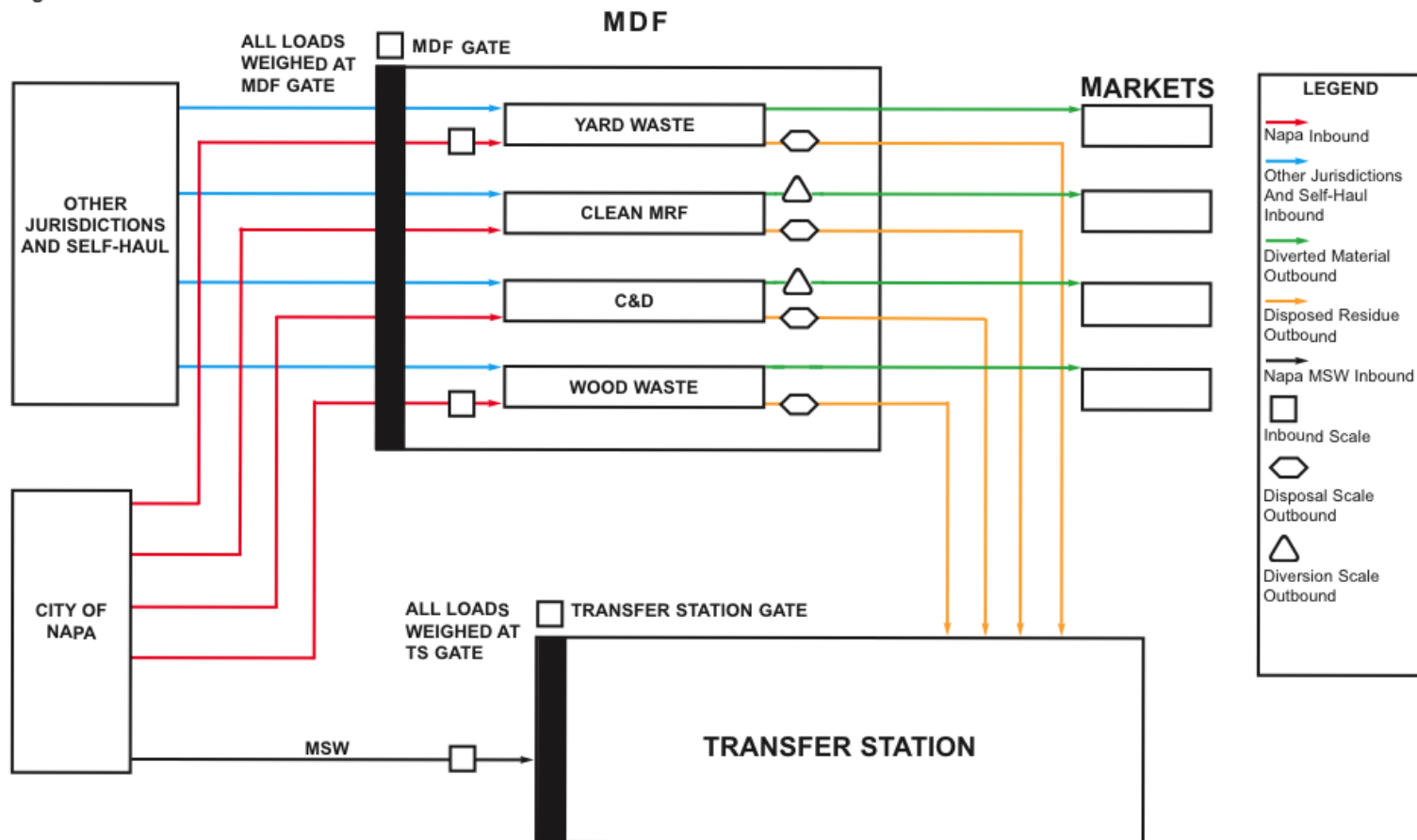
The City's municipal code obligates residents and businesses in the City, with limited exceptions, to utilize the services of the Solid Waste Enterprise System and to pay the fees established by the City and billed and collected by the operator of the Solid Waste Enterprise System. Customer payments made electronically and via mail (currently 97% of Revenues) are deposited directly into the City's lockbox or bank account. Cash payments received at the operator's offices at the Napa MDF are remitted to the City's account. See "SECURITY FOR THE BONDS – Flow Control".

Certain neighboring entities, including the County of Napa, the City of Sonoma and the Town of Paradise, bring recyclables and compostables to the Napa MDF for processing pursuant to various agreements further described below.

Generally, the Gross Revenues of the Solid Waste Enterprise System are derived from Charges billed to residential, commercial and drop-box collection customers, the sale of recyclable materials and other materials, and gate fees charged to self-haul or jurisdictional users of the Napa MDF, and the Maintenance and Operation Costs of the Solid Waste Enterprise System stem from operating costs and capital costs of Operator as specified in the Collection Contract (as such terms are defined herein), Operator's compensation, tipping fees payable by the City, and certain other costs of the City.

A diagram depicting the operation of the Solid Waste Enterprise System is set forth on the following page.

Figure 1



The Operator and its Contract with the City; Collection of Municipal Solid Waste (MSW), Recyclable Materials and Compostables

The Operator. The City current contracts with Napa Recycling & Waste Services, LLC (the “**Operator**”) to assist with the operation of the Solid Waste Enterprise System, pursuant to an agreement described in the following paragraphs. Operator is a California limited liability company and has been the City’s hauler and processing facility operator since October 2005. Operator’s ownership is shared equally, at 25% each, by four partners that are well-known in the solid waste, recycling and composting industry in the greater Bay Area (namely, Marin Sanitary Service, Garaventa Enterprises, Inc., Upper Valley Disposal Service, Inc. and Recovery Products & Services, Inc.). Further information about Operator can be found on the Internet at www.naparecycling.com. However, no information from such website is incorporated by reference into this Official Statement.

The Collection Contract. The City and Operator entered into a contract for Collection and Transportation of Municipal Solid Waste, Recyclable Materials, and Yardwaste and Operation of the Napa MDF on December 7, 2004, with service by Operator beginning in October 2005. This Contract, as amended to date, is referred to herein as the “**Collection Contract**.” In general, the Collection Contract provides for the following operational details of the Solid Waste Enterprise System:

Operator Responsibilities. Operator is responsible for the following:

- Maintaining an office at the Napa MDF, a customer payment location within the City limits and a customer service telephone line for receiving special requests for service, complaints and otherwise interacting with City residents and businesses.
- Providing the equipment and labor required to carry out the Collection Contract, including containers for City residents’ and businesses’ solid waste, green waste, food scraps and recyclables, trucks, etc. Costs are paid monthly to Operator by the City based upon an annual lump sum cost for operation of the Solid Waste Enterprise System as annually adjusted by contract (i.e., contractual inflation indices, projections growth impacts, changes in law and new or City-adjusted programs). This cost is included in the rates charged to users of the Solid Waste Enterprise System.
- Maintaining workers’ compensation insurance and public liability insurance in form and amount required by the Collection Contract (see “—Operator Insurance” below).
- Delivering non-recyclable and uncompostable materials to the Transfer Facility, which is operated by the Authority.
- Processing recyclables and compostables at the Napa MDF. Operator is not permitted to dispose of recyclables in a landfill, and may not operate a competing drop off or buy-back recycling facility within the City without advance written City permission. Operator must sell recyclables and processed compostables (i.e. compost) at fair market value on behalf of itself and the City. Materials sales revenues are divided 70% City/30% Operator under the Collection Contract.

- Ensuring that solid waste delivered by Operator to the Transfer Facility does not include hazardous waste; the costs of the load checking/inspection program required to separate hazardous waste are included as part of the annual lump sum costs of Operator (see “–Disposal of Solid Waste and Hazardous Waste” below).
- Billing and collecting from customers of the Solid Waste Enterprise System.

City Responsibilities. The City operates the scalehouse at the MDF with City employees. Operator provides staffing during employee breaks, sick leave and vacations. The City is responsible for establishing solid waste and recycling collection rates that Operator may charge for collection services within the City limits, and for establishing gate fees charged at the Napa MDF. All collection service revenue, materials sales revenue and gate fee revenue is retained by the City and deposited in the City’s Solid Waste and Materials Diversion Enterprise Fund.

Rates. City receives all solid waste and recycling service revenue and then pays Operator for collection and processing services as described in the Collection Contract. City must adhere to Proposition 218 requirements that service rates charged may not exceed the actual cost of providing the service.

Solid waste rates include funding for mitigation of impacts of heavy refuse and recycling collection vehicles on City streets. This mitigation cost is paid annually via a transfer from the City’s Solid Waste Enterprise Fund to the City’s Street Resurfacing Fund. These costs are considered capital expenses and are not included in Maintenance and Operation Costs under the Indenture, and accordingly are payable after debt service.

Current rates also include an annual transfer from the City’s Enterprise Fund to the City’s General Fund to reimburse General Fund costs for senior management personnel, City Attorney services, IT services and other administrative costs including office space, based on the results of the latest Citywide Cost Allocation Study. These costs are treated as Maintenance and Operation Costs under the Indenture, payable prior to debt service.

See “SECURITY FOR THE BONDS – Gross Revenues, Net Revenues and Maintenance and Operation Costs” above for the definition of “Maintenance and Operation Costs.”

Status of Collection Contract. The Collection Contract between City and Operator expires December 31, 2016 pursuant to a one-year extension option exercised by the City in 2015. City has the unilateral option to extend the contract on a calendar year-by-calendar year basis, up to three additional calendar years (through December 31, 2019). The parties are presently in negotiations to discuss a longer-term extension of the contract (anticipated at 14-years) beyond the current term.

To the extent that the Collection Contract with Operator is not extended, the City would anticipate entering into a new collection contract with another operator on terms similar to the terms of the Collection Contract, or the City could hire additional personnel to operate the Solid Waste Enterprise System independently. See “SECURITY FOR

THE BONDS – Maintenance and Operation of Solid Waste Enterprise System in Efficient and Economical Manner; Contractor.”

MDF Gate Fees. Napa MDF charges gate fees to members of the public and certain solid waste collection companies in the region for delivering compostables, source separated construction and demolition debris (e.g. concrete and asphalt) and recyclable materials to the Napa MDF. These fees, which are set by the City, are remitted to the City weekly and deposited into the Solid Waste Enterprise Fund. As discussed in additional detail below, gate fees fluctuate from year to year depending upon regional demand, construction activity, the local economy and prices at other facilities.

Napa MDF gate fees for Fiscal Year 2015-16 are projected to be \$1.7 million. These gate fees fluctuate from year to year depending upon regional demand, construction activity, the local economy and prices at other facilities.

The Authority and the Authority Agreement

The Authority. The City is a member of the Napa-Vallejo Waste Management Authority (formerly known as the South Napa Waste Management Authority and referred to herein as the Authority). The Authority is governed by a Joint Exercise of Powers Agreement, as most recently amended on May 5, 1998 (the “**Authority Agreement**”). The parties to the Authority Agreement, and the members of the Authority, are the City, the City of Vallejo, the City of American Canyon, and the County of Napa.

The Authority was formed to coordinate “Solid Waste” disposal and household hazardous waste management services within the applicable “Service Area”, which includes areas within the City, the City of Vallejo, and the City of American Canyon, certain areas within the County of Napa, and certain areas within Solano County. “Solid Waste”, as defined in the Authority Agreement, does not include recyclables, compostables and hazardous wastes.

The Authority has no debt, although it is responsible for ongoing post-closure maintenance of the American Canyon Landfill which has been closed. See “– American Canyon Sanitary Landfill” below.

The Authority Agreement. The Authority Agreement identifies the following specific purposes for the Authority:

- Provide a transfer or processing facility (as defined by State law) for the receiving, processing, recycling and transportation of solid waste (the “**Transfer Facility**”).
- Provide safe closure and post-closure of the American Canyon Sanitary Landfill, pursuant to the State-approved post-closure maintenance plan.
- Provide a hazardous waste collection facility (which is located in a separate part of the Transfer Facility) to provide for the safe reuse, recycling or disposal of household and small business hazardous waste generated within the Service Area.

Pursuant to the Authority Agreement, each member of the Authority (including the City) must direct its contracted hauler(s) to deliver all non-recyclable and uncompostable Solid Waste collected under the contract to the Transfer Facility. Operator has agreed to dispose of all

unsorted, mixed Municipal Solid Waste at the Transfer Facility pursuant to the Collection Contract described above. The Authority is prohibited from providing any recycling services that duplicate or compete with recycling services provided by any of its members, without the consent of the member.

Solid Waste Disposal at the Transfer Facility

The Transfer Facility. The Transfer Facility is owned by the Authority and currently operated under contract by Northern Recycling Operations & Waste Services, LLC (“**Northern**”), an affiliate of Operator. The Transfer Facility was constructed in 1994 and is built on a 35-acre site located at 889 Devlin Road, Napa, California. The Transfer Facility accepts residential and commercial solid waste as well as non-hazardous construction and demolition waste, and consists of a 37,800 square foot facility, of which approximately 10,500 square feet are allocated for public self-haul use and approximately 21,000 square feet are allocated for commercial use. The Transfer Facility site is located on a separately owned parcel approximately one-half mile from the Napa MDF.

After solid waste has been processed at the Transfer Facility, it is hauled by Northern to Potrero Hills Landfill for final disposal.

The costs of operating the Transfer Facility and transporting materials to the Potrero Hills Landfill are covered entirely by tipping fees set by the Authority and collected from customers (see “–Tipping Fees” below).

The Potrero Hills Landfill. The Potrero Hills Landfill is located in Solano County near the City of Suisun City, California. It is owned and operated by Potrero Hills Landfill, Inc., a wholly-owned subsidiary of Waste Connections, Inc. It is a Class III Landfill and has a permitted waste acceptance volume of 3,400 tons per day on average (with a peak of 4,330 tons per day) and a projected remaining life of 32 years based on the permitted capacity. The actual number of remaining years will likely be greater due to receipt of waste quantities less than the daily permitted capacity.

The Authority has a contract to dispose of municipal solid waste and alternate daily cover materials through December 31, 2023, with three additional 5-year renewal options at the discretion of the Authority.

American Canyon Sanitary Landfill. The Authority owns and is responsible for post-closure and monitoring of the American Canyon Sanitary Landfill. This landfill has been closed and has not accepted Solid Waste for approximately 19 years. According to its audited financial statements, the Authority anticipates the American Canyon Sanitary Landfill will continue to incur post-closure expenses and long-term monitoring expenses over the next approximately 20 years at an estimated total cost of approximately \$11.9 million. This amount is reported as a landfill post-closure care liability of the Authority at June 30, 2016. The City has no ongoing financial interest in the Authority, and closure and related costs will be paid through tipping fees assessed by the Authority at the Transfer Facility as described below.

The closure, post-closure and monitoring expenses related to the American Canyon Sanitary Landfill have been built into the tipping fees charged by the Authority (see “–Tipping Fees” below). Through the tipping fees, each member of the Authority bears a variable annual share of the Authority’s costs based upon the amount of Solid Waste delivered to the Transfer Facility during that year. In addition, the Authority is required by State and federal laws and

regulations to make annual contributions to a trust to finance closure and post-closure expenses. The Authority expects future post-closure costs to be paid from funds on hand and interest earnings on annual contributions to the trust; if interest earnings are inadequate or post-closure is more expensive than currently anticipated, the Authority may need to increase tipping fees to users, including the City.

Tipping Fees. As of July 1, 2016, the tipping fee charged by the Authority was \$65 per ton for member jurisdictions and \$70 per ton for public self-haul users. The Authority maintains a rate stabilization fund to address annual fluctuations in revenues and expenses without raising and lowering tipping fees. Tipping fees paid by the City to the Authority are included in Maintenance and Operation Costs of the Solid Waste Enterprise System.

Disposal of Hazardous Waste. Residents and businesses in the City are asked not to place hazardous waste in their solid waste carts and bins. Rather, hazardous waste generated in the City (including pesticides, cleaners, syringes, auto products, household batteries, solvents, paints, herbicides, latex paint, etc.) may be disposed of at the Transfer Facility, and some limited recyclable hazardous or restricted wastes (including electronics, tires, used motor oil and used oil filters) are collected by Operator and recycled at the Napa MDF. The Authority does not charge a fee to residents for household hazardous waste disposed at the Transfer Facility, but does charge a fee to businesses.

Coombsville Dump/Hidden Glen Landfill and Related Litigation

The City owns the property on which the former “Coombsville Dump” (aka Hidden Glen landfill) is located. That landfill property is the subject of a closure plan, approved by the then California Integrated Waste Management Board (now California Department of Resources, Recycling and Recovery or “CalRecycle”). The closure plan includes provisions for landscape improvements over the cap on the property as a part of the closure, along with ongoing maintenance of the property, all of which are designed to ensure the physical integrity of the cap over the former landfill. In the rate revenue collected between Rate Year 2009-10 and Rate Year 2010-11, the City collected \$310,000 to cover the estimated costs of the capital improvements at the former landfill site. Those improvements have not yet been completed by the City, as the City is in the process of revising the design of the access driveway to the former landfill site, due to recently approved residential development projects on neighboring properties to the south of the former landfill site. The City will only spend the revenue previously collected for improvements to the former landfill site that are consistent with the closure plan; and, to the extent that the City does not spend the previously collected revenue, the balance will be returned to the Solid Waste and Materials Diversion Enterprise Fund to offset future charges to ratepayers. In addition to the capital costs, the City included a projected annual maintenance charge of \$30,640 in its Fiscal Year 2015-16 budget (this projected maintenance cost is escalated by inflation each year to be utilized for maintenance costs once the Hidden Glenn passive park is constructed; until that time only local enforcement agency monitoring fees are being charged to this City expenditure account). Such maintenance costs would be included in Maintenance and Operation Costs of the Solid Waste Enterprise System, to the extent not already covered by reserve funds set aside for the purpose.

In connection with the Hidden Glen landfill, a lawsuit was filed in January 2010 by neighboring property owners, arguing that the City had not satisfied its obligation to construct a park at the former landfill site. The City obtained a favorable judgment at the trial court level in August 2014, including an award of attorney’s fees against the plaintiffs in the amount of \$869,000. The trial court judgment is currently on appeal, with a result anticipated by early

2017. To date, the costs of litigation have been primarily funded by the City's Risk Management Fund. The City is maintaining supplemental Solid Waste Enterprise Fund Reserves in the event the litigation is resolved unfavorably to the City. See "– City Fiscal Policy for Solid Waste Enterprise Fund Reserves – Liability Reserve" herein.

Processing and Sale of Recyclables and Compostables at the Napa MDF

Processing of Recyclables and Compostables. Per terms of the Contract, all of the recyclables and compostables collected in the City by Operator are processed at the Napa MDF.

Recycling and Compostables Programs. The City has implemented programs to decrease the volume of solid waste sent to the Transfer Facility (in compliance with AB 939 as amended; see "SOLID WASTE REGULATIONS") and to increase the volume of recyclables and compostables processed at the Napa MDF. A few examples of these programs follows:

Residential Curbside Recycling. Operator collects Single-Stream Recyclable Materials including newspaper, glass, cans, plastic bottles, mixed paper (junk mail) and cardboard from all residences in the City.

Commercial Recycling. Operator collects Single-Stream Recyclable Materials including newspaper, glass, cans, plastic bottles, mixed paper (junk mail) and cardboard from large and small businesses in the City.

Yard Waste Collection Program. Operator collects yard waste, yard clippings and tree trimmings from all residences and some businesses in the City. Since April of 2015, food scraps and soiled paper are co-collected with residential yard trimmings as "compostables" and processed at the Napa MDF.

Commercial Food Scrap Composting Program. Operator collects source-separated food scraps and soiled paper plus other compostable materials, such as yard trimmings, from several food-generating businesses within the City. All collected compostables collected by Operator are delivered and composted at the Napa MDF. This program stemmed from AB 1826, which was signed into law in 2014, and generally requires businesses and multi-family complexes to participate in a compostables collection program covering food scraps, green waste and wood; the deadlines for participation vary and, for businesses, depend on the amount of compostables generated. The City was required to provide a program for collection and processing of compostables by April 1, 2016. Businesses and multi-family complexes may participate in the City's program or may donate or sell their compostable materials to a third party. As of May 2016, there are approximately 71 participants in the City's Commercial Food Composting Program requiring approximately 133 collection stops per week. Collection rates include funding for up to 500 collection stops per week, at full program rollout. Full rollout of the program is expected by approximately, January 1, 2019, as required by AB 1826; with the possible addition of smaller businesses by January 1, 2020 if directed by CalRecycle. For additional details, see "SOLID WASTE REGULATIONS" herein.

Construction/Demolition Debris Diversion Program. Operator collects source-separated construction debris, including wood, metal, sheetrock, wall board and other items from construction sites and processes the material at the Napa MDF. Loads of concrete and asphalt are also collected, or delivered to the Napa MDF by contractors.

The material is stockpiled on the property then crushed for a variety of applications, including as baserock, roadbeds, or paving.

Electronic Waste. The City offers an annual electronic waste collection day each June. All residents may drop off computers, monitors, television sets, stereos and similar equipment at no charge. During the remainder of the year, electronic waste can be disposed of at the Napa MDF at no charge. Since April 2013, the City and its Operator have offered a “Recycle More” program for City customers where positive-value materials such as electronic waste, metal and textiles are collected curbside at no-charge and recycled at the Napa MDF.

Sale of Recyclable Materials. Operator sells, on behalf of the City, recyclable materials processed at the Napa MDF. These processed materials consist of compost, crushed asphalt and concrete, various grades of plastic, various grades and colors of paper, metals, chip board, and various grades and colors of glass. The revenue realized from the sale of recycled material is shared between the City and its Operator under the Collection Contract (currently, 70% is retained by the City and 30% is paid to Operator). As discussed in additional detail herein, there is significant variability from year to year in the volume of recycled material and the market price for recycled material since much of the material is sold from the Napa MDF into the global markets. Accordingly, the City’s projected revenues from materials sales is highly uncertain.

It is estimated that gross materials sales were approximately \$5.2 million for Fiscal Year 2015-16, which is 9% below the Fiscal Year 2014-15 receipts of \$5.7 million.

For Fiscal Year 2015-16, approximately \$2 million of the gross material sales revenue was received pursuant to the City’s processing agreement with Northern, from materials delivered to the Napa MDF from the Transfer Facility. See “– Solid Waste Disposal at the Transfer Facility” above.

Northern Recycling is under contract with the Authority to operate the Transfer Facility and its buy-back center. Each year, the City retains an average of 2-3% of this gross revenue, Operator receives 30%, and the remainder is paid out to Northern Recycling.

City Management of Solid Waste Enterprise System

Brief biographies of key members of City staff involved in management of the Solid Waste Enterprise System and its finances are set forth below:

Kevin Miller – Materials Diversion Administrator (Recycling Manager). Kevin Miller has been with the City of Napa since February 1997, first as the City’s Waste Reduction/Recycling Coordinator and then since August of 2005 as the City’s Materials Diversion Administrator (Recycling Manager). As head of the City’s Materials Diversion and Recycling Division, Mr. Miller is responsible for overseeing the Solid Waste and Materials Diversion Enterprise Fund including budgeting, rate-setting and operation of the Napa MDF. Mr. Miller administers key contracts for the City including the Collection Contract with Operator, and the disposal agreement with the Authority. Besides fund management, Mr. Miller’s division carries out overall source reduction and recycling program development and implementation. The City has primary responsibility for scalehouse operations at the Napa MDF and also sets MDF gate fees and receives revenue from MDF gate fees for recyclable and compostable materials delivered to and processed at the MDF Facility.

Mr. Miller has served as a board member of the Northern California Recycling Association and completed the Leadership Napa Valley program in 2003. He is also a long-time member of the California Resource Recovery Association as well as the National Recycling Coalition. In 2011, Mr. Miller was awarded Associate of the Year by the California Product Stewardship Council.

Mr. Miller's background encompasses nearly 27 years in the environmental field with 25 of these specifically as a recycling professional. Over the past 25 years, Mr. Miller served one year as the Assistant Director for Californians Against Waste's Buy-Recycled Campaign, four years as Recycling Coordinator for the City of Folsom, one year as Operations Manager for Weyerhaeuser Recycling in Sacramento, and over 19 years with the City of Napa.

Mr. Miller holds a B.A degree with high honors in Environmental Studies from the University of California, Santa Barbara. His senior thesis was entitled, "The High Grade Recycling Paper Market in California and Public Policy". He received a four-year UC Regents Academic Scholarship while at UCSB.

Jacques R. LaRoche – Public Works Director. Jacques LaRoche has been the City's Public Works Director since 2008. The Public Works Department is responsible for the design, construction, and maintenance of most of the City's infrastructure. This includes the Solid Waste Enterprise System, as well as streets, bridges, storm drains, traffic signals, street lights, radio communications, engineering services, and fleet management. Prior to joining the City, Mr. LaRoche was the Assistant Public Works Director for the City of Bakersfield, California from 1989 to 2008, serving as the Assistant Public Works Director for 7 of these 19 years. He served as the City Surveyor for the City of Bakersfield, was a member of the Board of Zoning Adjustment and a member of the Kern County Transportation Association. Prior to joining the City of Bakersfield, he worked in the private sector mainly on development projects specializing in master storm drain and sewer plans for large scale developments. Mr. LaRoche is a graduate of CalPoly, San Luis Obispo, where he obtained his Bachelor of Science Degree in Civil Engineering. Mr. LaRoche is a Registered Professional Civil Engineer, Licensed Surveyor and is a member of the American Public Works Association.

Philip Brun – Deputy Public Works Director (Operations). Phil Brun has been the City's Deputy Public Works Director - Operations for the last 6 years. The Operations section is responsible for Solid Waste/Material Diversion, Water, Fleet and Street Maintenance. Prior to this appointment, he was the City's Water General Manager for 8 years, and Associate Engineer for 4 years. Prior to joining the City, Mr. Brun was an Assistant Civil Engineer for the City of Los Angeles for 3 years working on wastewater facilities. Mr. Brun has a Bachelor of Science Degree in Civil Engineering from Cal Poly, San Luis Obispo and is a Registered Professional Civil Engineer. Mr. Brun was a National Association Director of the American Water Works Association (AWWA) and previously served as the Chair of the California-Nevada Section. Mr. Brun is actively involved in the Napa community and was on the Board of Directors for the Leadership Napa Valley Foundation, serving as President in 2012/2013.

Roberta Raper – Finance Director. Roberta Raper has been with the City's Finance Department for nearly 7 years. Beginning her tenure as Finance Analyst in 2008, Ms. Raper promoted to Finance Manager in 2010. After leaving for a short stint at another local government agency, she returned in the Finance Director position in September, 2013. The Finance Department is responsible for accounting and auditing functions, revenue collections, purchasing and Information Technology. Ms. Raper's experiences outside the City of Napa

include serving as the Finance/Administrative Services Director for the City of Grass Valley, California and as Finance Analyst for Placer County Water Agency in Auburn, California. Ms. Raper graduated with honors from the University of California, Davis where she received her Bachelor's Degree in Managerial Economics. She received her Master's Degree in Business Administration from California State University, Sacramento. Ms. Raper is a member of the California Society of Municipal Finance Officers' Association and the Governmental Finance Officers' Association.

Deanna Andrews – Finance Manager. Deanna Andrews has been with the City's Finance Department since 2010. Beginning her tenure as Finance Analyst, Ms. Andrews was promoted to Finance Manager in 2013. Ms. Andrews' experiences outside the City of Napa include serving as the Principal Finance Analyst for the City of Oakland, California and as Rate & Budget Analyst for Contra Costa Water District in Concord, California. Ms. Andrews received her Bachelor's Degree in Political Science (Public Administration) from California Polytechnic State University in San Luis Obispo. She received her Master's Degree in Public Administration from California State University, Hayward. Ms. Andrews is a member of the Governmental Finance Officers' Association.

Insurance

Both the City and Operator maintain insurance with regard to certain components of the Solid Waste Enterprise System.

City Insurance.

The City currently maintains the following insurance with regard to the Napa MDF:

The City participates in a statewide municipal property insurance pool through the California State Association of Cities (CSAC). For the Napa MDF this coverage is applicable for the two major fixed structures at the facility, namely the 32,000 square foot Materials Recovery Facility/Mechanic Shop and the 6,000 square foot administrative office building. The insurance covers full replacement costs based on a 2015 appraisal and includes \$3.6 million for business interruption coverage for damage to the larger structure. Additionally, the Solid Waste Enterprise Fund's Operating Reserve maintains funding adequate to cover operations for up to 18 months in case of destruction of structures through fire or earthquake events. Processing equipment at the Napa MDF (e.g., sorting line and baler) is the property of Operator, and Operator is required to provide adequate property and accident insurance pursuant to the Collection Contract. See "–Operator Insurance" below.

The City will covenant in the Indenture to maintain such insurance on the Napa MDF as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. See "SECURITY FOR THE BONDS – Insurance; Condemnation Awards".

Operator Insurance.

As required by the Collection Contract, Operator currently maintains the following insurance policies with respect to specified components of the Solid Waste Enterprise System.

- ***Comprehensive general liability and automobile liability insurance.*** The insurance must have a combined single limit of not less than \$5 million per occurrence and \$5

million annual aggregate for (i) premises operations (including use of owned and non-owned equipment), (ii) products and completed operations (including liability resulting from use of recyclable materials by another person), (iii) Personal Injury Liability with employment exclusion deleted; (iv) Broad Form Blanket Contractual with no exclusions for bodily injury, personal injury or property damage (including coverage for indemnity obligations in the Collection Contract). The policy must be written on an "occurrence" basis or Operator must provide tail coverage for claims filed within 4 years of termination of the Collection Contract.

- *Pollution liability insurance.* The insurance must be for not less than \$1 million per occurrence and annual aggregate, and cover claims for on-site, under-site or off-site bodily injury and property damage as a result of pollution conditions arising out of Operator's operations under the Collection Contract.
- *Hazardous materials storage and transport insurance.* The insurance must be for not less than \$1 million for personal injury, bodily injury and property damage arising out of sudden and accidental release of any hazardous materials or wastes during storage at the Napa MDF or transport of such materials by vehicles owned, operated or controlled by Operator in performance of services required by the Collection Contract.
- *Comprehensive physical damage insurance.* This insurance covers fire, theft and collision, and must have a deductible or self-insured retention of not more than \$100,000 covering the vehicles and equipment used in providing service to City under the Collection Contract.
- *Physical damage insurance.* This insurance covers fire, theft, deterioration, contamination and other damage for recyclable materials stored at the Napa MDF and during shipment of said materials prior to transfer of title from Operator to another entity.
- *Worker's compensation insurance.* The insurance must cover Operator's employees in statutory amounts and otherwise in compliance with the laws of the State.
- *Employer's liability insurance.* The insurance must be in an amount not less than \$1 million per accident or disease.

The City covenants in the Indenture to continue to maintain or require the operator of the Solid Waste Enterprise System to maintain insurance on the Solid Waste Enterprise System as is customarily maintained with respect to works and properties of like character, until legal defeasance, prior redemption or payment in full of all the Bonds. See "SECURITY FOR THE BONDS – Insurance; Condemnation Awards".

Historical Volume of Solid Waste

The table below sets forth solid waste tonnage collected by Operator for the last five full calendar years.

Table 1
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Annual Collection Amounts (in tons)
Calendar Years 2011 through 2015

Calendar Year	Refuse	Recyclable Materials ⁽¹⁾	Food Scraps & Green Waste	Total ⁽²⁾
2015	47,203	22,613	17,731	87,547
2014	44,496	19,947	16,842	81,285
2013	43,930	17,982	15,923	77,835
2012	42,155	17,675	15,005	74,835
2011	43,018	15,330	14,014	72,362

(1) Recyclable Materials are all non-compostable materials processed at the Napa MDF, including paper, plastics, cardboard, glass, metals, concrete, asphalt and other construction/demolition debris.

(2) Total tons may not match the total number of tons calculated by CalRecycle (see "SOLID WASTE REGULATIONS") as generated in the City and diverted from the City's waste stream because there are tons diverted by programs that are not reported into the Solid Waste Enterprise System, including (a) beverage container recycling, newspaper and cardboard recycled at the Jackson Street Drop Off Center, (b) supermarket and large retailers recycling their own cardboard and backhauling it to their distribution centers and (c) wet produce trimmings backhauled by supermarkets to their distribution centers for composting.

Source: City and Operator.

Rate Setting; Rate Structure

Rate Setting. The City generally has a "Rate Year" of January 1 through December 31 (calendar year), although this is adjusted from time to time depending on the timing of the City's most recent Rate Study and the need to comply with Proposition 218's public notice and disclosure process. See "RISK FACTORS – Rate Covenant Not a Guarantee; Sufficiency of Revenues" and "RISK FACTORS – Proposition 218."

For each Rate Year, the City conducts a Rate Study to determine all projected revenues and costs of the Solid Waste Enterprise System and to establish rates sufficient to pay all reasonable costs of operating the Solid Waste Enterprise System (including improvements, if any, to the Solid Waste Enterprise System and related debt service) and pay Operator according to the terms of the Collection Contract. Rates may be established for a period of 1-5 years as a result of a single Rate Study, with specified rate increases applied for each year included in the rate setting.

Revenues. Revenues considered as part of the rate-setting process include:

- Charges billed to residential, commercial and drop-box collection customers.
- Revenue from sale of recyclable materials (for use by secondary buyers).
- Revenue from on-site direct sale of compost, topsoil and gravel from the Napa MDF.
- Gate fees charged to self-haul or jurisdictional users of the Napa MDF.

Expenses. Expenses considered as part of the rate-setting process include:

- Operating costs for Operator as specified in the Collection Contract.
- Capital costs (including depreciation) of Operator as specified in the Collection Contract
- Operator's compensation, as specified in the Collection Contract (e.g. share of material sales, over baseline processing payments, diversion incentives, etc.).
- Tipping fees payable to the Authority by City.
- City costs for personnel, administration, professional fees, and code enforcement.
- Street Resurfacing Mitigation costs paid to the Street Resurfacing Fund.
- Funding reserves as required by the Fiscal Policy adopted by the City Council for the Solid Waste and Materials Diversion (Recycling) Enterprise Fund.

Current Rates. The following table summarizes the current rate structure for the Solid Waste Enterprise System for representative user types.

Table 2
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Summary of Rate Structure for Representative User Types
Rate Year 2016 (Effective Jan. 1, 2016)⁽¹⁾

<u>Representative Residential Rates⁽²⁾</u>	<u>Rate per month</u>
Residential (20 gal. cart size)	\$21.65
Residential (35 gal. cart size)	27.14
Residential (65 gal. cart size)	41.63
Residential (95 gal. cart size)	64.03
 <u>Representative Commercial Rates⁽³⁾</u>	
One 1.5-yard bin 1x/week	\$329.31
One 2-yard bin 1x/week	423.35
One 3-yard bin 1x/week	620.78
One 4-yard bin 1x/week	805.98
One 6-yard bin 1x/week	1,199.59
 <u>Representative Multi-Family Rates⁽³⁾</u>	
One 1.5-yard bin 1x/week	\$282.18
One 2-yard bin 1x/week	376.26
One 3-yard bin 1x/week	555.55
One 4-yard bin 1x/week	740.74
One 6-yard bin 1x/week	1,110.10

(1) The City's current rate structure includes full cost recovery for impacts of heavy refuse and recycling vehicles on City streets. This street impact mitigation fee constitutes approximately 10.7% of adopted collection service rates for rate year 2016.

(2) Residential rates include weekly collection of municipal solid waste (MSW), green waste/food scraps and single stream recyclable materials.

(3) Commercial and multi-family rates shown above are for weekly collection of MSW only.

Source: City of Napa.

Historical Rate Increases. The following table sets forth a ten-year history of rate increases.

Table 3
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Historic Refuse Collection Rate Increases for all Customer Classes
Rate Years 2007 through 2016

Rate Year	% Increase
2016	4.95%
2015	4.95
2014	0.00
2013	0.00
2012	0.00
2011	4.85
2010	4.90
2009	4.95
2008	3.45
2007	5.65

Source: City of Napa.

Comparative Monthly Solid Waste Collection Charges. The following tables compare the City's representative residential and commercial solid waste collection charges to neighboring cities and agencies, all of which are located in Napa County or dispose of their solid waste at the Transfer Facility just like the City. See "RISK FACTORS –Competition" herein.

Table 4
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Comparative Residential Rates – 65 Gallon Containers
Rate Year 2016

City/Agency	Monthly Rate
City of American Canyon ⁽¹⁾	\$32.33
City of Calistoga	51.78
County of Napa (Zone 1)	27.34
City of Napa⁽²⁾	41.63
City of St. Helena	50.02
City of Vallejo ⁽³⁾	48.74
Town of Yountville	51.74

(1) Rate is for a 64 gallon container.

(2) City of Napa rate includes collection of food scraps mixed with green waste. The rate also includes full cost recovery for impacts of heavy refuse and recycling vehicles on City streets. This street impact mitigation fee constitutes approximately 10.7% of adopted collection service rates for rate year 2016.

(3) Rate is for a 64 gallon container.

Source: City of Napa.

Table 5
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Comparative Commercial Rates – 2 Cubic Yard MSW Bin
Rate Year 2016
(as of July 2016)

City/Agency	Monthly Rate ⁽¹⁾
City of American Canyon	\$352.03
City of Calistoga	336.90
County of Napa (Zone 1)	400.44
City of Napa⁽²⁾	423.35
City of St. Helena	278.98
City of Vallejo	336.14
Town of Yountville	334.20

(1) Assumes one pickup per week.

(2) City of Napa rate includes full cost recovery for impacts of heavy refuse and recycling vehicles on City streets. This street impact mitigation fee constitutes approximately 10.7% of adopted collection service rates for rate year 2016.

Source: City of Napa.

Billing and Collection Procedures

In general, the City requires Operator to bill and collect from customers. Customer payments made by mail or electronic payment (typically 97%) are deposited directly to a City bank account and are not commingled with Operator funds. In accordance with the Collection Contract, customer payments for collection services made in person at Operator's offices at the Napa MDF and MDF gate fee revenues (which, combined, are typically around 3% of total revenues) and are deposited weekly by Operator in a City bank account. The City anticipates maintaining the same arrangement in the future.

Billing Procedure. Customers are billed by Operator on a monthly basis.

Collection of Solid Waste Charges. The City and Operator have established a collections procedure to be utilized by Operator. The first collection efforts are handled in-house by Operator. If internal efforts fail, Operator refers the outstanding bill to a collection agency. Collection agencies charge 22% of the amount collected. If payment of charges is more than 90-days past-due, the City reserves the right to remove collection bins from the customer's property and cease service. Past-due receivable balances are written off by the City when collection efforts have been unsuccessful and the outstanding balance has been deemed uncollectable by both the Materials Diversion Administrator and the Finance Director. As of June 30, 2016, the amount of bad debt held in the Solid Waste and Materials Diversion (Recycling) Enterprise Fund was estimated to be less than 1%.

Delinquency History. The City has estimated and set forth below a 4-year delinquency history with respect to rates billed and collected by Operator based upon (i) the "allowance for doubtful accounts" of the Solid Waste Enterprise System and (ii) the "total collection fees" on the revenue and expense statement in the audited financial statements. Due to the collection efforts by both the City and Operator, the annual delinquency amounts have been reduced from 0.55% to 0.42% over the last four years. Delinquency rates in the future are expected to remain low (less than 0.5%).

Table 6
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Doubtful Accounts
Fiscal Years 2012 through 2015

Fiscal Year	Allowance for Doubtful Accounts	Total Collection Fees	Doubtful Accounts as % of Total Collection Fees
2015	\$71,893	\$17,255,525	0.42%
2014	72,874	16,699,303	0.44
2013	95,177	16,596,244	0.57
2012	90,291	16,469,927	0.55

Source: City of Napa.

Rate Stabilization Reserve Account

As noted above, the City maintains a Rate Stabilization Reserve to address variances in revenue and expenses over a period of years without alternately raising and lowering rates. See “General – City Fiscal Policy For Solid Waste Enterprise Fund Reserves.”

For Fiscal Year 2016-17, the Fiscal Policy for the Solid Waste and Materials Diversion (Recycling) Enterprise Fund requires the City to maintain a balance in the reserve of 9% of the total operating costs for the System less debt service, and capital projects. As of June 30, 2016, the balance in the Rate Stabilization Reserve account was \$1,636,142.

Generally, amounts transferred from the Rate Stabilization Reserve to the Solid Waste and Materials Diversion (Recycling) Enterprise Fund’s operating account constitute Gross Revenues for such Fiscal Year for purposes of the Indenture (see “SECURITY FOR THE BONDS – Gross Revenues, Net Revenues and Maintenance and Operation Costs”). However, the City cannot assure Bondholders that it will maintain the Rate Stabilization Reserve as it currently does, or that it would replenish the Rate Stabilization Reserve if it were to spend amounts in the Rate Stabilization Reserve.

Customer Base

The following table summarizes the number of customers served by the Solid Waste Enterprise System as of December 31, 2015, grouped by customer type, based upon information provided annually to the City by Operator.

Table 7
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Summary of Accounts and Usage by User Type
As of December 31, 2015

User Type	Number of Accounts	Revenues ⁽¹⁾	Billings as % of Total
Residential	21,705	\$7,808,743	43.5%
Multi-Family	96	1,554,949	8.7
Commercial	1,087	5,158,904	28.7
NVUSD ⁽²⁾	29	299,371	1.6
Drop Box ⁽³⁾	101	3,148,081	17.5
Totals	23,018	\$17,970,049	100%

(1) Revenue based on rates billed and collected by Operator for calendar year 2015.

(2) NVUSD is Napa Valley Unified School District. Operator serves NVUSD pursuant to the Collection Contract.

(3) Drop boxes are 10-, 20- and 30-yard open-top boxes used for temporary refuse storage, for example, as part of large construction projects, and compactors used by large refuse generators.

Source: Operator.

The following table sets forth a five-year history (based on calendar years 2011 through 2015) of the number of accounts for the Solid Waste Enterprise System, based upon information provided annually to the City by Operator.

Table 8
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Number of Accounts
Calendar Year 2011 through 2015

Calendar Year	Number of Accounts
2015	23,018
2014	23,004
2013	23,155
2012	22,880
2011	22,639

Source: Operator.

The following table lists the ten largest customers of the Solid Waste Enterprise System for calendar year 2015, based on (1) the amount of their monthly bill and (2) the revenue generated from the collection of rates in calendar year 2015 from all customers of the Solid Waste Enterprise System. This information is provided annually to the City by Operator. The ten largest customers, in the aggregate, represent less than 10% of the total revenues of the Solid Waste Enterprise System, and no individual customer accounts for more than 1.7% of the total revenues. The top ten customers are listed in alphabetical order below.

Table 9
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Ten Largest Customers
Calendar Year 2015

Customer (Type of Account)	Land Use
City of Napa Parks and Recreation	Government
County of Napa	Government
Creekside Park Apartments	Multi-family
Hawthorne Village Apartments	Multi-family
The Home Depot	Retail
Meritage Hotel	Hotel
Napa Premium Outlets	Retail
Napa Valley Unified School District	Educational
Queen of the Valley Hospital	Medical
Whole Foods Market	Retail

Source: Operator.

City Fiscal Policy for Solid Waste Enterprise Fund Reserves

The City Council has adopted a Fiscal Policy for the Solid Waste and Materials Diversion (Recycling) Enterprise Fund. The policy requires establishment and maintenance of the various reserves for the fund, which are set forth in the following table and described below.

Table 10
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Summary of Reserve Funds
As of June 30, 2014 through 2016

	Balance as of June 30, 2014	Balance as of June 30, 2015	Balance as of June 30, 2016 (Unaudited)
Reserve Funds			
Liability Reserve	\$350,000	\$350,000	\$350,000
Capital Improvement Projects (in process)	1,526,657	1,691,951	1,800,691
Capital Improvement Projects Reserve (future projects)	2,546,764	0	0
Operating Reserve	4,956,476	3,284,302	3,940,000
Rate Stabilization Reserve	1,241,118	1,387,018	1,636,142
Total	\$10,621,015	\$6,713,271	\$7,726,833

Source: City of Napa.

The Fiscal Policy for the City's Solid Waste and Materials Diversion (Recycling) Enterprise Fund requires that the following reserves be maintained at specified levels (see below). The Fiscal Policy is subject to change from time to time by the City Council and is not legally binding on the City.

- *Liability Reserve.* This reserve is designed to fund liabilities of the City for items related to the operations of the Solid Waste and Materials Diversion (Recycling) Enterprise Fund. These include a portion of the costs of litigation related to the closure of the former Coombsville Dump Site. See “–Coombsville Dump/Hidden Glen Landfill” above. The policy requires a minimum balance in the liability reserve of \$200,000. As of June 30, 2016, the balance was \$350,000. No additional contributions to this reserve are currently anticipated.
- *MDF Capital Improvement Projects Reserve.* The policy requires that for projects in excess of \$125,000, a capital improvements project reserve be established. The amount of the required reserve is revised during each Rate Study to determine the annual contribution required based on the most recent Capital Improvement Project Plan. As of June 30, 2016, the minimum annual contribution was \$536,000. The City separates the reserve between ongoing projects (e.g. Covered Composting System project expected to be funded in part from proceeds of the Bonds) and future projects. Due to the size of the Covered Composting System project, all Capital Improvement Project funds (for the period ending June 30, 2015 and June 30, 2016) are shown in the (in process) Capital Improvement Projects reserve. The reserve for the on-going Capital Improvement Projects reserve (in process) as of June 30, 2016 (unaudited) was \$1,800,691.
- *Operating Reserve.* The policy requires an operating reserve be maintained with a minimum balance equal to 20% of annual operating costs, less debt service on outstanding indebtedness, capital expenses and contributions to the Street Resurfacing Fund. As of June 30, 2016, the balance was \$3,940,000, which is equal to 17.3% of Fiscal Year 2016-17 budgeted operating costs less the specified costs to be deducted. The City is working toward increasing the reserve to meet the 20% requirement.
- *Rate Stabilization Reserve.* The policy requires a rate stabilization reserve be maintained with a minimum balance equal to 9% of annual operating costs for Fiscal Year 2016-17 and 10% of annual operating costs for Fiscal Year 2017-18 and beyond. As of June 30, 2016, the balance was \$1,636,142 or 9%.

Financial Statements

Current Financial Statements. Attached as APPENDIX B are the audited financial statements of the City for Fiscal Year 2014-15, which include financial statements for the City's Solid Waste and Materials Diversion (Recycling) Enterprise Fund, prepared by the City's independent accounting firm, Vavrinek, Trine, Day & Company, LLP, Certified Public Accountants, Pleasanton, California (the “**Auditor**”). *The City has not requested nor did the City obtain permission from the Auditor to include the City's audited financial statements as an appendix to this Official Statement. Accordingly, the Auditor has not performed any post-audit review or reviewed this Official Statement.*

The financial statements for the City's Solid Waste and Materials Diversion (Recycling) Enterprise Fund reflect all the revenues and expenses of the Solid Waste Enterprise System. These include payments to Operator, costs for City staff, overhead and administration and mitigation fees for street maintenance and repair paid to the General Fund.

Future Financial and Operating Information. The City will covenant in the Continuing Disclosure Certificate to provide, on an annual basis, financial information about the Solid Waste and Materials Diversion (Recycling) Enterprise Fund, along with certain operating data relating to the Solid Waste Enterprise System. See "APPENDIX D – Form of Continuing Disclosure Certificate."

Historical Fund Balances

The following table sets forth the balance sheets for the Solid Waste and Materials Diversion (Recycling) Enterprise Fund for the past five fiscal years.

Table 11
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Historical Balance Sheets
As of June 30, 2012 through 2015 (Audited) and
As of June 30, 2016 (Unaudited)

	Audited				Unaudited
	2012	2013	2014	2015	2016
ASSETS					
<i>Current Assets</i>					
Cash & Investments ⁽¹⁾	\$10,584,321	\$11,849,645	\$10,830,477	\$7,792,262	\$8,031,808
Receivables					
Accounts	2,826,013	3,081,702	2,847,215	2,096,348	3,008,408
Fed, state, other government & interest receivable ⁽²⁾	51,885	142,652	49,542	11,497	--
<i>Total Current Assets</i>	<u>13,462,222</u>	<u>15,073,999</u>	<u>13,727,234</u>	<u>9,900,107</u>	<u>11,040,216</u>
<i>Non-Current Assets</i>					
Restricted Cash & Investments ⁽³⁾	2,448,448	2,510,997	64,643	--	--
Capital Assets					
Nondepreciable ⁽⁴⁾	4,270,727	4,460,820	4,014,660	7,618,987	9,482,232
Depreciable, net	5,427,526	5,151,420	6,003,464	5,876,818	5,454,367
<i>Total Non-Current Assets</i>	<u>12,146,701</u>	<u>12,123,237</u>	<u>10,082,767</u>	<u>13,495,805</u>	<u>14,936,599</u>
TOTAL ASSETS	<u>25,608,923</u>	<u>27,197,236</u>	<u>23,810,001</u>	<u>23,395,912</u>	<u>25,976,815</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Outflows related to pension ⁽⁵⁾	--	--	--	109,842	109,842
LIABILITIES					
<i>Current Liabilities</i>					
Accounts payable and accrued liabilities	1,637,065	2,763,360	1,967,511	2,088,108	1,600,010
Compensated absences	3,612	4,669	7,573	6,600	5,771
Accrued Interest	97,149	87,662			
Deposits payable	269,609	157,719	220,864	281,088	355,298
Unearned revenue		1,250			
Long Term Debt					
Revenue bonds	450,000	475,000	--	--	--
<i>Total Current Liabilities</i>	<u>2,457,435</u>	<u>3,489,660</u>	<u>2,195,948</u>	<u>2,375,796</u>	<u>1,961,079</u>
<i>Non-Current Liabilities</i>					
Compensated absences	26,290	36,182	35,258	39,363	39,939
Net Pension Obligation ⁽⁵⁾				1,285,230	1,285,230
Long Term Debt					
Revenue bonds, net of unamortized issuance costs and discounts ⁽³⁾	3,530,668	3,077,784			
<i>Total Non-Current Liabilities</i>	<u>3,556,958</u>	<u>3,113,966</u>	<u>35,258</u>	<u>1,324,593</u>	<u>1,325,169</u>
TOTAL LIABILITIES	<u>6,014,393</u>	<u>6,603,626</u>	<u>2,231,206</u>	<u>3,700,389</u>	<u>3,286,248</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows related to pension ⁽⁵⁾	--	--	--	194,127	194,127
NET ASSETS					
Invested in capital assets (net of related debt) ⁽⁶⁾	8,166,033	8,570,453	10,082,767	13,495,805	14,936,599
Restricted ⁽³⁾			64,643		
Unrestricted	11,428,497	12,023,157	11,431,385	6,115,433	7,669,683
TOTAL NET ASSETS	<u>\$19,594,530</u>	<u>\$20,593,610</u>	<u>\$21,578,795</u>	<u>\$19,611,238</u>	<u>\$22,606,282</u>

Footnotes to Table 11 appear on next page.

-
- (1) The reduction of Cash and Investments between FY 2013-14 and FY 2014-15 was related to Capital Improvement Project expenditures, most notably the Covered Composting System.
 - (2) The Increase in Federal, state, other government & interest receivable in FY 2012-13 was related to an accounting correction to the Fair Market Value adjustment on investments.
 - (3) A number of categories: Restricted Cash & Investments, Accrued Interest, Long Term Debt and Restricted Fund Balance amounts in FY 2011-12 and FY 2012-13 reflect the obligation and reserves for the 2004 Solid Waste Bonds. The reduction to these categories in FY 2013-14 was due to the June 2014 pay off of the 2004 Solid Waste Bonds.
 - (4) The increase in Nondepreciable Capital Assets between FY 2013-14 and FY 2014-15 was related to the work in progress on Capital Improvement projects, most notably the Covered Composting System.
 - (5) A number of categories: Deferred Outflows related to pension, Net Pension Obligation and Deferred Inflows related to pension result from the City's implementation of GASB 68 in FY 2014-15.
 - (6) Fund Balance – Invested in capital assets increased between FY 2012-13 and FY 2013-14 due to the payoff of the 2004 Solid Waste Bonds. The increase between FY 2013-14 and FY 2014-15 was related to ongoing investment in capital improvement projects (most notably the Covered Composting System).

Source: City's Audited Financial Statements for fiscal years 2011-12 through 2014-15 and unaudited actuals for fiscal year 2015-16.

Historical Revenues and Expenses

The following table sets forth historical revenues and expenses for the Solid Waste and Materials Diversion (Recycling) Enterprise Fund, based upon the audited financial statements of the City for the years through June 30, 2015 and unaudited actuals for the fiscal year ended June 30, 2016.

Table 12
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Historical Revenues, Expenses and Debt Service Coverage
Fiscal Years 2011-12 through 2014-15 (Audited)
and Fiscal Year 2015-16 (Unaudited)

	Actual				Unaudited
	2011-12	2012-13	2013-14	2014-15	2015-16
REVENUE BY CATEGORY					
Charges for Services					
Collection Charges (rate revenue) ⁽¹⁾	\$16,469,927	\$16,596,244	\$16,699,303	\$17,255,525	\$19,454,030
Gate Fees ⁽²⁾	1,351,525	1,424,005	1,278,835	1,263,730	1,717,665
Material Sales	6,681,257	6,352,324	5,890,586	5,667,385	5,157,772
Other Charges for Services ⁽³⁾	18,246	31,108	205,006	18,560	120,397
Intergovernmental	43,730	58,018	53,752	32,694	49,177
Miscellaneous Revenues & Investment Earnings ⁽⁴⁾	268,199	41,833	219,645	41,161	154,195
TOTAL REVENUES	24,832,884	24,503,532	24,347,126	24,279,054	26,653,236
OPERATING EXPENSES (excludes depreciation)					
Salaries and Wages	470,448	488,386	519,835	614,633	619,534
Benefits	167,061	169,136	198,549	253,581	272,188
Materials, Supplies & Services					
Payments to Contractor	14,318,023	14,816,531	14,632,003	14,728,424	14,456,087
Payment of Transfer tip fees	2,368,261	2,352,211	2,547,836	2,713,736	2,965,173
Payments for Materials	1,658,661	1,876,182	1,680,196	1,780,309	1,967,929
Other Materials, Supplies & Services	866,728	737,773	744,125	776,335	673,610
Transfers Out – Admin Support from General Fund ⁽⁵⁾	773,967	527,891	470,498	479,908	494,305
TOTAL OPERATING EXPENSES	20,623,149	20,968,110	20,793,042	21,346,926	21,448,827
NET REVENUES (REVENUES - OPERATING EXPENSES)	4,209,735	3,535,422	3,554,084	2,932,128	5,204,410
DEBT SERVICE CALCULATIONS					
Debt Service ⁽⁶⁾	665,567	664,842	662,838	--	--
DEBT SERVICE COVERAGE	6.3x	5.3x	5.4x	N/A	N/A
Other Items⁽⁷⁾					
Revenues					
Material Sales related to Increased Building Activity	--	--	--	--	--
2004 Solid Waste Revenue Bonds - Bond Reserve	--	--	2,510,997	--	--
Additional Uses of Reserve to extinguish outstanding balance of 2004 Solid Waste Revenue Bonds	--	--	892,000	--	--
Expenditures					
Payoff of 2004 Solid Waste Revenue Bonds	--	--	3,310,000	--	--
One-time Accounting Adjustment to Record Bad Debt Expense for fund	--	--	--	894,837	--
Capital Outlay / Depreciation	420,434	621,499	597,008	791,085	489,169
Contribution to Street Resurfacing Assessment	\$1,500,000	\$1,700,000	\$1,780,623	\$1,834,041	\$1,832,635

Note: The City, in accordance with GAAP Section 80.20.50 presents the financials (including debt service obligations) for the Solid Waste Enterprise Fund using the accrual basis of accounting. This presentation has also been utilized for this Table 12.

(1) Collection Charges (rate revenue). The increase between FY 2014-15 and FY 2015-16 was primarily caused by (a) the rate increase impact \$700,000, and (b) unanticipated variable revenue from construction roll-off drop box activity (\$1.5 million) from increased construction activity in the City.

(2) Gate Fees – Beginning in FY 2015-16 and growing through FY 2017-18 (see Table 13 below), the new permit and covered compost system will result in 30,000 tons of new material being delivered to the Napa MDF.

(3) Other Charges for Services in FY 2013-14 included \$180,000 of one-time revenue related to funds set aside for diversion incentives. The increase of approximately \$80,000 in FY 2015-16 was the refund of City paid property taxes resulting from the March 2014 annexation of the facility property. Debt Service shown is for the 2004 Solid Waste Bonds. These bonds were paid off in Fiscal Year 2013-14. The payoff of the 2004 bonds utilized \$0.9 million from Reserves.

(4) The decrease in Miscellaneous Revenues & Investment Earnings between FY 2013-14 and FY 2014-15 is related to the payoff of the 2004 Solid Waste Bonds in June 2014, which reduced the investment holdings.

(5) Administrative support provided by the General Fund is calculated through the City's Cost Allocation Plan. This includes support from the City Council, City Attorney, City Manager, City Clerk, Human Resources, and the Finance Department.

(6) Debt Service shown is for the 2004 Solid Waste Bonds. These bonds were paid off in FY 2013-14. The payoff of the 2004 bonds utilized \$0.9 million from Reserves.

(7) Other Items – Revenues and Expenditures not considered in Debt Service calculations are noted for informational purposes only.

Source: City's Audited Financial Statements for fiscal years 2011-12 through 2014-15 and unaudited actuals for fiscal year 2015-16.

Projected Revenues, Maintenance and Operation Expenses and Debt Service Coverage

The following table sets forth projected Revenues, Maintenance and Operation expenses and debt service coverage for the Solid Waste and Materials Diversion (Recycling) Enterprise Fund for the next five fiscal years: Fiscal Years 2016-17 through 2020-21. The projections reflect the following:

Current Rates and Rate Increases. The projected collection rates for Fiscal Year 2016-17 are those used by the City which became effective January 1, 2016; the projected revenues for subsequent future fiscal years assume a 6% increase in the rate structure effective July 1, 2017; 4% effective January 1 2018, 4% effective January 1, 2019; 3% effective January 1, 2020; and 3% effective January 1, 2021. Such future rate increases have not been adopted by the City Council and would be subject to compliance with Proposition 218 and other factors. No assurance can be given that rate increases at this or any other level will be adopted and/or maintained in the future. See “RISK FACTORS – Proposition 218.”

Maintenance and Operation Expenses. The projected Maintenance and Operation Expenses for Fiscal Year 2016-17 are based on the adopted budget, with adjustments to reflect the definition of Maintenance and Operation Expenses established by the Indenture; the projected Maintenance and Operation Expenses for subsequent years assume increases as noted in the footnotes to the table.

Table 13
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Projected Revenues, Expenses and Debt Service Coverage
Fiscal Years 2016-17 through 2020-21

	Projected				
	2016-17	2017-18	2018-19	2019-20	2020-21
REVENUE BY CATEGORY					
Charges for Services					
Collection Charges (rate revenue) ⁽¹⁾	\$18,179,351	\$19,979,351	\$20,699,351	\$21,239,351	\$21,779,351
Gate Fees ⁽²⁾	1,900,000	2,200,000	2,200,000	2,200,000	2,200,000
Material Sales ⁽³⁾	4,848,306	4,557,408	4,283,963	4,112,605	3,948,100
Other Charges for Services	22,331	22,331	22,331	22,331	22,331
Intergovernmental	59,549	50,000	50,000	50,000	50,000
Miscellaneous Revenues & Investment Earnings ⁽⁴⁾	279,682	200,000	200,000	200,000	200,000
TOTAL REVENUES	25,289,219	27,009,090	27,445,645	27,824,287	28,199,782
OPERATING EXPENSES (excludes depreciation)					
Salaries and Wages ⁽⁵⁾	792,507	823,018	854,704	887,611	921,784
Benefits ⁽⁶⁾	353,353	371,021	389,572	409,051	429,503
Materials, Supplies & Services					
Payments to Contractor ⁽⁷⁾	14,884,693	15,956,131	16,496,284	16,962,691	17,195,509
Payments of Transfer tip fees ⁽⁸⁾	2,796,812	2,896,812	2,996,812	3,096,812	3,196,812
Payments for Materials ⁽⁹⁾	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Other Materials, Supplies & Services ⁽¹⁰⁾	960,845	900,000	922,500	945,563	969,202
Transfers Out – Admin Support from General Fund ⁽¹⁰⁾	509,134	528,736	549,092	570,232	592,186
TOTAL OPERATING EXPENSES	22,297,345	23,475,718	24,208,965	24,871,959	25,304,995
NET REVENUES (REVENUES - OPERATING EXPENSES)	2,991,873	3,533,371	3,246,680	2,952,327	2,894,787
DEBT SERVICE CALCULATIONS					
Debt Service ⁽¹²⁾	227,441	326,210	865,764	864,169	861,237
DEBT SERVICE COVERAGE	13.2x	10.8x	3.8x	3.4x	3.4x
Other Items⁽¹³⁾					
Expenditures					
Capital Outlay / Depreciation	804,270	804,270	804,270	804,270	804,270
Contribution to Street Resurfacing Assessment	\$1,872,953	\$1,914,158	\$1,956,269	\$1,999,307	\$2,043,292

Note: The City, in accordance with GAAP Section 80.20.50 presents the financials (including debt service obligations) for the Solid Waste Enterprise Fund using the accrual basis of accounting. This presentation has also been utilized for this Table 13.

- (1) Collection Charges (rate revenue) assumes rate increases as follows: 6.0% effective July 1, 2017; 4.0% effective January 1, 2018; 4.0% effective January 1, 2019; 3.0% effective January 1, 2020; and 3.0% effective January 1, 2021.
- (2) Gate Fees. Beginning in FY 2015-16 (see Table 12 above) and growing through FY 2017-18, the new permit and covered compost system will result in 30,000 tons of new material being delivered to the Napa MDF with an assumption of 10,000 new tons each year of the three FY period. This growth is made possible by the expanded capacity provided by the Covered Composting System. See "THE SOLID WASTE ENTERPRISE SYSTEM – Capital Improvement Program" for more information on this anticipated improvement.
- (3) Material Sales assumes an annual reduction of 6% in FY 2016-17 through FY 2018-19 (based on the 3-year average decline between FY 2012-13 and FY 2015-16), and 4% annual decline thereafter due to continuing erosion of the global commodity markets.
- (4) Miscellaneous Revenues & Investment Earnings project approximately \$50,000 per year in Miscellaneous revenues and \$150,000 per year in investment earnings.
- (5) Salaries and Wages assume cost of living and merit increases of approximately 3.85% per year (consistent with City projections). The increase between FY 2015-16 and FY 2016-17 results from the comparison of actuals (FY 2015-16) to budget (FY 2016-17). Budget salaries & wages assume a 2% vacancy rate for positions that may be vacant during the year.
- (6) Benefits assume benefit cost increase of approximately 5% per year (consistent with City projections). Benefits includes Pensions, Medical, dental and other benefits.
- (7) Payments to Contractor in FY 2017-18 through FY 2020-21 were estimated in accordance with the terms of the agreement currently in negotiation with the contractor.
- (8) Payment of Transfer tip fees are projected to increase \$100,000 per fiscal year.
- (9) Payments to Northern for Materials Sales is projected to remain consistent at \$2.0 million per fiscal year.
- (10) Other Materials, Supplies & Services in FY 2016-17 are higher than usual due to the funding for additional support and review during both contract negotiations, and development of financing alternatives. Expenditures are projected to normalize at \$1.0 million, and increase by 2.5% per year through FY 2020-21.
- (11) Administrative support provided by the General Fund is calculated through the City's Cost Allocation Plan. This includes support from the City Council, City Attorney, City Manager, City Clerk, Human Resources, and the Finance Department.
- (12) The FY 2016-17 Adopted Budget includes an appropriation of \$1.7 million for new bonded indebtedness; however, the amounts shown reflect actual debt service on the Bonds.
- (13) Other items - Revenues and Expenditures not considered in Debt Service calculations are noted for informational purposes only.

Source: City of Napa.

Capital Improvement Program

As noted above, the City's Fiscal Policy for the Solid Waste and Materials Diversion (Recycling) Enterprise Fund includes establishment and maintenance of the Capital Improvement Project Reserve. Annual contributions to this reserve are calculated based upon annual updates of the Capital Improvement Project Plan for the Solid Waste Enterprise System and the Napa MDF. As noted above under "FINANCING PLAN – General," the City intends to use the proceeds of the Bonds to fund three capital improvement projects for the Solid Waste Enterprise System. These projects are described below.

The first two projects (covered composting system/CASP and Stormwater upgrades) constitute priority improvements at the Napa MDF. The City and its Operator obtained CEQA clearance for these two projects in February 2014. Certain other permits and approvals are in place or expected. See "SOLID WASTE REGULATIONS" herein. The third project (roof extensions of materials recovery building) will only be funded by Bond proceeds if and when the first two projects are completed, a CEQA initial study and determination is completed for the project and there are funds remaining and available to apply to such project.

Covered Composting System/CASP. In July 2012, the City Council approved the City's "Disposal Reduction Policy," which aligns the City with Statewide goals of 75% recycling and composting of discarded materials by 2020. To achieve the City's goals, discarded food scraps will need to be captured for composting and the Napa MDF will have to be upgraded in order to properly receive and process a wider range of organic materials (including food scraps and soiled paper). Volatile organic compounds (VOC) and odor emission control will require a new covered compost system. This new system must include positive pressure to capture and direct emissions through a natural biofilter (which is a minimum twelve inches of "finished" stable compost). The technical name for the system is a Covered Aerated Static Pile or "CASP" system that will help mitigate odors as well reduce air emissions by over 80% according to studies conducted on similar CASP systems. The total cost including permitting, CEQA analysis and organics receiving building and pre-processing system is projected at approximately \$12.0 million to \$12.5 million, with approximately \$5.0 million already incurred to date and the remaining portion, of approximately \$7.0 million to \$7.5 million, to be funded by proceeds of the Bonds.

Stormwater Upgrades. In August of 2015, the State of California Water Resources Control Board issued a "General Order" for compost facilities such as the Napa MDF. The General Order sets standards for construction, operation and maintenance of composting facilities to protect surface and groundwater quality. It provides a number of requirements, including standards for the permeability of the ground underneath compost piles, drainage and specifications for leachate collection and containment. The Order also includes requirements for monitoring and reporting. The Napa MDF has an existing general discharge permit, but the City must now obtain a new "compost operations permit," which requires that the Napa MDF meet significantly more stringent stormwater run-off requirements. The necessary stormwater basin and treatment upgrades to the Napa MDF are projected to cost between \$2.0 million to \$2.5 million and are projected to be constructed, using proceeds of the Bonds, in the summer of 2017 after the CASP system is constructed and becomes operational in the spring of 2017.

Roof Extensions of Materials Recovery Building. The planned improvement is a series of extensions of the roof on the existing Material Recovery Building which consist of three contiguous rooftops. The planned extensions would add 23,380 square feet of roof to two adjacent rooftops, and is projected to cost \$1.0 million to \$1.5 million. The area of the two

existing rooftops to which the additions will be made total 32,000 square feet, while there is a total of 35,000 square feet of existing, contiguous rooftop area. The purpose of the additional roof area is to provide protection for stored recyclable materials and to protect storm water quality. As noted above for the stormwater upgrades in the composting area of the Napa MDF, storm water regulations are becoming increasingly stringent, with new regulations having gone into effect in July, 2015 for the “non-compost” side of the Napa MDF facility. Additionally, the roof extensions will provide for a larger protected storage area for processed and unprocessed recyclables, thereby maximizing the facility’s recycled tons. The improvements would not change any existing activities at the Napa MDF, but instead provide additional roof area for on-going activities.

Unlike the CASP system and compost facility stormwater upgrades described above, the roof extensions improvement has not completed the CEQA analysis and study process. An initial draft study has been conducted and the City’s Planning Division is expected to release the study for consultation and review in September 2016 with a 20-day general public review period to follow the 30-day initial review period. A CEQA determination and finding would be completed prior to any physical change or construction activities for this expected capital improvement to the Napa MDF.

The City has not yet entered into construction contract(s) for any of the three improvements anticipated to be funded with proceeds of the Bonds. The City expects to issue a Request for Proposals (RFP) for a design-build construction contract for the Covered Composting System/CASP in October, 2016, with an anticipated contractor selection in late November/early December, 2016. The RFP will seek to address design and construction of the composting-related stormwater improvements as well as the Covered Composting System/CASP system, with the stormwater upgrades to begin in the summer of 2017 once the Covered Composting System/CASP project element is constructed and becomes operational. With respect to the roof extensions project on the main sorting building at the Napa MDF, the RFP will address them as an optional project. Depending on the cost estimates obtained through the RFP process, the roof extensions may or may not be added to the design-build contract award. In all cases, the roof extensions would only be initiated after the conclusion of the CEQA process.

If cost estimates obtained by the City through the RFP process for any of the foregoing improvement projects are higher than estimated, the City anticipates it would scale back the applicable project, issue additional Parity Bonds and/or use ongoing revenues to complete the applicable project. The CASP and stormwater upgrades must be constructed and installed in a timely manner to assure permit compliance (solid waste, air and water) for the Napa MDF in a timely manner. See “RISK FACTORS – Use of Bond Proceeds; Financial Projections” herein.

Biomass Gasification Energy System. Although not anticipated to be funded with proceeds of the Bonds, the City is considering the construction of a biomass gasification energy system. Starting in the spring of 2016, operators in the State began experiencing reduced available disposal/recycling options for processed wood waste (aka “wood chips”). For years, the City, like virtually all jurisdictions in the State with active wood recycling operations, has relied on large scale “biomass cogeneration” facilities that take in wood chips as a fuel source for electricity generation. These biomass facilities have, in turn, relied on purchase agreements with utility buyers in the State. With utility buyers recently turning to other sources of electricity, wood chip generators (like the City) need to revisit their long-term options for wood chips. The City is currently considering the possibility of working with Operator or another third party that would construct a small (1 MegaWatt) biomass plant at the Napa MDF to utilize the wood chips

as well as provide onsite power to the facility, which the City would expect would not be financed with Parity Bonds but instead be paid as part of Maintenance & Operations Costs. However, no decisions have been made at this time.

No Senior or Parity Obligations

There are no outstanding bonds or other obligations payable from Revenues on a senior or parity basis with the Bonds.

Additional Information on Material Sales

Material sales represent the second largest source of revenue to the Water Enterprise System. As noted above, Operator sells, on behalf of the City, recyclable materials processed at the Napa MDF. These processed materials consist of compost, crushed asphalt and concrete, various grades of plastic, various grades and colors of paper, metals, chip board, and various grades and colors of glass. The revenue realized from the sale of recycled material is shared between the City and its Operator under the Collection Contract (currently, 70% is retained by the City and 30% is paid to Operator). There is significant variability from year to year in the volume of recycled material and the market price for recycled material since much of the material is sold from the Napa MDF into the global markets. Accordingly, the City's projected revenues from material sales is highly uncertain.

The following tables provide additional information for the past five calendar years (2011 through 2015) regarding the top five commodities by revenue, for the Solid Waste Enterprise System, based on total revenue from material sales.

Table 14
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Material Sales – Top 5 Commodities by Revenue
Calendar Years 2011 through 2015

	2011	2012	2013	2014	2015
Cardboard	\$1,830,050	\$1,377,662	\$1,243,187	\$1,052,421	\$1,020,186
PET Plastic (Bottles)	745,582	1,111,637	1,255,612	1,128,256	1,074,493
Newspaper/Mixed Paper	962,663	867,420	804,875	775,693	520,359
Aluminum	410,996	538,228	668,303	653,836	618,273
Green Glass (Bottles)	510,174	520,332	552,672	539,287	499,114
Top 5 Total	4,459,464	4,415,279	4,524,648	4,149,492	3,732,425
Total Revenue ⁽¹⁾	\$5,756,857	\$5,727,318	\$5,851,802	\$5,577,396	\$4,827,381
Top 5 % of Total Revenue	77%	77%	77%	74%	77%
Year-over-Year Change	--	(1.0)%	2.0%	(8.0)%	(10.0)%

(1) Total revenues from material sales does not include direct compost and gravel sales. These revenues have averaged \$265,000 over the 5 years shown, ranging from a low of \$203,000 in calendar year 2011 to a high of \$330,000 in calendar year 2013.

Source: City of Napa

Table 15
CITY OF NAPA
SOLID WASTE ENTERPRISE SYSTEM
Material Sales – Volume of Top 5 Commodities by Revenue
Calendar Years 2011 through 2015
(Volumes In Tons)

	2011	2012	2013	2014	2015
Cardboard	9,697	9,189	8,357	7,381	9,154
PET Plastic (Bottles)	571	704	781	721	625
Newspaper/Mixed Paper	6,129	7,410	7,412	7,611	6,465
Aluminum	122	156	157	149	154
Green Glass (Bottles)	4,206	3,983	4,092	4,110	3,893
Top 5 Total ⁽¹⁾	20,724	21,441	20,799	19,972	20,291

(1) Totals may not foot due to rounding.

Source: City of Napa

The financial projections regarding revenues, expenses and debt service coverage in Table 13 above assume an annual decline in Material sales revenues of 6% in Fiscal Year 2016-17 through Fiscal Year 2018-19 (based on the 3-year average decline between Fiscal Year 2012-13 and Fiscal Year 2015-16), and 4% annual declines thereafter due to continuing erosion of the global commodity markets. There can be no assurance that actual Material sales revenues will be consistent with those projections and they may be materially adversely different.

SOLID WASTE REGULATIONS

California Integrated Waste Management Act. The California Integrated Waste Management Act, or AB 939, became effective on January 1, 1990, and implemented numerous revisions in state law which, among other things, directed all California cities and counties to maximize all feasible source reduction, recycling and composting options in order to reduce the amount of solid waste that must be disposed of by transformation (through waste-to-energy projects or other processes) and land disposal. As a result of AB 939, solid waste management changed to an integrated solid waste management approach in which source reduction, recycling and composting play an integral role in the waste management strategy.

Under AB 939, each city or county (a "local agency") in the State was required to achieve a 25% diversion in solid waste disposed of in landfills or by transformation by January 1, 1995, and 50% by the year 2000. Local agencies are responsible for these goals whether or not they control disposal of wastes generated within their jurisdiction. Local agencies could face monetary fines of up to \$10,000 per day if CalRecycle deems local planning efforts to be inadequate or if localities fail to satisfactorily implement plans to achieve the 25% and 50% goals, although monetary fines of this size follow failure by a local agency to comply with a voluntary plan and failure by a local agency to comply with a compliance order imposed by CalRecycle.

For calendar years 2014 and 2015 the City reported diversion rates of 65% and 67%, respectively, to CalRecycle. Thus, the City is in compliance with AB 939.

AB 341 was signed into law in 2011, amending the California Integrated Waste Management Act to, among other things, establish a Statewide goal of 75% diversion by 2020. AB 341 further required all businesses generating four cubic yards of solid waste and all multi-family complexes of five units or more to arrange for recycling services by July 1, 2012. The City is required to provide such a program as of the same date and has done so. Businesses and multi-family complexes may participate in the City's commercial recycling program or may donate or sell their recyclable materials to a third party. The City's annual report to CalRecycle must report on the number of businesses and multi-family complexes that are participating in a recycling program and the number (if any) that are not. The City and Operator work continuously with businesses and multi-family complexes to make sure all are participating in a recycling program.

AB 1826 was signed into law in 2014, further amending the California Integrated Waste Management Act. This amendment requires all businesses generating eight or more cubic yards of compostables to participate in a compostables collection program (food scraps, green waste and wood) by April 1, 2016. Businesses generating four cubic yards of compostables per week must participate by January 1, 2017. Businesses generating four cubic yards of solid waste per week must participate by January 1, 2019. CalRecycle may require businesses generating two cubic yards of solid waste to participate beginning January 1, 2020 if statewide diversion targets are not being met. Multi-family complexes of five or more units must participate in a compostables collection program for green waste and wood by April 1, 2016. The City was required to provide a program for collection and processing of compostables by April 1, 2016 and has done so. For calendar year 2015 there were a total of 51 business and multi-family complexes participating in this program. The City and Operator are continuing to add participants to this program.

AB 341 required CalRecycle to develop a Statewide plan to divert 75% of all solid waste by 2020. The City adopted a corresponding "Disposal Reduction Policy" in July of 2012 (Resolution No. 2012-100) to align with the 75% goal for the City by 2020 as well. A cornerstone of that plan is diversion of food scraps. As discussed elsewhere in this Official Statement, a portion of the Bond proceeds are expected to be used to upgrade the City's composting operation, enabling expansion of the commercial food scrap collection program as described above. Pursuant to the new permit issued by CalRecycle for the Napa MDF, the City can also accept and process food scraps and other compostable materials from collection companies outside of the City and from other jurisdictions in the region for processing at the Napa MDF.

Solid Waste Disposal Regulations. The City's solid waste management system is regulated at the local, state and federal levels. CalRecycle has primary oversight and regulatory responsibilities for the City's system and has designated the Napa County Administrator as the Local Enforcement Agency ("**LEA**"). The LEA makes regular inspections at the Napa MDF, the Transfer Facility and the Landfill to ensure that they are in compliance with regulatory requirements as set forth by the Environmental Protection Agency and the State.

Since its enactment in 1976, the federal Resource and Conservation Recovery Act ("**RCRA**") included authority for the United States Environmental Protection Agency ("**USEPA**") to control the disposal of solid waste ("**Subtitle D**"), as well as the management of hazardous waste ("**Subtitle C**"). The State's regulatory program enforces the federal RCRA provisions.

As part of Subtitle D, financial responsibility regulations require owners or operators of hazardous waste facilities to demonstrate financial assurance for sudden and accidental pollution occurrences as well as for non-sudden or gradual pollution occurrences.

The United States Congress and the State legislature are, at any given time, considering a variety of bills involving solid waste and recycling issues. The City is unable to predict which, if any, of the potential State or federal legislative enactments may be implemented or how any particular proposed legislation might impact the solid waste collection, recycling and disposal services provided by the City.

Air and Water Quality Regulations. Solid waste management facilities are closely monitored to protect air and water quality. Under the State Porter-Cologne Water Quality Control Act (the "Porter-Cologne Act"), the City is required to report waste discharges that could affect water quality. The Porter-Cologne Act is administered and enforced by the State Water Resources Control Board and Regional Water Quality Control Boards (RWQCB). An application for a revised stormwater permit for the Napa MDF, including the covered composting system and stormwater improvements expected to be funded with a portion of the proceeds of the Bonds has been submitted to the RWQCB and permit issuance is expected by the spring of 2017.

AB 32, the California Global Warming Solutions Act of 2006, requires California to reduce its greenhouse gas emissions to 1990 levels by 2020; a reduction of approximately 15% below emissions expected under a "business as usual" scenario. Pursuant to AB 32, the State Air Resources Board (ARB) must adopt regulations to achieve the maximum technologically feasible and cost-effective GHG emission reductions. The Napa MDF falls within the jurisdiction of the Bay Area Air Quality Management District (BAAQMD), which is the regional agency reporting to the State Air Resources Control Board. The BAAQMD is charged with enforcing state law and with promulgating and enforcing regulations to achieve federal and state clean air

requirements. A revised permit application for the Napa MDF that includes the covered composting system and stormwater improvements has been submitted to the BAAQMD and permit issuance is expected by the end of calendar year 2016.

RISK FACTORS

The following discussion of risks is not meant to be an exhaustive list of the risks associated with the purchase of the Bonds, and the order in which the risks are described does not necessarily reflect the relative importance of the various risks.

Limited Obligations

Payment of principal of and interest on the Bonds depends upon the City's receipt of Gross Revenues. The Bonds are limited obligations of the City and are not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except Net Revenues, which are defined as Gross Revenues less Maintenance and Operation Costs. The obligation of the City to pay debt service on the Bonds from Net Revenues does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Rate Covenant Not a Guarantee; Sufficiency of Revenues

Rate Covenant Not a Guarantee. The City's rate covenant does not constitute a guarantee that sufficient Net Revenues will be available to pay debt service on the Bonds. In addition, see "Proposition 218" below for information regarding potential limitations on the City's ability to comply with the rate covenant as a consequence of Proposition 218.

Sufficiency of Net Revenues. There can be no assurance that the City, or its contractors, can succeed in operating the Solid Waste Enterprise System such that the Net Revenues in the future amounts projected in this Official Statement will be realized. Specifically, there can be no assurance that local demand for the services of the Solid Waste Enterprise System will be maintained at the levels described in this Official Statement, or that the assumptions used to project demand for refuse collection services will be realized in the future.

In addition, there can be no assurance that the costs of maintaining and operating the Solid Waste Enterprise System will be consistent with the levels described in this Official Statement, or that the assumptions used to project these costs will be realized in the future. There can be no assurance that changes in regulatory requirements, changes in technology, increased energy costs, change in the waste stream, or other factors will not increase the costs of maintaining and operating the Solid Waste Enterprise System with a resulting decrease in Net Revenues.

Reductions in the level of revenue could require an increase in rates and charges in order to produce Net Revenues sufficient to comply with the City's rate covenant contained in the Indenture, and any such increases could act to further decrease demand.

Limitations on Remedies and Limited Recourse on Default

The remedies available to the owners of the Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition to the limitations on remedies contained in the Indenture, the rights and obligations under the Indenture may be subject to bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. The opinion to be delivered by Bond Counsel concurrently with the issuance of the Bonds will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the Bonds will be similarly qualified. See "APPENDIX F – PROPOSED FORM OF BOND COUNSEL OPINION."

If the City fails to comply with its covenants under the Indenture or fails to pay principal of and interest due on the Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the Bonds. See "–Bankruptcy" below.

Selection of a New Contractor

If the City were to fail to find a satisfactory service provider to replace any Operator following the expiration of the applicable contract, or if it were to fail to find a replacement service provider at a satisfactory price, or if the current operator should fail to perform, the City's ability to manage and operate the Solid Waste Enterprise System could be adversely impacted, which could adversely impact the City's ability to pay debt service on the Bonds. See "THE SOLID WASTE ENTERPRISE SYSTEM – The Operator and its Contract with the City; Collection of Municipal Solid Waste (MSW), Recyclable Materials and Compostables."

Competition

The Net Revenues could be adversely impacted if the City were to face competition in the collection, recycling or disposal of solid waste within its service area.

However, the City's municipal code (with limited exceptions, see "SECURITY FOR THE BONDS – Flow Control") obligates residents and businesses in the City to use the City's solid waste collection services, and obligates residents and businesses to pay the rates established by the City.

The Napa-Vallejo Waste Management Authority, meanwhile, has agreed not to offer any recycling services provided by the City as part of the Solid Waste Enterprise System, without the City's consent. There are currently no large, independent companies offering competitive recycling services.

Use of Bond Proceeds; Financial Projections

Although the City anticipates using the proceeds of the Bonds to fund the improvements to the Napa MDF described above under "THE SOLID WASTE ENTERPRISE SYSTEM – Capital Improvement Program," the City has not entered into a construction contract for those improvements, and no assurance can be given that such a contract will be entered into in a timely manner, if at all. If for any reason the City chooses not to fund these improvements, the Indenture permits moneys in the Improvement Fund held by the Trustee under the Indenture to be used for any addition, extension, improvement, equipment, machinery or other facilities to or for the Solid Waste Enterprise System.

The projections regarding future revenues, expenses and debt service coverage in Table 13 assume that the Covered Composting System/CASP and stormwater improvements to the Napa MDF are completed on the anticipated schedule set forth in this Official Statement. The Covered Composting System and stormwater upgrades must be constructed and installed in a timely manner to assure permit compliance (solid waste, air and water) for the Napa MDF in a timely manner. Accordingly, if these improvements are not constructed on such schedule or not at all, actual revenues and debt service coverage may be materially adversely different from the projections set forth in Table 13.

Seismic and Environmental Considerations

The City is located in a seismically active area of California. If there were to be an occurrence of severe seismic activity in the area of the City, there could be an interruption in the service provided by the Solid Waste Enterprise System, resulting in a temporary reduction in the amount of Net Revenues available to pay debt service when due on the Bonds.

On August 24, 2014, a magnitude 6.0 earthquake struck the South Napa Fault, causing damage throughout the City, although the impact on the Solid Waste Enterprise System was less severe than on other buildings and facilities in the City.

Other environmental conditions, such as flooding, landslides or wildfires, could affect or interrupt the service provided by the Solid Waste Enterprise System, resulting in a temporary reduction in the amount of Net Revenues available to pay debt service when due on the Bonds.

Environmental Regulation

The City has identified some of the existing and potential environmental issues which could affect the Solid Waste Enterprise System. See "SOLID WASTE REGULATIONS" for brief discussions of some of these issues.

Proposition 218

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

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

Further, under Article XIID, revenues derived from a property-related fee or charge may not exceed the funds required to provide the "property-related service" and the entity may not

use such fee or charge for any purpose other than that for which it imposed the fee or charge. The amount of a property-related fee or charge may not exceed the proportional cost of the service attributable to the parcel, and no property-related fee or charge may be imposed for a service unless that service is actually used by, or is immediately available to, the owner of the property in question.

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

City's Current Practice Regarding Rates and Charges. The City's practice in implementing increases in solid waste rates and charges has been to comply with the requirements of Article XIID, including the practice of providing property owners with a 45-day mailed notice and public hearing before the City Council approves rate increases. The City believes its current rates have been adopted in compliance with Article XIID.

Conclusion. It is not possible to predict how courts will further interpret Article XIIC and Article XIID in future judicial decisions, and what, if any, further implementing legislation will be enacted. Under Article XIIC, local voters could adopt an initiative measure that reduces or repeals the City's rates and charges, though it is not clear whether (and California courts have not decided whether) any such reduction or repeal by initiative would be enforceable in a situation in which such rates and charges are pledged to the repayment of bonds or other indebtedness, as is the case with respect to the Bonds. ***There can be no assurance that the courts will not further interpret, or the voters will not amend, Article XIIC and Article XIID to limit the ability of local agencies to impose, levy, charge and collect increased fees and charges, or to call into question previously adopted rate increases.***

Bankruptcy

In addition to the limitations on remedies contained in the Indenture, the rights and remedies of Bondholders may be limited and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights generally.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code) (the “Bankruptcy Code”), which governs bankruptcy proceedings of public entities such as the City, no involuntary bankruptcy petition may be filed against a public entity. However, upon satisfaction of certain prerequisite conditions, a voluntary bankruptcy petition may be filed by the City. The filing of a bankruptcy petition results in a stay against enforcement of certain remedies under agreements to which the bankrupt entity is a party. A bankruptcy filing by the City could thus limit remedies under the Indenture. A bankruptcy debtor may choose to assume or reject certain executory contracts. In the event of rejection of an executory contract by a debtor, the counter-party has a claim for a limited amount of the resulting damages.

Under the Indenture, the Trustee holds a security interest in the Net Revenues and other funds pledged under the Indenture for the benefit of the Owners of the Bonds, but such security interest arises only when the revenues are actually received by the Trustee following payment by the City. The Solid Waste Enterprise System itself is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners. In the event of a

bankruptcy filed by the City and non-payment of Owners of the Bonds by the City, Bond Owners would have a claim for damages against the City. Such claim would constitute a secured claim only to the extent of revenues in the possession of the Trustee pledged to the payment to Owners of the Bonds; the balance of such claim would be unsecured.

In a bankruptcy of the City, if a material unpaid liability is owed to PERS or any other pension system (collectively the "Pension Systems") on the filing date, or accrues thereafter, such circumstances could create additional uncertainty as to the City's ability to make debt payments. Given that municipal pension systems in the State are usually administered pursuant to state constitutional provisions and, as applicable, other State and/or city or county law, the Pension Systems may take the position, among other possible arguments, that their claims enjoy a higher priority than all other claims, that Pension Systems have the right to enforce payment by injunction or other proceedings outside of a City bankruptcy case, and that Pension System claims cannot be the subject of adjustment or other impairment under the Bankruptcy Code because that would purportedly constitute a violation of state statutory, constitutional and/or municipal law. It is uncertain how a bankruptcy judge in a City bankruptcy would rule on these matters. In addition, this area of law is presently very unsettled because issues of pension underfunding claim priority, pension contribution enforcement, and related bankruptcy plan treatment of such claims (among other pension-related matters) are presently the subject of litigation in the Chapter 9 cases of several California municipalities, including the cities of Stockton and San Bernardino.

Possible Future Initiatives

In recent years several initiative measures other than Proposition 218 have been proposed or adopted which affect the ability of local governments to increase taxes, rates, and property-related fees and charges. There is no assurance that the electorate or the State Legislature will not at some future time approve additional limitations that could affect the ability of the City to implement rate increases for the Solid Waste Enterprise System, which could reduce Net Revenues and the City's ability to pay debt service on the Bonds, and could adversely affect the security for the Bonds.

Secondary Market for Bonds

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

LEGAL MATTERS

Tax Matters

The interest on the Bonds is not intended by the City to be excluded from gross income for federal income tax purposes. However, in the opinion of Jones Hall, A Professional Law Corporation ("Bond Counsel"), San Francisco, California, interest on the Bonds is exempt from California personal income taxes. The proposed form of opinion of Bond Counsel with respect to the Bonds to be delivered on the date of issuance of the Bonds is set forth in APPENDIX F.

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

Certain Legal Matters

Jones Hall, A Professional Law Corporation, Bond Counsel, will render an opinion with respect to the validity of the Bonds, the form of which opinion is set forth in APPENDIX F. Certain legal matters will also be passed upon for the City by Jones Hall, as Disclosure Counsel. Certain legal matters will be passed upon for the City by the office of the City Attorney.

Absence of Material Litigation

No litigation is pending or threatened concerning the validity of the Bonds. The City is not aware of any litigation pending or threatened questioning the political existence of the City or contesting the City's power to fix rates and charges for the Solid Waste Enterprise System, or the power of the City Council or in any way questioning or affecting:

- (i) the proceedings under which the Bonds are to be issued;
- (ii) the validity of any provision of the Bonds or the Indenture;
- (iii) the pledge of Net Revenues by the City under the Indenture; or
- (iv) the titles to office of the present members of the City Council.

There are a number of suits and claims pending against the City, which may include personal injury, wrongful death and other suits and claims against which the City may self-insure. The aggregate amount of the self-insured liabilities of the City which may result from such suits and claims will not, in the opinion of the City, materially impair the ability of the City to pay principal of or interest on the Bonds as the same become due.

There is no litigation pending, with service of process having been accomplished, against the City which if determined adversely to the City would, in the opinion of the City, materially impair the ability of the City to pay principal of and interest on the Bonds as they become due.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City and the Solid Waste Enterprise System by not later than 9 months after the end of the City's fiscal year, or March 31 of each year (based on the City's current fiscal year-end of June 30), commencing March 31, 2017, with the report for the 2015/16 fiscal year (the "**Annual Report**") and to provide notices of the occurrence of certain listed events. The Annual Report and listed event notices will be filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("**EMMA**").

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5) (the "**Rule**"). The specific nature of the information to be contained in the Annual Report or the notices of listed events by the City is set forth in APPENDIX D.

The City and certain related entities previously entered into certain disclosure undertakings under the Rule in connection with the issuance of long-term obligations. During the past five years, the City and such related entities have, in some instances, failed to comply in all material respect with their undertakings. The City and such related entities remediated many instances of historical non-compliance in a series of filings made in anticipation of the issuance of two series of tax allocation refunding bonds in late 2014.

Specific instances of non-compliance with continuing disclosure undertakings by the City and its related entities in the past five years are as follows:

- (i) with respect to the 2007 Bonds, audited financial statements and financial and operating data for the fiscal years ended June 30, 2011, 2012, 2013 and 2014 were filed up to 34 months late;

- (ii) with respect to the City's 2004 Solid Waste Revenue Bonds, audited financial statements and financial and operating data for the fiscal year ended June 30, 2012 were filed approximately 3 months late;

- (iii) with respect to the Napa Community Redevelopment Agency Parkway Plaza Redevelopment Project 2003 Tax Allocation Bonds, Series A, the Napa Community Redevelopment Agency 2003 Tax Allocation Bonds, Series B (Federally Taxable) (Housing Tax Revenues), and the Napa Community Redevelopment Agency 2003 Tax Allocation Refunding Bonds, Series C (Housing Tax Revenues), audited financial statements and financial and operating data for the fiscal years ended June 30, 2011, 2012 and 2013 were filed up to 32 months late; and

- (iv) the City and its related entities did not always timely file event notices regarding changes to the underlying ratings and/or insured ratings of certain of its bonds or notices of failure to timely file.

The City and its related entities have corrected past deficiencies and as of the date hereof, to the best of the City's knowledge, the City and its related entities have filed all required annual reports and notices of rating changes for its currently outstanding debt obligations.

The City has engaged NHA Advisors, LLC, to act as dissemination agent and to serve in an oversight capacity to aid in compliance with the City's undertakings under the Rule with

respect to its outstanding debt obligations and the Bonds.

In addition, in connection with the designation of the Bonds as “Green Bonds,” the City has agreed to file periodic updates regarding the expenditure of Bond proceeds on capital projects with the EMMA system. See APPENDIX G. These filings may, but need not, be included in the City’s Annual Report.

RATING

S&P Global Ratings (“S&P”), a division of Standard & Poor’s Financial Services LLC, has assigned a rating of “AA” to the Bonds.

This rating reflects only the views of S&P, and an explanation of the significance of this rating, and any outlook assigned to or associated with this rating, should be obtained from S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The City has provided certain additional information and materials to S&P (some of which does not appear in this Official Statement).

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

UNDERWRITING

Raymond James & Associates, Inc., the Underwriter of the Bonds (the “**Underwriter**”), has agreed to purchase the Bonds from the City at a purchase price of \$12,428,947.00 (being an amount equal to the principal amount of the Bonds (\$12,500,000.00), less an underwriter’s discount of \$71,053.00).

The purchase contract under which the Underwriter is purchasing the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the contract of purchase.

The public offering prices of the Bonds may be changed from time to time by the Underwriter. The Underwriter may offer and sell Bonds to certain dealers and others at a price lower than the offering price stated on the cover page of this Official Statement.

MUNICIPAL ADVISOR

The City has retained NHA Advisors, LLC, San Rafael, California, as its Municipal Advisor (the “**Municipal Advisor**”) in connection with the authorization and delivery of the Bonds. The Municipal Advisor assumes no responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

PROFESSIONAL FEES

In connection with the issuance of the Bonds, fees payable to the following professionals involved in the offering are contingent upon the issuance and delivery of the Bonds: Jones Hall, A Professional Law Corporation, as Bond Counsel and Disclosure Counsel; NHA Advisors, as Municipal Advisor to the City; and The Bank of New York Mellon Trust Company, N.A., as Trustee.

EXECUTION

The execution of this Official Statement and its delivery have been authorized by the City Council of the City.

CITY OF NAPA

By: _____ /s/ Roberta Raper

Title: _____ Finance Director

APPENDIX A

GENERAL INFORMATION ABOUT THE CITY OF NAPA AND NAPA COUNTY

The following information concerning the City of Napa and surrounding areas is included only for the purpose of supplying general information regarding the community. The Bonds are not a debt of the City, County, the State or any of its political subdivisions, and neither the City, the County, the State nor any of its political subdivisions is liable therefor.

General

The City of Napa. The City, located 52 miles northeast of San Francisco and 61 miles west of Sacramento at the southern end of the Napa Valley, is a light industrial, commercial, residential, and government center. The Napa area which includes the Napa Valley is rich in agricultural resources. The City encompasses 18.43 square miles in south central Napa County. The City provides a full range of urban services in support of a growing community.

As the government seat and the largest city in the County, the City of Napa is the location of government offices and other professional services such as attorneys, architects, financial institutions, graphic design and marketing firms, and real estate and insurance companies. Manufacturing is diversified; major products include wine and wine production items such as packaging, labels, bottles, corks, screw cap closures, and barrels; building materials; specialty foods such as grape and olive oils, purees, and baked products; apparel; and beverages and distilled spirits.

The County of Napa. Napa County (the “County”), located in northern California about fifty miles northeast of San Francisco, was incorporated in 1850 as one of the original 27 California counties. The County encompasses an area of approximately 794 square miles and includes five incorporated cities and towns. The County is bordered on the west by Sonoma County, on the northeast by Yolo County, on the north by Lake County, and on the southeast by Solano County. Napa County is characterized by northwest to southeast mountain ranges and valleys where it experiences various microclimates, contributing to the quality and diversity of wine grape production. The Napa River starts at the northern part of the Napa Valley and travels 55 miles south through the City where it enters the Mare Island Strait at the north end of San Pablo Bay. The topography is also marked by Lake Berryessa, an approximately 25-mile long, man-made lake in the northeastern part of the County, and Mount St. Helena, approximately 4,444 feet high, to the northwest.

Municipal Government

The City was incorporated in 1872 and operates under a council/manager form of government. All municipal departments operate under the supervision of the City Manager. The City Council consists of a Mayor elected at large for a four-year term and four other Council members elected at large for overlapping four-year terms.

Population

As of January 1, 2016 the County's population was approximately 142,028. The historic population estimates for the County and cities within the County as of January 1 of the years 2012 through 2016 are listed below.

CITY OF NAPA AND NAPA COUNTY Population Estimates As of January 1

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
American Canyon	19,795	19,954	20,177	20,245	20,374
Calistoga	5,115	5,029	5,056	5,050	5,180
Napa	77,933	78,663	79,516	79,940	80,576
St. Helena	5,800	5,755	5,852	5,931	6,004
Yountville	2,976	2,941	2,977	2,961	2,987
Unincorporated	26,455	26,502	26,676	26,771	26,907
Total County	138,074	138,844	140,254	140,898	142,028

Source: California State Department of Finance.

Effective Buying Income

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

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2011 through 2015.

CITY OF NAPA AND NAPA COUNTY Effective Buying Income 2011 through 2015

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2011	City of Napa	\$1,779,668	\$48,892
	Napa County	3,453,650	51,788
	California	814,578,458	47,062
	United States	6,438,704,664	41,253
2012	City of Napa	\$1,832,833	\$48,433
	Napa County	3,652,663	52,115
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Napa	\$1,869,855	\$48,932
	Napa County	3,631,706	53,714
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Napa	\$1,959,398	\$53,760
	Napa County	3,778,813	58,481
	California	901,189,699	50,072
	United States	7,357,153,421	45,448
2015	City of Napa	\$2,103,535	\$55,501
	Napa County	4,095,765	60,842
	California	981,231,666	53,589
	United States	7,757,960,399	46,738

Source: Sales & Marketing Management Survey of Buying Power.

Commercial Activity

Total taxable sales during the calendar year 2014 in the City were reported to be \$1,312,328,000, a 6.02% increase over the total taxable sales of \$1,237,833_ reported during the calendar year 2013. Annual figures for calendar year 2015 are not yet available.

CITY OF NAPA
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Numbers of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2010	1,455	848,200	2,409	992,329
2011	1,479	908,482	2,407	1,062,733
2012	1,561	968,384	2,496	1,140,469
2013	1,669	1,025,907	2,617	1,237,833
2014	1,692	1,071,238	2,665	1,312,328

Source: California State Board of Equalization

Total taxable sales during the calendar year 2014 in the County were reported to be \$3,112,443,000 a 6.04% increase over the total taxable sales of 2,935,274,000 reported during the calendar year 2013. Annual figures for calendar year 2015 are not yet available.

NAPA COUNTY
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in Thousands)

	Retail Stores		Total All Outlets	
	Numbers of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2010	2,752	1,383,036	5,148	2,301,907
2011	2,840	1,500,810	5,245	2,494,845
2012	3,039	1,612,489	5,516	2,718,679
2013	3,250	1,755,049	5,780	2,935,274
2014	3,323	1,840,812	5,956	3,112,443

Source: California State Board of Equalization

Principal Employers

The following table shows the principal employers in the City, as shown in the City's Comprehensive Annual Financial Report for fiscal year ending June 30, 2015.

CITY OF NAPA Principal Employers 2015

Employer	Number of Employees	Percent of Total Employment
Napa Valley Unified School District	1,900	5.16%
Queen of the Valley Medical Center	1,365	3.71
County of Napa	1,248	3.39
City of Napa	458	1.24
Target	292	0.79
Napa Valley College	290	0.79
Walmart Supercenter	275	0.75
Kohl's Department Store	200	0.54
Meritage Resort and Spa	190	0.52
Kaiser Permanente	180	0.49
Marriott-Napa Valley	165	0.45
Coldwell Banker Brokers of the Valley	159	0.43
Aldea Children and Family Services	150	0.41
Regulus Integrated Services	150	0.41
The Meadows of Napa Valley Assisted Living	150	0.41
Whole Foods	150	0.41

Source: City of Napa Comprehensive Annual Financial Report

The County's economy has always had a strong agricultural base, and has a substantial presence in the wine industry. The major employers in the County as of July 2016 are shown below, in alphabetical order.

COUNTY OF NAPA
Major Employers
July 2016

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Auberge Du Soleil	Rutherford	Hotels & Motels
Domaine Chandon	Yountville	Wineries (Mfrs)
Health & Human Svc Agency	Napa	Government Offices-County
Marriott-Napa Valley & Spa	Napa	Resorts
Meritage Resort & Spa	Napa	Resorts
Napa County & Community School	Napa	Schools
Napa County Children's Ctr	Napa	Schools
Napa Valley College	Napa	Schools-Universities & Colleges Academic
Owens Corning	Napa (unincorporated)	Building Materials-Manufacturers
Pacific Union College Ltd	Angwin	Schools-Universities & Colleges Academic
Pavilion-Vintage Estate	Yountville	Wedding Chapels
Queen of the Valley Med Ctr	Napa	Hospitals
Robert Mondavi Winery	Oakville	Wineries (mfrs)
Silverado Resort & Spa	Napa (unincorporated)	Resorts
Stone Bridge Cellars Inc	Saint Helena	Wineries (Mfrs)
Sutter Home Winery	Saint Helena	Exporters (Whls)
Syar Industries Inc	Napa (unincorporated)	Manufacturers
Treasury Wine Estates	Saint Helena	Wineries (Mfrs)
Trinchero Family Estates	Saint Helena	Wineries (Mfrs)
Universal Protection Svc	Napa (unincorporated)	Security Guard & Patrol Service
Veterans Home	Yountville	Veterans' & Military Organizations
Veterans Home of Ca	Yountville	Government Offices-State
Walmart Supercenter	American Canyon	Department Stores
Walmart Supercenter	Napa	Department Stores
Yolano Engineers Inc	Napa (unincorporated)	Surveyors-Land

Source: State of California Employment Development Department.

Employment and Industry

The unemployment rate in the County was 4.2% in June 2016, up from a revised 3.4% in May 2016, and unchanged from the year-ago estimate of 4.2%. This compares with an unadjusted unemployment rate of 5.7% for California and 5.1% for the nation during the same period.

The table below provides information about employment rates and employment by industry type for the County for calendar years 2011 through 2015.

NAPA COUNTY Annual Average Civilian Labor Force, Employment and Unemployment, Employment by Industry

	2011	2012	2013	2014	2015
Civilian Labor Force ⁽¹⁾	70,800	71,900	73,000	73,800	74,800
	63,800				
Employment	0	65,900	67,900	69,700	71,300
Unemployment	6,900	6,100	5,100	4,200	3,400
Unemployment Rate	9.8%	8.4%	6.9%	5.6%	4.6%
<u>Wage and Salary Employment⁽²⁾</u>					
Agriculture	4,800	4,800	5,000	4,900	5,200
Logging, Mining, Construction	2,500	2,700	3,200	3,700	4,200
Manufacturing	10,900	11,200	11,600	12,100	12,100
Wholesale Trade	1,400	1,500	1,600	1,600	1,700
Retail Trade	5,700	5,900	6,100	6,300	6,400
Transportation, Warehousing and					
Utilities	1,600	1,800	1,900	2,000	2,000
Information	600	500	500	500	500
Financial Activities	2,300	2,300	2,200	2,300	2,400
Professional and Business					
Services	5,500	6,100	6,500	6,600	7,000
Educational and Health Services	9,100	9,400	9,700	9,900	9,700
Leisure and Hospitality	10,000	10,700	11,300	11,900	12,700
Other Services	9,300	9,900	10,500	11,100	11,900
Federal Government	5,500	5,700	6,100	6,600	7,000
State Government	1,900	1,900	2,000	2,000	2,000
Local Government	10,100	9,900	10,000	10,000	10,200
Total, All Industries ⁽³⁾	66,300	68,500	71,500	73,700	76,000

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

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

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Construction Trends

Provided below are the building permits and valuations for the City and the County for calendar years 2011 through 2015.

CITY OF NAPA					
Total Building Permit Valuations (Valuations In Thousands)					
	2011	2012	2013	2014	2015
<u>Permit Valuation:</u>					
New Single-family	\$14,711.3	\$15,688.3	\$12,102.6	\$7,362.8	\$26,798.9
New Multi-family	1,582.4	1,316.8	12,573.5	5,856.9	0.0
Res. Alterations/Additions	8,151.2	6,845.3	9,821.5	15,823.8	21,551.9
Total Residential	24,444.9	23,850.4	34,497.6	29,043.5	48,350.8
New Commercial	1,826.4	7,890.0	8,039.0	9,240.4	30,910.1
New Industrial	0.0	145.0	0.0	0.0	0.0
New Other	0.0	5,751.4	2,733.4	2,458.1	7,919.8
Com. Alterations/Additions	57,77.6	15,810.7	15,640.5	18,447.1	19,555.1
Total Nonresidential	1,961.0	29,597.1	26,412.9	30,145.6	58,385.0
<u>New Dwelling Units:</u>					
Single Family	58	61	45	32	95
Multiple Family	26	8	136	49	0
TOTAL	84	69	181	81	95

Source: Construction Industry Research Board, Building Permit Summary.

NAPA COUNTY					
Total Building Permit Valuations (Valuations In Thousands)					
	2011	2012	2013	2014	2015
<u>Permit Valuation:</u>					
New Single-family	\$54,267.2	\$54,758.7	\$50,896.3	\$57,465.4	\$71,130.4
New Multi-family	1,582.4	3,166.5	13,249.1	5,856.9	22,574.3
Res. Alterations/Additions	45,584.2	30,327.6	46,742.1	55,325.6	53,613.1
Total Residential	101,433.8	88,252.8	110,887.5	118,647.9	147,317.8
New Commercial	18,591.4	17,407.7	80,937.9	78,720.7	89,165.6
New Industrial	16,410.5	180.0	12,703.9	28,966.4	7,264.1
New Other	5,758.4	5,751.4	14,472.0	19,434.7	22,242.7
Com. Alterations/Additions	79,594.7	29,936.2	43,548.3	40,595.2	51,732.5
Total Nonresidential	120,355.0	53,275.3	151,662.2	167,717.0	170,404.9
<u>New Dwelling Units:</u>					
Single Family	128	133	97	103	141
Multiple Family	26	20	140	49	148
TOTAL	154	153	237	152	289

Source: Construction Industry Research Board, Building Permit Summary.

Education

Public instruction in the County is provided by one elementary school district and four unified (combined elementary and high school) districts. The largest district, Napa Valley Unified School District, has approximately 16,000 students enrolled. The Napa Valley College and the Pacific Union College are also located within the County.

Transportation

The transportation network includes publicly operated systems as well as private enterprise systems within the cities. A privately owned airporter service operates seven days a week from St. Helena, Napa and Vallejo to San Francisco International Airport. There is also a County owned and operated airport. This aviation facility serves privately owned aircraft and provides facilities for a large pilot training program for Japan Airlines. There are two privately owned and operated general aviation facilities in the County.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CITY OF NAPA FOR FISCAL YEAR 2014-15



Photo Courtesy of Gene Piscia

CITY OF NAPA CALIFORNIA COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2015

CITY OF NAPA, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Prepared by:

Finance Department, City of Napa
March, 2016



Government Finance Officers Association

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Presented to

**City of Napa
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2014

Executive Director/CEO

**CITY OF NAPA, CALIFORNIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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SECTION 1

INTRODUCTORY SECTION



CITY OF
NAPA



March 31, 2016

To the Honorable Mayor, Members of the City Council and Citizens of the City of Napa:

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the City of Napa for the fiscal year ended June 30, 2015. This report is published in accordance with local ordinance and state law requirements that financial statements be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

Management is responsible for the completeness and reliability of the information contained in this report, based on a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City of Napa's financial statements have been audited by Vavrinek, Trine, Day & Co. (VTD), LLP, Certified Public Accountants, a public accounting firm fully licensed and qualified to perform audits of State and local governments within the State of California. VTD has issued an unmodified opinion on the City of Napa's financial statements for the fiscal year ended June 30, 2015. The independent auditor's report is presented as the first component of the financial section of the audit.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Government

The City of Napa was founded in 1847 and incorporated in 1872. The City is located in the northern part of California, about 50 miles north of San Francisco and is the largest city in Napa County. California State Highway 29 runs through Napa, connecting it to Vallejo and the East Bay Area to the south and the Napa Wine Country to the north. California State Highway 12 runs to the south of the City, connecting it to Fairfield and Interstate 80 to the east and Sonoma and US-101 to the west. The Napa River traverses the City on its journey to the San Pablo Bay. The City of Napa currently occupies 18.1 square miles, 17.8 square miles of which is land and 0.3 square miles of which (1.69%) is water. The City serves a population of approximately 80,000 residents and receives property taxes levied on real and personal property located within its boundaries.

The City of Napa operates under the Council-Manager form of government. Policy-making and legislative authority are vested in a City Council consisting of a Mayor and four Council members all elected at large. All four Council members are elected to four-year overlapping terms. The Mayor, who sits on the Council, is elected directly by the people and serves a term of four years. The City Council is responsible for, among other duties, passing ordinances, adopting the budget, appointing committees and hiring the City Manager, City Attorney and City Clerk. The City Manager serves as the administrative head of the City of Napa government and is responsible for carrying out the policies and ordinances of the City Council and all management functions of the City, including the budget, delivery of services, hiring all department directors and implementation of capital projects.

The City of Napa provides a wide range of municipal services including police and fire protection; recreational activities; community and economic development; street improvement and maintenance services; parks maintenance; water; materials diversion; general administrative and support services.

The biennial budget serves as the foundation of the City of Napa's financial planning and control. All departments of the City are required to submit requests for appropriations to the City Manager by April 1. The City Manager uses these requests as the starting point for developing a proposed 2-year budget. The City Manager then presents the proposed budget to the City Council for review prior to June 30. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget by no later than June 30, the close of the City's fiscal year. Throughout each fiscal year (typically during its quarterly financial reports), the City Council reviews the budget and makes adjustments as needed.

The budget is prepared by fund and department. Department managers may make transfers of appropriations within a department, with the exception of personnel related budgets, which require City Manager approval. The level of budgetary control, the level at which expenditures cannot legally exceed the appropriated amount, is established at the department level. Expenditures above the appropriated amount require special approval by the City Council.

Local Economy

The City of Napa benefits from a diverse revenue base shared among Property taxes (30% of General Fund revenues), Sales Taxes (17% of General Fund revenues) and Transient Occupancy Taxes (17% of General Fund revenues). The City is a world renowned wine region, and has developed into a strong destination community.

In fiscal 2015, the City experienced a 6.0 earthquake at 3:20 a.m. on August 24, 2014. On August 26, 2014, the City Council adopted Resolution R2014-146 ratifying the local emergency proclamation issued by the City Manager, and providing for emergency powers, functions and duties of the City, including the use of emergency reserve funds to cover costs associated with the response and recovery efforts of staff immediately following the earthquake. Later that same day, the Governor of California declared a state of emergency for the South Napa Earthquake, and on September 11, 2014 a presidential declaration was made authorizing Public Assistance for local government structures and infrastructure damaged by the earthquake. Federal Emergency Management Agency (FEMA) provides supplemental assistance for State and local government recovery expenses, and the Federal share



is 75% of the eligible costs. The state share is 75% of the non-federal share, which equals 18.75%. The City of Napa's cost share is 6.25%.

Even considering the impact caused by the earthquake, which forced some hotel properties to take rooms off-line for a time to complete repairs, the City of Napa still experienced a slight growth in transient occupancy tax receipts. There are over 2,400 lodging rooms in the City, with over 200 more approved or in the entitlement process.

Retail sales increased approximately \$1.0 million or 6.5% over fiscal 2014 with the latest sales tax report ending December, 2015, showing the highest revenue received in a single-quarter since 2007. Restaurants and food sales continue to lead all categories, followed by department stores, auto sales and service stations, and slow but steady gains in building materials.

Another sign of fiscal strength is the rise in employment. The unemployment rate in the City of Napa dropped from 5.4% in July 2014 to 4.5% in December 2015.

In fiscal 2015, the total fund balances in the General Fund decreased by \$3.5 million, which included a transfer of \$3.3 million to the Capital Projects Reserve, and funding of some non-reimbursable earthquake activities.

Long-Term Financial Planning

The City updates a Long Term Financial Plan (LTFP) on an annual basis to provide a forward look at the City's General Fund operating revenues and expenditures. Its purpose is to identify financial trends, shortfalls, opportunities and issues so the City can proactively address them. It does so by projecting the future fiscal results of continuing the City's current service levels and policies. The LTFP lays the foundation for the budget, aiding both the City Manager and City Council in establishing priorities and allocating resources appropriately.

Acknowledgements

The preparation of this report would not have been possible without the hard work and dedication of the entire Finance Department staff, as well as many other departments' personnel who made substantial contributions to the completion of this report. We would also like to express our appreciation to the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the financial management of the City of Napa.



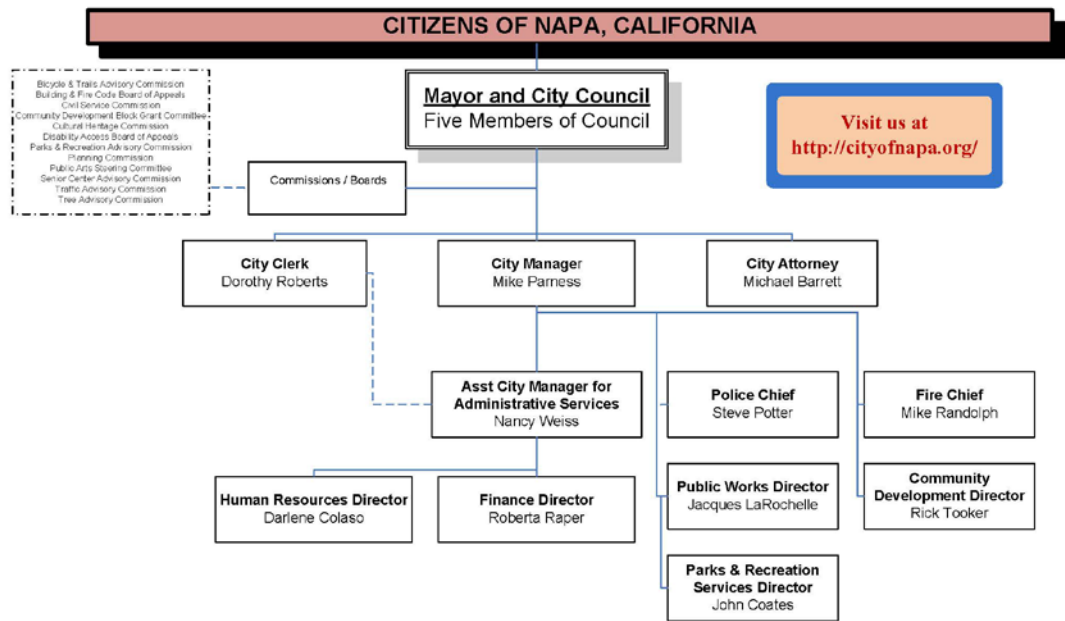
Mike Parness
City Manager



Roberta Raper
Finance Director

CITY OF NAPA

ORGANIZATIONAL CHART





COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2015

Mission Statement

“Preserve and promote the unique quality of life that is Napa”

CITY COUNCIL

Jill Techel, Mayor
Mary Luros, Vice-Mayor
Peter Mott, Council Member
Juliana Inman, Council Member
Scott Sedgley, Council Member

CITY STAFF

Mike Parness, City Manager
Nancy Weiss, Assistant City Manager
Michael Barrett, City Attorney
Roberta Raper, Finance Director
Dorothy Roberts, City Clerk
Darlene Colaso, Human Resources Director
Steve Potter, Police Chief
Mike Randolph, Fire Chief
Rick Tooker, Community Development Director
Jacques LaRochelle, Public Works Director
John Coates, Parks and Recreation Services Director

SECTION 2

FINANCIAL SECTION





VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
of City of Napa
Napa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Napa, California (City), as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Napa, California, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, the Development Fee Special Revenue Fund and the Home Program Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, effective July 1, 2014. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of net pension liability and related ratios, pension contributions, and other post employment benefits funding progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The introductory section, combining and individual non-major fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining and individual non-major fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
March 31, 2016

CITY OF NAPA

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) UNAUDITED

INTRODUCTION

This narrative is presented to provide readers of this *Comprehensive Annual Financial Report* with an overview and analysis of the financial activities of the City of Napa for the fiscal year ended June 30, 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report is presented in the following sections:

- 1) This introductory commentary, *Management's Discussion and Analysis*
- 2) Financial Statements, including:
 - a. Government-wide financial statements
 - b. Fund financial statements
 - c. Notes to the Financial Statements
- 3) Supplemental Information
 - a. Non-major governmental funds
 - b. Internal service funds
 - c. Agency funds

The Financial Statements

The *Financial Statements* are comprised of the *Government-wide Financial Statements* and the *Fund Financial Statements*. These two sets of financial statements provide two different perspectives of the City's financial activities and financial position.

The *Government-wide Financial Statements* provide a long-term view of the City's activities as a whole. The *Statement of Net Position* provides information about financial position, including capital assets and long-term liabilities on the full accrual basis, similar to that used by commercial enterprises. The *Statement of Activities* provides information about the City's revenues and expenses, also on the full accrual basis, with the emphasis on measuring the net revenues or expenses of City programs. Information is presented both in total and separately for governmental activities, which are generally tax and grant supported and business-type activities which are typically supported by user fees.

The *Fund Financial Statements* report the City's operations in more detail than the government-wide statements. The City, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the City can be divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*:

- *Governmental funds* account for most of the City's basic services and focus primarily on short-term activities by measuring current revenues and expenditures and excluding capital assets and long-term obligations. The City maintains several individual governmental funds organized according to their type (special revenue and capital projects). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Development Fees Fund, Home Program, and City Capital Projects, which

are considered to be major funds. Data from the remaining non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements beginning on page 76.

- *Proprietary funds* are generally used to account for services for which the City charges customers – either outside customers, or internal departments or programs of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:
 - *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the water utility, materials diversion (solid waste & recycling) and housing activities. All of the proprietary funds are major funds.
 - *Internal service funds* are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for fleet services, central stores inventory, information technology equipment maintenance and replacement, post-employment benefits for current and past employees, and insurance programs on a cost-reimbursement basis. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statement. Individual fund data for the internal service funds is provided in the form of combining statements beginning on page 93.
- *Fiduciary funds* are used to report assets held in a trust or agency capacity for others. The City currently has two fiduciary funds; the Payroll fund to hold employee payroll deductions withheld and monies collected from retirees for their share of health insurance premiums, held in an agency capacity, and the Private Purpose Trust Fund used to account for resources held for the benefit of winding down the activities of the former Redevelopment Agency. These fiduciary funds cannot be used to support the City's programs and therefore is not reflected in the government-wide financial statements.

FINANCIAL HIGHLIGHTS

The City provides services to the citizens of Napa by leveraging property, sales, and other taxes with user fees and federal, state, and local grants to finance its operations. The City's sales and transient occupancy tax revenues increased in fiscal 2015 as tourism activity continued to strengthen.

The governmental activities total assets increased by \$7.1 million (to \$477.6 million), while business-type activities total assets decreased by \$2.2 million (to \$174.8 million). The increase in the government activities funds was due to increased cash and investment from a strong economy. The reduction of assets for business type activities was related to expenditures in support of planned capital activity by the enterprise funds, most notably the covered composting project currently in construction undertaken by the Materials Diversion (Recycling) Utility Fund. Additionally, the Water Utility operating revenues were impacted by state mandated water conservation measures. (\$2.3 million).

Deferred outflows of resources increased by \$11.4 million resulting from the City's implementation of GASB 68.

Overall, the City increased liabilities in fiscal 2015 by \$123.3 million (from \$73.8 million to \$197.1 million). Long-term liability, which includes the impact from the implementation of GASB Statement No. 68, realized a net impact of \$112.5 million of long term liability in Governmental activities and \$10.3 million in Business type activities.

Deferred inflows were also impacted by the implementation of GASB 68, increasing by \$17.8 million in Governmental activities and \$1.8 million in Business-type activities.

Overall, the City's net position decreased by \$126.6 million, with the largest impact resulting from GASB 68.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The total net position of the City as of June 30, 2014 and 2015 are summarized in Table 1 below and are followed by a discussion of the balances by category.

Table 1
Summary of Net Position

	Governmental Activities		Business-type Activities		Total	
	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015
Assets:						
Cash and investments	\$ 80,106,053	\$ 92,505,777	\$ 36,483,713	\$ 33,676,354	\$ 116,589,766	\$ 126,182,131
Receivables and other assets	24,546,117	26,124,088	18,256,323	17,704,473	42,802,440	43,828,561
Capital assets	365,825,882	359,002,016	122,232,012	123,430,711	488,057,894	482,432,727
Assets	470,478,052	477,631,881	176,972,048	174,811,538	647,450,100	652,443,419
Deferred Outflows of Resources						
Deferred outflows	-	10,329,300	-	1,030,670	-	11,359,970
Deferred Inflows	-	10,329,300	-	1,030,670	-	11,359,970
Liabilities:						
Long-term liabilities	6,442,053	118,918,453	49,199,458	59,485,872	55,641,511	178,404,325
Other liabilities	10,327,957	10,876,692	7,787,048	7,766,396	18,115,005	18,643,088
Liabilities	16,770,010	129,795,145	56,986,506	67,252,268	73,756,516	197,047,413
Deferred Inflows of Resources						
Deferred inflows	673,196	18,527,345	-	1,821,532	673,196	20,348,877
Deferred Inflows	673,196	18,527,345	-	1,821,532	673,196	20,348,877
Net position:						
Net investment in capital assets	365,825,882	357,559,249	72,262,131	75,160,311	438,088,013	432,719,560
Restricted	37,699,419	37,847,661	534,084	169,308	38,233,503	38,016,969
Unrestricted	49,509,545	(55,768,219)	47,189,327	31,438,789	96,698,872	(24,329,430)
Total net position	\$ 453,034,846	\$ 339,638,691	\$ 119,985,542	\$ 106,768,408	\$ 573,020,388	\$ 446,407,099

Cash and investments - The City's cash and investment portfolio increased by \$9.6 million to \$126.2 million during the year due to increased cash and investments in Governmental activities from a strong economy, most notably property taxes, sales taxes and other licenses and permits. The reduction in Business type activities cash is a net impact of decreased revenue from water conservation efforts and planned capital expenditures in support of the Materials Diversion (Recycling) efforts. The cash balance comprises \$71.8 million held in investments; \$48.1 million held in the Local Agency Investment Fund (LAIF), and the cash in banks or on hand totaled \$10.7 million.

Receivables and other assets - The City's receivables and other assets increased by \$1.0 million to \$43.8 million. Governmental Activities comprised \$1.5 million of the increase as work continues on earthquake repairs. The decrease in Business-type Activities of \$0.5 million is related to reduced Accounts receivables in the Solid Waste Enterprise Fund.

Capital assets - The City's capital assets decreased by \$5.6 million during the year to \$482.4 million. The decrease is primarily due to depreciation (\$18.1 million) offset by the addition of new capital activity, most notably the Covered Composting project (\$3.6 million); New Skate Park (\$0.9 million); California Blvd. Widening (\$0.8 million) and Laurel Manor Rehabilitation (\$0.6 million).

Deferred Outflow of Resources - The City's deferred outflow of resources (\$10.3 million in Governmental activities and \$1.0 million in Business-type activities) is the result of GASB 68 and the inclusion of the unfunded pension liability in the financial statement presentation.

Long-term liabilities - The long-term liabilities of \$178.4 million includes the Pension obligation as required by GASB 68, in addition to the City's revenue bonds issued for water, as well as other various smaller notes and leases. Finally, we continue the reduction of long-term debt in both governmental activities and business-type activities through the absence of new debt issues in the current year and timely payment on outstanding issues.

Other Liabilities - The City's other liabilities increased by \$0.5 million to total \$18.6 million. This increase is the net result of increases in the governmental funds in Accounts payable and accrued liabilities and deposits payable, offset by a reduction in advances to other funds.

Deferred Inflow of Resources - The City's deferred inflow of resources (\$18.5 million in Governmental activities and \$1.8 million in Business-type activities) is also significantly related to GASB 68 and the inclusion of the unfunded pension liability in the financial statement presentation.

Net position - The City's total net position decreased by \$126.6 million during the fiscal year to \$446.4 million. The Governmental Activities net position balance of \$339.6 million includes \$357.7 million of net investment in capital assets, \$37.8 million restricted funds available for capital projects and other programs, and a remaining deficit balance of \$55.8 million available for future needs. This deficit was caused by the inclusion of the pension liability of \$122 million, per GASB 68. The City's Business-type Activities reported a net position of \$106.8 million, which includes \$75.2 million of net investment in capital assets, \$0.5 million in restricted housing programs, and \$31.1 million available for future needs including capital projects.

Government-wide Activities

The changes in the City's government-wide net position as of June 30, 2015 result from its activities during the fiscal year. The City's government-wide activities for the current and prior fiscal years are summarized in Table 2 below.

Table 2
Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015
Revenues:						
Program revenues:						
Charges for services	\$ 23,791,121	\$ 24,341,937	\$ 53,742,909	\$ 50,609,891	\$ 77,534,030	\$ 74,951,828
Operating grants and contributions	2,329,284	1,948,170	10,542,922	11,539,293	12,872,206	13,487,463
Capital grants and contributions	12,765,052	2,292,958	728,950	2,449,830	13,494,002	4,742,788
General revenues:						
Property, sales, and other taxes	59,609,220	61,948,101			59,609,220	61,948,101
Other	530,723	686,013	364,248	172,283	894,971	858,296
Total revenues	99,025,401	91,217,178	65,379,029	64,771,297	164,404,430	155,988,475
Expenses:						
Governmental activities:						
General government	10,614,404	21,312,351			10,614,404	21,312,351
Public safety	36,763,956	38,299,417			36,763,956	38,299,417
Public works	27,222,869	17,369,631			27,222,869	17,369,631
Park and recreation	7,269,371	7,598,281			7,269,371	7,598,281
Community Development	6,246,380	7,969,662			6,246,380	7,969,662
Business-type activities:						
Water			23,800,760	25,698,750	23,800,760	25,698,750
Garbage			21,077,686	22,562,943	21,077,686	22,562,943
Golf course						
Housing			12,168,969	12,570,664	12,168,969	12,570,664
Total expenses	88,116,980	92,549,342	57,047,415	60,832,357	145,164,395	153,381,699
Excess before extraordinary items and transfers	10,908,421	(1,332,163)	8,331,614	3,938,940	19,240,035	2,606,777
Extraordinary/ Special Items	3,415,090	2,173,091			3,415,090	2,173,091
Transfers	4,298,895	4,303,764	(4,298,895)	(4,303,764)		
Changes in net position	18,622,406	5,144,691	4,032,719	(364,824)	22,655,125	4,779,868
Net Position - Beginning as restated (see Note 19)	434,412,440	334,494,000	115,952,823	107,133,232	550,365,263	441,627,232
Net Position - Ending	\$ 453,034,846	\$ 339,638,691	\$ 119,985,542	\$ 106,768,408	\$ 573,020,388	\$ 446,407,099

The City's net position (governmental activities) decreased to \$339.6 million during the year, as measured on the accrual basis of accounting. Overall, revenues decreased 9.2% (\$8.4 million), with \$7.8 million of the reduction in

Governmental activities (most notably capital grants), and \$0.6 million in the Business-type activities (most notably charges for services). Charges for Services decreased by 3.1 million in total, with \$2.3 million related to reduced water sales from the state mandated water conservation efforts. Operating and Capital grants and contributions were down from fiscal 2014, which is a function of capital project activity funded by grants. General revenues (Property, sales and other taxes) and other revenues increased by \$2.5 million as evidence of a strong economy in the Napa Valley. Business type activities experienced a reduction of \$3.1 million, primarily due to the water conservation mandate issued throughout the state of California. Operating grants increased by \$1.0 million while capital grants increased by \$1.7 million. The capital grants were provided by FEMA and CalOES to help support repairs to the water system caused by the August 2014 South Napa earthquake.

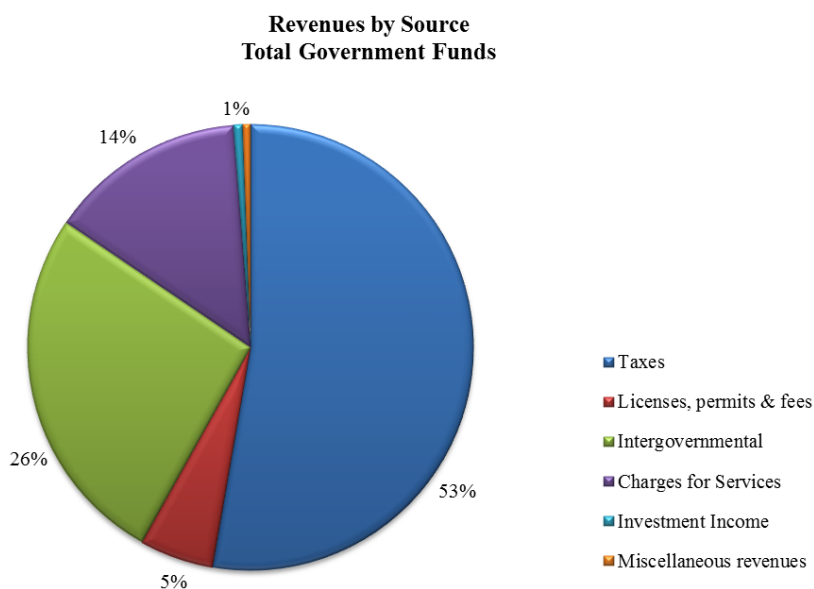
City expenses increased by \$8.2 million overall, with Governmental activities expenses accounting for \$4.4 million of the increase. The earthquake recovery is responsible for a significant portion of this expenditure – approximately \$4 million. The Water Utility fund was also significantly impacted by the earthquake, and the increased expenditures of \$1.9 million in the water fund are reflective of those repairs. As previously noted, a portion of the repairs made to City owned buildings and infrastructure will be reimbursed by FEMA and CalOES. Please note the adjustment of the beginning net position of the Governmental Activities - and Business-type activities – resulting from the implementation of GASB 68. *See Note 19 for further discussion of these adjustments.*

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

In addition to the accrual-basis government-wide statements described above, the City also maintains financial records at the fund level for budgetary control. Individual funds are generally established to track the resources and operating results for the general fund and specific, restricted programs. The results for governmental funds below differ from the results reported above in the government-wide statements since the focus here is on current, available resources. The following are financial highlights from the City's most significant funds:

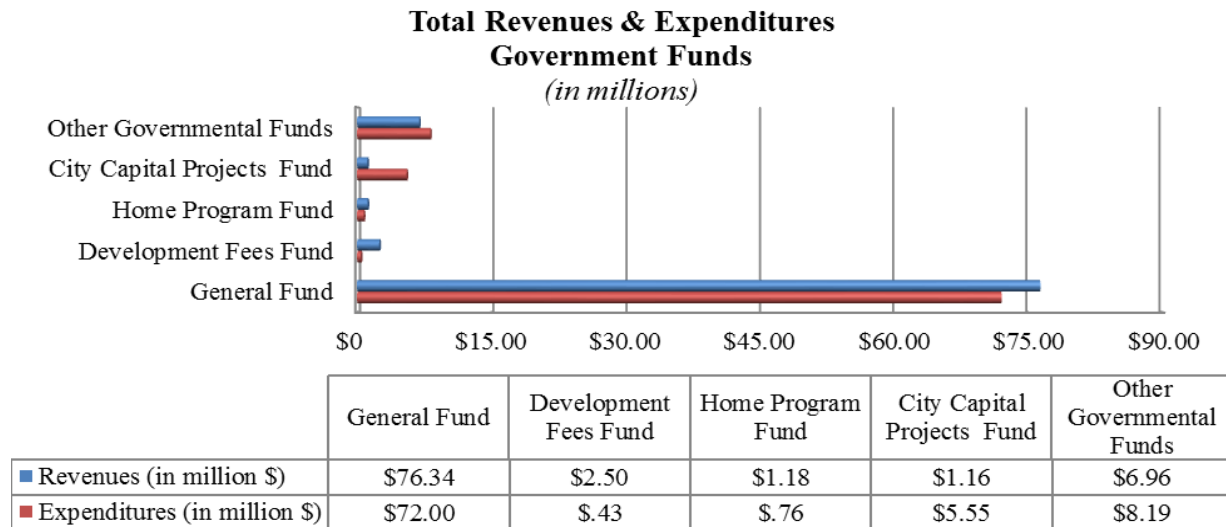
Governmental Funds

General Fund - The City's General Fund initially budgeted revenues at \$68.2 million, adjusted to \$75.7 million, due to strong tax receipts and intergovernmental revenues. The City of Napa realized \$76.4 million (101% of budget), an increase of \$5.2 million (approximately 7%) from the previous year. This increase is attributed to a strong economy, as additional revenues were received, most notably in property tax, sales tax, licenses and permits and charges for services categories.



General Fund expenditures were originally budgeted at \$68.4 million, increasing to \$77.9 million (excluding transfers) through council approved resolutions. The most significant adjustment was related to a \$4 million adjustment to the General Services budget to provide for earthquake response and repairs. The city spent \$72.0 million (93% of budget). Fiscal 2015 expenditures increased over the prior year by \$7.4 million (approximately 11

percent). The General Services (non-departmental) department contains the earthquake recovery budget and efforts – which accounts for \$4.3 million of the increased expenditure. Additionally, Public safety increased by 4.7% (\$1.7 million) due to fewer officer vacancies when compared to fiscal 2014, while the remaining departmental increases; Public Works (\$0.7 million), Finance (\$0.5 million), Parks & Recreation (\$0.4 million), and Community Development (\$0.3 million), reflect a significant effort in fiscal 2015 to conduct studies (e.g. development impact fee studies, parking master plan, etc.) that had been delayed due to the recession.



Development Fees Fund - The sources of revenue for this fund are the various development impact fees collected from developers which are used for the installation or expansion of related infrastructure and affordable housing. Fiscal 2015 revenues were \$2.5 million, approximately 14% under the budget. Due to the unpredictable nature of development fees, fiscal 2015 revenues reflected an increase of \$0.4 million from the prior year due to increased new development activity over the prior year. Development Fees fund expenditures, budgeted at \$0.47 million, came in behind projections at \$0.43 million. The delayed expenditures will occur in a future fiscal year as the various projects move through to completion. The internal transfer out to capital projects was also under budget, (\$6.9 million budget, \$1.7 million actual) due to delayed expenditures of ongoing capital improvement projects.

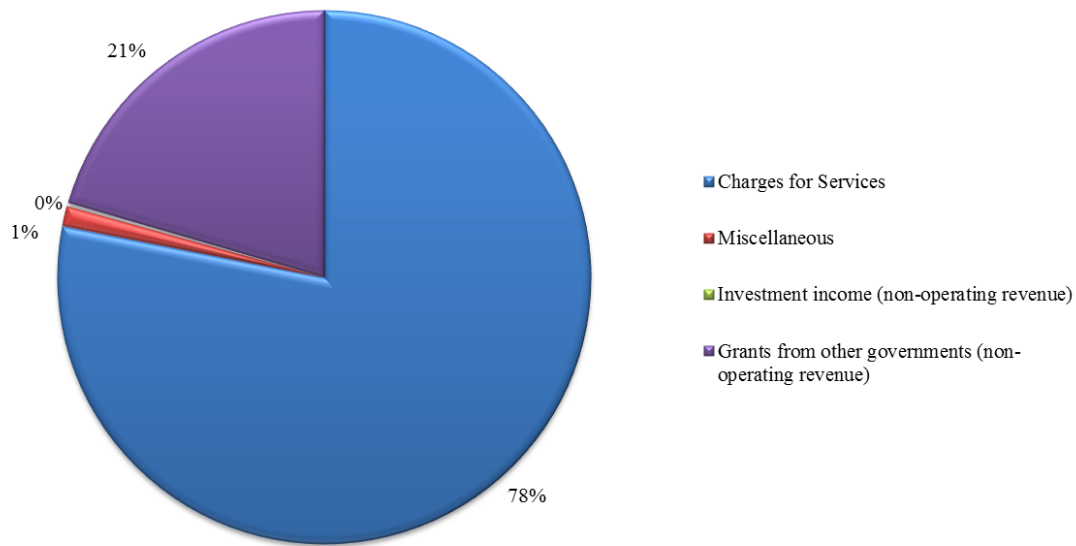
HOME Fund – This fund accounts for Federal grants received under the HOME Investment Partnership Program that is administered by the State of California and program income received from the repayment of previous loans. These funds are used to provide down payment assistance to low-income first-time homebuyers.

City Capital Projects Fund - The City's capital program saw a decline in expenditures of nearly 55% due to the cyclical construction activity of capital projects. In total, \$5.6 million in capital outlay was expended during fiscal 2015. In addition to the revenues received (capital grants), transfers of \$13.2 million from the various special revenue funds and general fund provided funding for the capital activity. All resources in this fund are restricted or committed for specific capital improvement programs.

Enterprise Funds

Water Utility Fund – This fund is a fully self-supported enterprise providing water service to the City and adjacent areas. Charges for water and connection fees have consistently been set appropriately to cover both operating and planned maintenance, replacement and expansion costs. The fund issued bonds in 2007 to expand the Jamieson Canyon Treatment Facility. Construction began in 2008, and was completed in fiscal 2011. Net position (unrestricted) includes reserves for capital replacement (\$0.4 million) and water supply (\$1.2 million) as well as an emergency reserve for the water utility (\$1.1 million). Unrestricted net position of the fund decreased by \$10.2 million over fiscal 2014 due to implementation of GASB 68 and reduced water sales due to the state-wide conservation mandate.

Revenues by Source Enterprise Funds



Materials Diversion Fund - The materials diversion fund is also a fully self-supported enterprise which provides for local solid waste operations and operation of the materials diversion facility. Of the fund's \$22.6 million in operating expenses, \$2.7 million was for tipping fees. Net position (unrestricted) includes reserves for rate stabilization (\$1.4 million) and operating reserve of \$3.3 million. Total net position of this fund decreased \$2.0 million over fiscal 2014 due to implementation of GASB 68.

Housing (Enterprise) Fund – The Housing Authority administers Federal funds including Section 8 Housing Vouchers, Mainstream Vouchers, and Continuum of Care funds within Napa. The Housing fund net position was stable in fiscal 2015.

Total Revenue & Expenses Enterprise Funds (in millions)



CAPITAL ASSETS

As of June 30, 2015, the City had invested \$482.4 million in capital assets, net of accumulated depreciation; a decrease of 1.2% from the prior year. The \$6.8 million decrease in governmental activities capital assets is the net result of ongoing projects offset by \$13.4 million in depreciation. Additionally, construction in progress decreased in fiscal 2015, from an effort to close projects out to their appropriate asset group. Business-type activities realized an increase of \$1.2 million total which is the net impact of continuing work on approximately 19 construction projects; offset by \$4.7 million in depreciation. A summary of the City's capital assets net of depreciation at June 30, 2014 and 2015 is presented in Table 3. Additional information on Capital Assets can be found in Note 7.

Table 3
Capital Assets, net of accumulated depreciation

	Governmental Activities		Business-type Activities		Total	
	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015
Capital assets not subject to depreciation:						
Land	\$ 25,121,713	\$ 25,121,713	\$ 5,283,681	\$ 5,283,681	\$ 30,405,394	\$ 30,405,394
Construction in progress	116,890,669	97,976,876	8,411,384	8,534,192	125,302,053	106,511,068
Other capital assets:						
Building and improvements	10,514,837	14,400,395	60,618,863	58,264,074	71,133,701	72,664,469
Equipment	519,863	4,823,500	2,308,157	2,154,000	2,828,019	6,977,500
Vehicles and rentals	6,878,145	6,541,223			6,878,145	6,541,223
Infrastructure:						
Transmission and distribution systems			45,609,929	49,194,764	45,609,929	49,194,764
Bridges	17,936,353	17,562,131			17,936,353	17,562,131
Roads	170,374,176	169,317,770			170,374,176	169,317,770
Curb/gutter/sidewalks	6,967,339	9,093,767			6,967,339	9,093,767
Traffic signals	3,290,786	4,274,087			3,290,786	4,274,087
Stormwater	3,738,855	3,765,246			3,738,855	3,765,246
Park improvements	2,282,485	4,882,056			2,282,485	4,882,056
Underground utilities	53,672	52,053			53,672	52,053
Street Lights	1,165,191	1,129,999			1,165,191	1,129,999
Water Rights	91,800	61,200			91,800	61,200
Total Capital Assets, net	<u>\$ 365,825,884</u>	<u>\$ 359,002,016</u>	<u>\$ 122,232,014</u>	<u>\$ 123,430,711</u>	<u>\$ 488,057,898</u>	<u>\$ 482,432,727</u>

DEBT ADMINISTRATION

The City uses a variety of indebtedness to finance various capital acquisitions and improvements. At June 30, 2015, the City's long-term debt outstanding was \$50.2 million. In fiscal 2015, the City fully paid the capital lease obligation, as well as entering into a loan arrangement with the California Energy Commission for the retrofitting of city street lights with energy efficient LED lights.

The following table provides a schedule of the City's long-term debt obligations at June 30, 2014 and 2015.

Table 4
Long Term Debt

	Governmental Activities		Business-type Activities		Total	
	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015
Water revenue bonds			\$ 44,460,957	\$ 43,140,673	\$ 44,460,957	\$ 43,140,673
Solid Waste revenue bonds						
Notes payable		\$ 1,442,767	6,043,008	5,599,244	6,043,008	7,042,011
Capital lease obligations	\$ 44,112				44,112	
Total Long Term Debt	<u>\$ 44,112</u>	<u>\$ 1,442,767</u>	<u>\$ 50,503,965</u>	<u>\$ 48,739,917</u>	<u>\$ 50,548,077</u>	<u>\$ 50,182,684</u>

Additional information on Long Term Debt can be found in Note 8.

ECONOMIC OUTLOOK

The City of Napa was founded in 1847. For the past 30 to 40 years, the City of Napa has been in transition. The City that was once known for its tanneries, prune processing and State hospital is now more known for its hospitality, fine food, and luxury hotels. While yesterday's jobs came largely in heavy industrial pursuits at Kaiser Steel, Basalt Rock, Napa Pipe and Mare Island Shipyard, today's workforce is mostly white collar and the economy is increasingly based on tourism. The City of Napa has a population of just over 80,000 and accounts for 54 percent of the population and jobs within Napa County. The median household income within the City of Napa is \$74,123 (U.S. Census Bureau). During fiscal 2015, the City experienced continued growth in all of its top three revenue sources: property tax, sales tax, and transient occupancy taxes.

Although Napa's top three revenue sources (property tax, sales tax, transient occupancy tax) have fully recovered from the economic downturn, we must continue to be cautious as both national and global markets continue to be erratic. In fiscal 2015, the City of Napa continued its "strategic recovery" of services and will continue to explore alternatives for cost and operational efficiencies. Numerous cost saving measures have been implemented including employee concessions to help offset the impact of continued increases in healthcare and retirement costs for the City's workforce. The economic outlook for the City of Napa is positive and will be closely monitored to ensure that the City retains its position of fiscal stability.

CONTACTING THE CITY

These *Basic Financial Statements* are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Finance Department at 955 School Street, Napa, California. The mailing address is Post Office Box 660, Napa, California, 94559-0660.



GOVERNMENT WIDE FINANCIAL STATEMENTS

CITY OF NAPA
STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and investments (Note 3)	92,505,777	\$ 33,037,529	\$ 125,543,306
Restricted cash and investments (Note 3)		638,825	638,825
Receivables			
Accounts	8,398,405	6,622,338	15,020,743
Federal, state and other governments	2,947,517	704,691	3,652,208
Interest receivable	5,523	2,343	7,866
Service Concession Arrangement (Note 20)	657,946		657,946
Loans receivable (Note 5)	13,595,636	10,221,173	23,816,809
Prepaid items	253,110	153,928	407,038
Inventory	265,951		265,951
Capital assets (Note 7)			
Nondepreciable	123,098,589	13,817,873	136,916,462
Depreciable, net	235,903,427	109,612,838	345,516,265
Total Assets	477,631,881	174,811,538	652,443,419
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	10,329,300	1,030,670	11,359,970
Total Deferred Outflows of Resources	10,329,300	1,030,670	11,359,970
LIABILITIES			
Accounts payable and accrued liabilities	5,700,885	4,777,131	10,478,016
Interest payable		371,602	371,602
Deposits payable			
Due within one year	2,244,091	575,023	2,819,114
Due in more than one year		85,747	85,747
Unearned revenue	505,666	147,834	653,500
Net OPEB obligation, due in more than one year (Note 12)	1,121,324		1,121,324
Net pension liability (Note 11)	109,987,808	12,059,545	122,047,353
Compensated absences (Note 1)			
Due within one year	40,205	141,258	181,463
Due in more than one year	2,690,399	354,211	3,044,610
Claims payable (Note 13)			
Due within one year	2,278,400		2,278,400
Due in more than one year	3,783,600		3,783,600
Long-term debt (Note 8)			
Due within one year	107,445	1,753,548	1,860,993
Due in more than one year	1,335,322	46,986,369	48,321,691
Total Liabilities	129,795,145	67,252,268	197,047,413
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	17,869,399	1,821,532	19,690,931
Deferred inflows related to Service Concession	657,946		657,946
Total Deferred Inflows of Resources	18,527,345	1,821,532	20,348,877
NET POSITION (Note 10)			
Net investment in capital assets	357,559,249	75,160,311	432,719,560
Restricted for:			
Capital projects	33,393,166		33,393,166
Housing grant programs	4,454,495	169,308	4,623,803
Unrestricted	(55,768,219)	31,438,789	(24,329,430)
Total Net Position	\$ 339,638,691	\$ 106,768,408	\$ 446,407,099

See accompanying notes to financial statements

CITY OF NAPA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 21,312,351	\$ 6,300,349	\$ 107,904	\$ 718,558	\$ (14,185,540)		\$ (14,185,540)
Public safety	38,299,417	5,155,374	872,121		(32,271,922)		(32,271,922)
Public works	17,369,631	5,041,521	1,891	1,135,061	(11,191,158)		(11,191,158)
Parks and recreation	7,598,281	2,669,837			(4,928,443)		(4,928,443)
Community development	7,969,662	5,174,856	966,253	439,339	(1,389,214)		(1,389,214)
Total Governmental Activities	92,549,342	24,341,937	1,948,170	2,292,958	(63,966,277)		(63,966,277)
Business-type Activities:							
Water Utility	25,698,750	24,945,963		2,449,830		\$ 1,697,043	1,697,043
Materials Diversion	22,562,943	24,248,868	32,694			1,718,619	1,718,619
Housing	12,570,664	1,415,060	11,506,599			350,995	350,995
Total Business-type Activities	60,832,357	50,609,891	11,539,293	2,449,830		3,766,657	3,766,657
Total	<u>\$ 153,381,699</u>	<u>\$74,951,828</u>	<u>\$ 13,487,463</u>	<u>\$ 4,742,788</u>	<u>(63,966,277)</u>	<u>3,766,657</u>	<u>(60,199,620)</u>
General revenues:							
Taxes							
Property					27,914,681		27,914,681
Franchises					1,980,893		1,980,893
Sales taxes					16,183,811		16,183,811
Transient occupancy					15,868,715		15,868,715
Investment earnings					686,013	172,283	858,296
Extraordinary Items							
Transfer from Successor Agency for Capital Projects (Note 17)					2,173,091		2,173,091
Transfers (Note 4)					4,303,764	(4,303,764)	(0)
Total general revenues, special items, extraordinary items, and transfers					69,110,968	(4,131,481)	64,979,488
Change in Net Position					5,144,691	(364,824)	4,779,868
Net Position-Beginning, as restated (Note 19)					334,494,000	107,133,232	441,627,232
Net Position-Ending					<u>\$ 339,638,691</u>	<u>\$106,768,408</u>	<u>\$ 446,407,099</u>

See accompanying notes to financial statements



GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

In the Fund Financial Statements only individual major funds are presented, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the City for fiscal 2015. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund. The general fund is always a major fund.

DEVELOPMENT FEES SPECIAL REVENUE FUND

The Development Fees Special Revenue Fund accounts for development fees levied by the City on new construction. State Law and City ordinance restricts these revenues for use in construction, major maintenance, and debt service for park, street, drainage, and public safety facilities.

HOME PROGRAM

The City has been awarded grants under the State of California Federal Home Investment Partnership Program (HOME) for administration of the following activities: ownership rehabilitation, rental rehabilitation augmenting the Community Development Block Grant Rehabilitation Program, a silent second down payment assistance program; and a rental assistance program.

CITY CAPITAL PROJECTS FUND

The City Capital Projects Fund accounts for the City's current construction projects, including streets, park and recreation facilities, and other major City projects. The primary sources of funds include City-levied development fees, the state gas tax, and federal and state grants.

CITY OF NAPA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	General	Development Fees	Home Program	City Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments (Note 3)	\$ 18,672,309	\$ 18,816,927	\$ 610,053	\$ 23,340,457	\$ 18,268,369	\$ 79,708,115
Receivables, net:						
Accounts	6,851,050	3,499		60	327,836	7,182,445
Federal, state and other governments	945,312			1,196,415	69,019	2,210,746
Interest receivable	1,537	1,483	48		1,445	4,513
Loans receivable (Note 5)	1,200,000		7,048,868		5,346,768	13,595,636
Due from other funds (Note 4)	697,871					697,871
Prepaid items	38,377					38,377
Inventory	1,699					1,699
Advances from other funds (Note 4)	482,850	183,600		675,000		1,341,450
Total Assets	\$ 28,891,005	\$ 19,005,509	\$ 7,658,969	\$ 25,211,932	\$ 24,013,437	\$ 104,780,852
LIABILITIES						
Accounts payable and accrued liabilities	\$ 4,012,116		\$ 1,954	\$ 918,160	\$ 501,994	\$ 5,434,224
Vacation and sick leave accrual (Note 1)	14,973					14,973
Deposits payable	1,821,349	\$ 358,013			64,729	2,244,091
Current portion of Long Term Debt (Note 8)	107,445					107,445
Due to other funds (Note 4)					374,282	374,282
Unearned revenue	491,416				14,250	505,666
Advances to other funds (Note 4)					1,341,450	1,341,450
Total Liabilities	6,447,299	358,013	1,954	918,160	2,296,705	10,022,131
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenue - loans	1,200,000		7,048,869		5,353,407	13,602,276
Unavailable revenue - capital grants				103,878		103,878
Total Deferred Inflows of Resources	1,200,000		7,048,869	103,878	5,353,407	13,706,154
FUND BALANCES (Note 10)						
Nonspendable	522,926	183,600		675,000		1,381,526
Restricted	28,328	18,463,896	608,146	270,173	6,543,002	25,913,546
Committed	500,000			23,244,723	8,229,261	31,973,983
Assigned	13,968,154				3,312,830	17,280,984
Unassigned	6,224,297				(1,721,768)	4,502,530
Total Fund Balances	21,243,706	18,647,496	608,146	24,189,895	16,363,325	81,052,569
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 28,891,005	\$ 19,005,509	\$ 7,658,969	\$ 25,211,932	\$ 24,013,437	\$ 104,780,852
See accompanying notes to financial statements						

CITY OF NAPA
Reconciliation of the
GOVERNMENTAL FUNDS -- BALANCE SHEET
to the
GOVERNMENT WIDE STATEMENT OF NET POSITION
JUNE 30, 2015

Fund balances, as reported on the Governmental Funds Balance Sheet		\$ 81,052,569
Amounts reported for Governmental Activities on the Statement of Net Position are different from those reported on the Governmental Funds Balance sheet 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.		352,223,059
Non-current revenues:		
Revenues which are unavailable on the Governmental Fund Balance Sheets because they are not currently available are recognized as revenue on the Statement of Activities.		
Loans and Grants	13,770,516	
Golf Service Concession Agreement	<u>657,946</u>	
		14,428,462
Deferred Outflows		
Deferred outflows related to pensions are only reported in the Statement of Net Position		
Deferred outflows related to pensions		10,160,367
Internal Service Fund net position:		
Internal service funds are not governmental funds. However, they are used by management to charge the costs of certain centralized activities, such as insurance, stores, and vehicle maintenance to individual governmental funds. The net position of the Internal Service Funds are therefore included as Governmental Activities on the Statement of Net Position.		12,021,031
Long-term liabilities:		
The liabilities below are not due and payable in the current period and therefore are not reported on the Governmental Funds Balance Sheet:		
Compensated absences	(2,671,519)	
Net Pension Obligation	(108,011,172)	
Notes payable	<u>(1,335,322)</u>	
		(112,018,013)
Deferred inflows of resources:		
Deferred revenue related to Golf Service Concession Arrangement	(657,946)	
Deferred revenue related to employee services	<u>(17,570,838)</u>	
		(18,228,784)
Net position of Governmental Activities, as reported on the Statement of Net Position		<u>\$339,638,691</u>

See accompanying notes to financial statements

CITY OF NAPA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	General	Development Fees	Home Program	City Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 46,222,146				\$ 638,786	\$ 46,860,932
Licenses, permits and fees	4,765,649					4,765,649
Intergovernmental	18,850,617		\$ 324,509	\$ 1,047,684	3,121,393	23,344,203
Charges for services	6,157,592	\$ 1,993,605	854,061	9,859	3,014,469	12,029,586
Investment income	272,576	188,087	5,192		166,258	632,113
Miscellaneous revenues	67,116	315,991		100,000	20,400	503,507
Total Revenues	76,335,696	2,497,683	1,183,762	1,157,543	6,961,306	88,135,990
EXPENDITURES						
Current:						
General government						
City Council	306,517					306,517
City Clerk	828,703					828,703
City Manager	1,173,936					1,173,936
Finance	5,203,204					5,203,204
City Attorney	867,304					867,304
Human Resources	1,034,066					1,034,066
General Services	6,212,732	47,364				6,260,096
Public safety						
Police	23,090,475				650,131	23,740,606
Fire	14,559,791	541				14,560,332
Public works	7,590,141	6,607			78,131	7,674,879
Parks and recreation	7,272,716	3,776			288,294	7,564,786
Community development	3,689,386	58,448	757,432		3,470,734	7,976,000
Capital outlay	67,255			5,546,106	3,654,025	9,267,386
Debt service:						
Principal	107,445	315,991			50,000	473,436
Interest and fiscal charges					3,000	3,000
Total Expenditures	72,003,671	432,727	757,432	5,546,106	8,194,315	86,934,251
Excess (Deficiency) of Revenues over (under) Expenditures	4,332,025	2,064,956	426,330	(4,388,563)	(1,233,009)	1,201,739
OTHER FINANCING SOURCES (USES)						
Transfers in (Note 4)	3,355,451			13,227,016	4,654,526	21,236,993
Transfers out (Note 4)	(11,132,225)	(1,689,112)	(2,413)		(3,339,642)	(16,163,392)
Proceeds from the sale of capital assets	301			547,408	224,246	771,955
Total Other Financing Sources (Uses)	(7,776,473)	(1,689,112)	(2,413)	13,774,424	1,539,130	5,845,556
EXTRAORDINARY ITEMS (Note 17)						
Assets / Liabilities transferred to City by by Successor Agency				2,173,091		2,173,091
Net Change in Fund Balances	(3,444,448)	375,844	423,917	11,558,952	306,121	9,220,386
Beginning Fund Balances	24,688,154	18,271,654	184,228	12,630,943	16,057,204	71,832,183
Ending Fund Balances	\$ 21,243,706	\$ 18,647,496	\$ 608,146	\$ 24,189,895	\$ 16,363,325	\$ 81,052,569

See accompanying notes to financial statements

CITY OF NAPA
Reconciliation of the
GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
to the
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Net change in fund balances, as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance	\$ 9,220,386
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Amounts reported for Governmental Activities on the Statement of Activities are different from those reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance because of the following:

Capital asset transactions:

Governmental Funds report capital outlays as expenditures. However, on the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.	
Capitalized expenditures are added back to net position	5,739,598
Depreciation expense is deducted from net position	(12,237,497)
(Depreciation expense is net of internal service fund depreciation of \$1,118,196 which has already been allocated to service funds)	
	(6,497,899)

Accrual of non-current revenues and expenditures:

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change)	
Unavailable revenue	1,016,528
Change in pension expense (acturially determined)	1,011,668
Vacation and sick leave payable	(168,581)
	1,859,615

Special Items

The amounts below included in the Statement of Activities do not provide or (require) the use of long term special items and therefore are not reported as revenue or expenditures in governmental funds (net change)	
Long-Term portion of California Energy Commission Loan	(1,335,322)

Internal service fund activities:

Internal Service Funds are used by management to allocate the costs of certain centralized activities, such as self-insurance, central stores, and vehicle maintenance, to individual funds and programs. Because these funds serve mostly governmental activities, their net revenue (expense) is reported with governmental activities on the Statement of Activities.	
	1,897,911

Change in Net Position of Governmental Activities, as reported on the Statement of Activities	\$ 5,144,691
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See accompanying notes to financial statements

CITY OF NAPA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 24,688,154	
Revenues:				
Taxes	\$ 42,527,004	\$ 45,833,000	46,222,146	\$ 389,146
Licenses, permits and fees	4,291,000	4,391,000	4,765,649	374,649
Intergovernmental	16,119,903	19,677,844	18,850,617	(827,227)
Charges for services	5,046,125	5,575,147	6,157,592	582,445
Investment income	190,000	172,500	272,576	100,076
Miscellaneous revenues	1,000	1,750	67,116	65,366
Total Revenues	68,175,032	75,651,241	76,335,696	684,455
Expenditures:				
Current:				
General government				
City Council	327,384	337,863	306,517	31,346
City Clerk	795,431	920,615	828,703	91,912
City Manager	1,184,375	1,315,952	1,173,936	142,016
Finance	5,327,753	5,640,435	5,203,204	437,231
City Attorney	977,629	1,062,634	867,304	195,330
Human Resources	1,130,360	1,146,041	1,034,066	111,975
General Services	3,630,877	7,982,686	6,212,732	1,769,954
Public safety				
Police	23,015,799	24,110,816	23,090,475	1,020,341
Fire	13,588,802	14,750,433	14,559,791	190,642
Public works	7,680,881	8,739,608	7,697,586	1,042,022
Parks and recreation	7,303,100	7,286,325	7,272,716	13,609
Community Development	3,336,365	4,459,633	3,689,386	770,247
Capital outlay	63,100	175,628	67,255	108,373
Total Expenditures	68,361,856	77,928,669	72,003,671	5,924,998
Other Financing Sources (Uses):				
Transfers in	3,355,572	3,355,572	3,355,451	(121)
Transfers (out)	(1,986,973)	(7,924,907)	(11,132,225)	(3,207,318)
Proceeds from the sale of capital assets			301	301
Total Other Financing Sources (Uses)	1,368,599	(4,569,335)	(7,776,473)	(3,207,439)
Net Change in Fund Balances	\$ 1,181,775	\$ (6,846,763)	(3,444,448)	\$ 3,402,014
Ending Fund Balance			\$ 21,243,706	

See accompanying notes to financial statements

CITY OF NAPA
DEVELOPMENT FEES SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			<u>\$ 18,271,654</u>	
Revenues:				
Charges for services	\$ 202,203	\$ 2,254,600	1,993,605	\$ (260,995)
Investment income	237,885	247,885	188,087	(59,798)
Principal payments received	30,600	402,285	315,991	(86,294)
Total Revenues	<u>470,688</u>	<u>2,904,770</u>	<u>2,497,683</u>	<u>(407,087)</u>
Expenditures:				
Current:				
General government				
General Services			47,364	(47,364)
Public safety				
Fire			541	(541)
Parks and recreation	30,000	8,143	3,776	4,367
Public works			6,607	(6,607)
Community Development	10,000	90,000	58,448	31,552
Debt service				
Principal		371,685	315,991	55,694
Total Expenditures	<u>40,000</u>	<u>469,828</u>	<u>432,727</u>	<u>37,101</u>
Other Financing Sources (Uses):				
Transfers in	93,858			
Transfers (out)	<u>(1,569,297)</u>	<u>(6,903,001)</u>	<u>(1,689,112)</u>	<u>5,213,889</u>
Total Other Financing Sources (Uses)	<u>(1,475,439)</u>	<u>(6,903,001)</u>	<u>(1,689,112)</u>	<u>5,213,889</u>
Net Change in Fund Balances	<u>\$ (1,044,751)</u>	<u>\$ (4,468,059)</u>	<u>375,844</u>	<u>\$ 4,769,701</u>
Ending Fund Balance			<u>\$ 18,647,496</u>	

See accompanying notes to financial statements

CITY OF NAPA
HOME PROGRAM SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 184,228	
Revenues:				
Intergovernmental	\$ 241,066	\$ 494,480	324,509	\$ (169,971)
Charges for services	35,000	35,000	854,061	819,061
Investment income	1,000	1,000	5,192	4,192
Total Revenues	277,066	530,480	1,183,762	653,282
Expenditures:				
Current:				
Community Development	274,653	499,658	757,432	(257,774)
Total Expenditures	274,653	499,658	757,432	(257,774)
Other Financing Sources (Uses):				
Transfers (out)	(2,413)	(2,413)	(2,413)	
Total Other Financing Sources (Uses)	(2,413)	(2,413)	(2,413)	
Net Change in Fund Balances	\$ -	\$ 28,409	423,917	\$ 911,056
Ending Fund Balance			\$ 608,146	

See accompanying notes to financial statements



PROPRIETARY FUNDS FINANCIAL STATEMENTS

MAJOR PROPRIETARY FUNDS

Proprietary funds account for City operations financed and operated in a manner similar to a private business enterprise. The intent of the City is that the cost of providing goods and services be financed primarily through user charges.

Internal Service funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis. The Combining Statement for the Internal Service Funds can be found on page 94.

WATER UTILITY FUND

The Water Utility Fund supports the operation, maintenance and improvement of the municipal water system serving the City and adjacent areas. The City provides an uninterrupted supply of high-quality and low-cost water to the community for consumption and fire protection.

MATERIALS DIVERSION UTILITY FUND

The Materials Diversion Utility Fund is responsible for the collection, processing, public education and long-term planning related to solid waste materials generated in the City of Napa.

HOUSING FUND

The Housing Fund accounts for activities of the Housing Authority which provides and administers affordable housing programs and services to qualified residents. The Housing Authority administers Federal funds including Section 8 Housing Vouchers county-wide; Mainstream Vouchers county-wide; Continuum of Care Funds; the Local Housing Fund; the Operating Reserve Fund and the Management of Housing Authority owned properties.

CITY OF NAPA
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2015

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water Utility	Materials Diversion Utility	Housing	Totals	
ASSETS					
Current Assets:					
Cash and investments (Note 3)	\$ 20,444,897	\$ 7,792,262	\$ 4,800,370	\$ 33,037,529	\$ 12,797,662
Receivables, net:					
Accounts	4,451,771	2,096,348	74,219	6,622,338	1,215,960
Federal, state and other governments	634,855	10,882	58,954	704,691	736,771
Interest receivable	1,421	615	307	2,343	1,010
Prepaid items	153,928			153,928	214,733
Inventory (Note 1)					264,252
Total Current Assets	25,686,872	9,900,107	4,933,850	40,520,829	15,230,388
Noncurrent Assets:					
Restricted cash and investments (Note 3)	469,517		169,308	638,825	
Loans receivable (Note 5)	691,036		9,530,137	10,221,173	
Capital assets (Note 7)					
Nondepreciable	2,176,699	7,618,987	4,022,187	13,817,873	112,694
Depreciable, net	102,458,196	5,876,818	1,277,824	109,612,838	6,666,273
Total Noncurrent Assets	105,795,448	13,495,805	14,999,456	134,290,709	6,778,967
TOTAL ASSETS	131,482,320	23,395,912	19,933,306	174,811,538	22,009,355
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pension	903,312	109,842	17,516	1,030,670	168,934
LIABILITIES					
Current Liabilities:					
Accounts payable and accrued liabilities	2,536,816	2,088,108	152,207	4,777,131	331,037
Compensated absences (Note 1)	108,701	6,600	25,957	141,258	25,232
Claims payable (Note 13)					2,278,400
Accrued interest	370,481		1,121	371,602	
Deposits payable	263,737	281,088	30,198	575,023	
Unearned revenue	147,834			147,834	
Due to other funds (Note 4)					323,589
Long-term debt (Note 8)					
Revenue bonds	1,295,000			1,295,000	
Notes payable	382,552		75,996	458,548	
Total Current Liabilities	5,105,121	2,375,796	285,479	7,766,396	2,958,258
Long-term Liabilities:					
Compensated absences (Note 1)	287,229	39,363	27,619	354,211	18,880
Deposits payable			85,747	85,747	
Claims payable (Note 13)					3,783,600
Net pension obligation	10,569,371	1,285,230	204,944	12,059,545	1,976,636
Net OPEB obligation (Note 12)					1,121,324
Long-term debt net of current portion (Note 8)					
Revenue bonds, net of unamortized premiums	41,845,673			41,845,673	
Notes payable	3,749,570		1,391,126	5,140,696	
Total Long-term Liabilities	56,451,843	1,324,593	1,709,436	59,485,872	6,900,440
TOTAL LIABILITIES	61,556,964	3,700,389	1,994,915	67,252,268	9,858,698
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	1,596,449	194,127	30,956	1,821,532	298,560
NET POSITION (NOTE 10)					
Net investment in capital assets	57,831,617	13,495,805	3,832,889	75,160,311	6,778,967
Restricted for Debt Service	469,517			469,517	
Restricted for Housing Grant Programs			169,308	169,308	
Unrestricted	10,931,085	6,115,433	13,922,754	30,969,272	5,242,064
Total net position (deficit)	\$ 69,232,219	\$ 19,611,238	\$ 17,924,951	\$ 106,768,408	\$ 12,021,031

See accompanying notes to financial statements

CITY OF NAPA
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2015

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water Utility	Materials Diversion Utility	Housing	Totals	
OPERATING REVENUES					
Intergovernmental Revenue					\$ 2,790
Charges for services	\$ 24,244,619	\$ 24,189,520	\$ 1,415,060	\$ 49,849,199	11,576,154
Miscellaneous	701,344	59,348		760,692	
Total Operating Revenues	24,945,963	24,248,868	1,415,060	50,609,891	11,578,944
OPERATING EXPENSES					
Cost of goods sold					645,556
Housing assistance			10,306,339	10,306,339	
General administrative			931,240	931,240	
Employee services and benefits	6,530,837	847,537	1,158,634	8,537,008	1,100,874
Materials and services	12,723,327	21,449,868		34,173,195	2,142,404
Insurance premiums			2,474	2,474	4,044,577
Depreciation and Amortization	4,269,954	265,327	108,383	4,643,664	1,118,196
Total Operating Expenses	23,524,118	22,562,732	12,507,070	58,593,920	9,051,607
Operating Income (Loss)	1,421,845	1,686,136	(11,092,010)	(7,984,029)	2,527,337
NON-OPERATING REVENUES (EXPENSES)					
Investment income	168,334	(2,508)	6,454	172,280	99,225
Grants from other governments	1,800,535	32,694	11,506,599	13,339,828	
Interest expense and fiscal charges	(2,174,503)	(211)	(63,849)	(2,238,563)	
Total Nonoperating Revenues (Expenses)	(205,634)	29,975	11,449,204	11,273,545	99,225
Income (Loss) Before Capital Contributions, Sale of Capital Assets and Transfers	1,216,211	1,716,111	357,194	3,289,516	2,626,562
Connection fees and capital grants	649,295			649,295	
Gain from sales of capital assets	129			129	41,185
Transfers in (Note 4)					41,525
Transfers (out) (Note 4)	(1,879,110)	(2,313,949)	(110,705)	(4,303,764)	(811,361)
Change in Net Position	(13,475)	(597,838)	246,489	(364,824)	1,897,911
Beginning Net Position as restated (Note 19)	69,245,694	20,209,076	17,678,462	107,133,232	10,123,120
Ending Net Position	\$ 69,232,219	\$ 19,611,238	\$ 17,924,951	\$ 106,768,408	\$ 12,021,031

See accompanying notes to financial statements

CITY OF NAPA
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Business-type Activities-Enterprise Funds				Governmental Activities- Internal Service Funds
	Water Utility	Materials Diversion Utility	Housing	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 26,584,482	\$ 25,292,131	\$ 1,409,838	\$ 53,286,451	\$ 10,398,824
Payments to suppliers	(13,093,894)	(21,329,271)	(11,369,577)	(45,792,742)	(2,698,976)
Loan collections			(371,182)	(371,182)	
Payments to or on behalf of employees	(7,800,000)	(1,056,809)	(1,170,338)	(10,027,147)	(5,261,625)
Net cash provided (used) by Operating Activities	5,690,588	2,906,051	(11,501,259)	(2,904,620)	2,438,223
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Operating grants received	1,800,535	32,694	11,502,714	13,335,943	
Interfund receipt (payment)	195,527			195,527	38
Transfers in					41,525
Transfers (out)	(1,879,110)	(2,313,949)	(110,705)	(4,303,764)	(811,361)
Net cash provided (used) by Noncapital Financing Activities	116,952	(2,281,255)	11,392,009	9,227,706	(769,798)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Connection fees and capital grants	649,295			649,295	
Acquisition of capital assets	(1,452,850)	(3,743,008)	(638,844)	(5,834,702)	(792,226)
Proceeds from sales of capital assets	129			129	41,185
Principal payments on capital debt	(1,692,293)		(75,616)	(1,767,909)	(44,112)
Interest paid on capital debt	(2,185,950)	(211)	(63,849)	(2,250,010)	
Net cash provided (used) by Capital and Related Financing Activities	(4,681,669)	(3,743,219)	(778,309)	(9,203,197)	(795,153)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received (paid)	50,737	15,565	6,450	72,752	116,559
Net cash provided (used) by Investing Activities	50,737	15,565	6,450	72,752	116,559
Net Increase (Decrease) in cash and cash equivalents	1,176,608	(3,102,858)	(881,109)	(2,807,359)	989,831
Cash and cash equivalents at beginning of period	19,737,806	10,895,120	5,850,787	36,483,713	11,807,831
Cash and cash equivalents at end of period	\$ 20,914,414	\$ 7,792,262	\$ 4,969,678	\$ 33,676,354	\$ 12,797,662
Reconciliation of Operating Income (Loss) to Cash Flows from Operating Activities:					
Operating income (loss)	\$1,421,845	\$1,686,136	(\$11,092,010)	(\$7,984,029)	\$2,527,337
Adjustments to reconcile operating income to cash flows from operating activities:					
Depreciation	4,269,954	265,327	108,383	4,643,664	1,118,196
Change in assets, deferred outflow, liabilities and deferred inflows:					
Receivables, net - (increase)/decrease	(954)	788,912	(412,319)	375,639	(1,180,120)
Prepaid items & inventory - (increase)/decrease	(27,248)			(27,248)	
Deferred Outflows of Resources - (increase)/decrease	(1,321,239)	(212,404)	(11,754)	(1,545,397)	(298,873)
Other Assets - (increase)/decrease					(106,316)
Accounts payable and other accrued expenses	(343,319)	120,597	(140,737)	(363,459)	(125,900)
Net OPEB Obligation - increase / (decrease)					(123,705)
Deposits payable - increase/(decrease)	43,024	60,224	17,706	120,954	
Deferred inflow - increase/(decrease)	1,596,449	194,127	18,212	1,808,788	298,560
Claims payable - increase/(decrease)					321,200
Vacation and sick leave payable - increase/(decrease)	52,076	3,132	11,260	66,468	7,844
Cash Flows from Operating Activities	\$ 5,690,588	\$ 2,906,051	\$ (11,501,259)	\$ (2,904,620)	\$ 2,438,223

See accompanying notes to financial statements



FIDUCIARY FUNDS FINANCIAL STATEMENTS

FIDUCIARY FUNDS

These funds are used to account for assets held by the City as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

The Combining Statement for the Fiduciary Funds can be found on page 106.

AGENCY FUND

Payroll Fund

To account for the collection and payment of all payroll deductions made from the City employees and for monies collected from retirees to reimburse the City for their share of their health insurance premiums.

PRIVATE PURPOSE TRUST FUND

Successor Agency to the Napa Community Redevelopment Agency

To account for the activities of the Successor Agency to the Napa Community Redevelopment Agency, established as a result of the dissolution of the Redevelopment Agency February 1, 2012.

CITY OF NAPA
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015

	Successor Agency Trust Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and investments (Note 3)		\$ 33,894
Restricted cash and investments (Note 3)	\$ 4,434,973	
Accounts receivable		6,484
Interest receivable	261	
Capital Assets (Note 16)		
Land	35,480	
Depreciable	82,638	
Less: Accumulated depreciation	<u>(78,845)</u>	
Total Assets	<u>4,474,507</u>	<u>\$ 40,378</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflow - Loss on Refunding	<u>200,336</u>	
Total Deferred Outflows of Resources	<u>200,336</u>	
LIABILITIES		
Accounts payable	8,042	\$ 40,378
Accrued interest payable	131,174	
Long-term debt (Note 16)		
Due within one year	2,390,625	
Due in more than one year	<u>10,266,891</u>	
Total Liabilities	<u>12,796,732</u>	<u>\$ 40,378</u>
NET POSITION (DEFICIT)		
Held in Trust	<u>\$ (8,121,889)</u>	

See accompanying notes to financial statements

CITY OF NAPA
STATEMENT OF CHANGES IN FIDUCIARY FUNDS NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	Successor Agency Trust Funds
ADDITIONS:	
Intergovernmental revenue	\$ 2,265,696
Charges for services	41,667
Investment income	<u>66,966</u>
Total Additions	<u>2,374,329</u>
DEDUCTIONS:	
Community development	142,978
Depreciation	603
Debt service:	
Interest and fiscal charges	<u>655,353</u>
Total Deductions	<u>798,934</u>
EXCESS (DEFICIENCY) OF ADDITIONS OVER DEDUCTIONS	<u>1,575,395</u>
EXTRAORDINARY ITEMS (Note 17)	
Assets transferred to the City	(2,173,091)
CHANGE IN NET POSITION	(597,696)
BEGINNING NET POSITION (DEFICIT)	<u>(7,524,193)</u>
ENDING NET POSITION (DEFICIT)	<u><u>\$ (8,121,889)</u></u>

See accompanying notes to financial statements



NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
--

A. Reporting Entity

The City of Napa, California (the City) was incorporated on March 23, 1872, under the laws of the State of California. The City's Charter was filed on October 27, 1914. The City operates under a council-manager form of government. As required by generally accepted accounting principles, these financial statements present the City of Napa and its component units. The following component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with that of the City.

The Housing Authority of the City of Napa (the Housing Authority) was established on May 8, 1942. On July 7, 1969, the City Council declared itself to be the Board of Commissioners of the Housing Authority in accordance with Section 34920 of the Health and Safety Code of the State of California. The City of Napa has operational responsibility for the component unit.

The Parking Authority of the City of Napa (the Parking Authority) was established pursuant to the Streets and Highways Code of the State of California. The City Council established the Parking Authority on April 27, 1970 and designated itself as the governing body. The primary purpose of the Authority is to acquire, maintain and operate off-street parking facilities within the City. The Parking Authority reported no financial transactions during the year ended June 30, 2015.

The City of Napa Public Facilities Financing Authority (the Financing Authority) was established in April, 1985 as a tax exempt public benefit corporation with the power to purchase, lease, assign, encumber or otherwise dispose of any real or personal property. The primary purpose of the Financing Authority is to render financial assistance to the City by financing the purchase or construction of public facilities. The City Council is the governing body of the Financing Authority. The Financing Authority reported no financial transactions during the year ended June 30, 2015.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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B. Basis of Presentation

These *Financial Statements* are prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

The City's financial position and results of operations are presented from two perspectives in the following two sets of financial statements:

Government-wide Statements include the *Statement of Net Position* and the *Statement of Activities*, and report the financial activities of the overall City using an economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of when the related cash flows take place. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The *Statement of Activities* presents a comparison between direct expenses and program revenues for each function of the City. Direct expenses are those that are specifically associated with a program or function. Certain indirect costs are included in program expenses reported for individual functions and activities. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) operating grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) capital fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues are presented as general revenues.

The City may pay for its programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted resources 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.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, 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.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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C. Major Funds

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds whose revenues, expenditures/expenses, assets, or liabilities (including deferred inflows and deferred outflows, but excluding extraordinary items) are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds. The General Fund is always a major fund. The City may select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.

The **Development Fees Special Revenue Fund** accounts for development fees levied by the City on new construction. City ordinance restricts these revenues for use in construction, major maintenance, and debt service for park, street, drainage, and public safety facilities.

Home Program Fund - The City has been awarded grants under the State of California Federal Home Investment Partnership Program (HOME) for administration of the following activities: ownership rehabilitation, rental rehabilitation augmenting the Community Development Block Grant Rehabilitation Program, a silent second down payment assistance program; and a rental assistance program.

The **City Capital Projects Fund** accounts for the City's current construction projects, including streets, park and recreation facilities, and other major city projects. The primary sources of funds include city-levied development fees, the state gas tax, and federal and state grants.

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

The **Water Utility Fund** accounts for the operations and management of the City's water system.

The **Material Diversion Utility Fund** accounts for administration of the City's garbage franchise, including tipping fees, a rate stabilization fund, and other specialized services. The fund does not report the financial position or activities of the City's franchise operator.

The **Housing Fund** accounts for the operations of the Housing Authority.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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The City also reports the following fund types:

Internal Service Funds – These funds account for GASB 45 post-employment benefits expense and liabilities, workers’ compensation and general liability coverage, management information system maintenance and replacement, equipment maintenance and replacement, and central stores inventory; all of which are provided to other departments on a cost-reimbursement basis.

The City also reports the following fiduciary fund types:

Trust Fund – This fund accounts for assets held by the City in trust for The Successor Agency to the Napa Community Redevelopment Agency Private Purpose Trust Fund which accounts for the collections and disbursements of the Successor Agency to the Napa Community Redevelopment Agency’s approved payments (ROPS) and reimbursements.

Agency Funds – This fund accounts for assets held by the City for the employees’ flexible spending account. This fund is custodial in nature and does not involve measurement of the results of operations.

D. Basis of Accounting

Governmental Funds are used to report the majority of the City’s programs. These funds are reported in the *Fund Financial Statements* on the modified accrual basis of accounting, with a focus on current financial resources. This basis differs from the accrual basis of accounting used to report the government-wide financial statements and the business-type fund financial statements.

Revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues susceptible to accrual include taxes, intergovernmental revenues, charges for services and interest revenue. Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

In the *Fund Financial Statements*, unearned revenues arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

Expenditures are recorded when the related fund liability is incurred, except for un-matured interest, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Governmental capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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Proprietary Funds of the City are reported on the accrual basis of accounting in the Fund Financial Statements.

E. Cash and Investments

The City maintains a cash and investment pool, which includes unrestricted cash balances and authorized investments for all funds. Investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of the funds' position in the pool is the same as the value of the pool shares. The method used to determine the value of a fund's equity withdrawn is based on the book value of the fund's percentage participation at the date of such withdrawal. In the event that a certain fund overdraws its share of pooled cash, a short-term inter-fund loan transaction is recorded to offset the overdraft.

For purposes of the statement of cash flows, cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments.

Cash and investments restricted by various long-term debt bond covenants are reported as restricted assets in the debt service or enterprise funds.

F. Tax Revenue

The County is permitted by State Law (Proposition 13) to levy taxes at 1% of the full market value of the property (at the time of purchase) and can increase the assessed property valuation by no more than 2% per year. Napa County levies property taxes limited to \$1 per \$100 of assessed valuation for county, cities, schools and special districts' operating expenditures. This property tax levy is distributed to the different governmental agencies under the State-mandated alternate method of apportioning taxes (commonly referred to as the "Teeter Plan") whereby all local agencies with historical tax delinquency rates less than 3%, including cities, receive from the County 100% of their respective shares of the amount of ad valorem taxes levied, without regard to the actual collection of taxes levied. This method was placed in effect by the City and Napa County in the 1993 – 1994 tax year and remains in effect until the County Board of Supervisors orders its discontinuance.

City property tax revenues are recognized when levied to the extent that the measurable and available criteria have been met. Property taxes become an enforceable lien on property as of March 1; taxes are levied on July 1; taxes are payable in two installments on November 1 and February 1; taxes become delinquent on December 10 and April 10. The County bills and collects the property taxes and remits them to the City.

G. Inventories

Inventory in the proprietary funds is stated at the lower of its weighted average cost or market value. Inventory in the Internal Service Funds consists of spare parts and supplies.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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H. Prepaid Expenses / Items

Payments made to vendors for services that will benefit period beyond June 30, are recorded as prepaid items, and in governmental fund financial statements are offset equally by nonspendable fund balance, which indicates that they are not in spendable form.

I. Capital Assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure (e.g. roads, bridges, sidewalks, and similar items), are reported on the government-wide *Statement of Net Position*. Capital assets used in enterprise and internal service funds are also reported on those *Fund Financial Statements*. Since the governmental funds report only current, available resources on their *Fund Financial Statements*, capital outlay in those funds is reported as expenditure and not as an asset on the balance sheet.

Capital assets are recorded at cost. Donated assets are recorded at their estimated fair value at the date of donation. Fixed assets acquired under capital leases are recorded at the net present value of the future minimum lease payments.

Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested debt funds, if any, over the same period.

Depreciation on recorded capital assets is expensed on the straight line method over the following estimated useful lives:

Asset Classification	Years
Buildings and improvements	15 – 60
Vehicles and equipment	3 – 7
Roads	20 – 40
Bridges	75
Curbs/gutters/sidewalks	30 – 50
Traffic signals	40
Park improvements	20 – 30
Transmission and distribution systems	20 – 60
Street lights	30 - 40
Underground utilities	30 - 40
Stormwater	30 - 40

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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J. Compensated Absences

City employees may accumulate earned but unused vacation (up to a certain amount) and sick pay benefits. In the proprietary funds, vacation and vested sick leave pay is accrued when incurred and reported as a fund liability. In the governmental funds, leave pay for terminated employees is reported as expenditure and a current fund liability. The full value of non-current accrued leave liabilities, for all funds, is reported on the government-wide Statement of Net Position.

	Governmental Activities	Business-type Activities	Total
Beginning balance	\$ 2,542,787	\$ 429,001	\$ 2,971,788
Additions	347,991	82,604	430,595
Payments	<u>(160,174)</u>	<u>(16,136)</u>	<u>(176,310)</u>
Ending balance	<u>\$ 2,730,604</u>	<u>\$ 495,469</u>	<u>\$ 3,226,073</u>
Current portion	<u>\$ 40,205</u>	<u>\$ 141,258</u>	<u>\$ 181,463</u>

K. 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 of Napa's California Public Employee's 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 benefit terms. Investments are reported at fair value.

L. Use of Estimates

The accompanying basic financial statements have been prepared in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position or balance sheet will, when applicable, report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows related to pensions, resulting from the implementation of GASB 68 and the payment of pension contributions after the measurement date. (*See Note 11 for further discussion*)

In addition to liabilities, the statement of financial position or balance sheet will, when applicable, report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue)

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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until that time. The City has two items that qualify for reporting in this category: 1) deferred inflows related to the Service Concession Arrangement on the municipal golf course, and 2) deferred inflows related to pensions as a result of the implementation of GASB 68 and certain pension related items. (See Note 11 for further discussion)

N. Implementation of New GASB Pronouncements

In fiscal year 2014-2015, the City implemented new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 68 – In June 2012 GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to improve accounting and financial reporting by State and local governments for government combinations and disposals of government operations. The Statement provides authoritative guidance on a variety of government combinations including mergers, acquisitions, and transfers of operations. This statement did not have a material impact.

GASB Statement No. 71 – In November 2013, GASB issued Statement No 71, *Pension Transition For Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue related to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The City is currently evaluating the potential impact on its financial statements of the following Governmental Accounting Standards Board Statements:

GASB Statement No. 72 – In February 2015, GASB issued Statement No 72, *Fair Value Measurement and Application*. This statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2015. The City has not yet determined its effect on the financial statements.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
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GASB Statement No. 73 – In June 2015, GASB issued Statement No 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions in statement 73 are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. The City has not yet determined its effect on the financial statements.

GASB Statement No. 74 – In June 2015, GASB issued Statement No 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, statement 43, and statement No. 50, *Pension Disclosures*. The provisions in statement 74 are effective for fiscal years beginning after June 15, 2016. The City has not yet determined its effect on the financial statements.

GASB Statement No. 75 – In June 2015, GASB issued Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in statement 75 are effective for fiscal years beginning after June 15, 2017. The City has not yet determined its effect on the financial statements.

GASB Statement No. 76 – In June 2015, GASB issued Statement No 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement is effective for reporting periods beginning after June 15, 2015. The City has not yet determined its effect on the financial statements.

GASB Statement No. 77 – In August 2015, GASB issued Statement No 77, *Tax Abatement Disclosures*. The objective of this statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. This statement is effective for reporting periods beginning after December 15, 2015. The City has not yet determined its effect on the financial statements.

NOTE 2 – BUDGETARY INFORMATION

The City biennially adopts an annual budget. Debt service fund budgets are adopted when the authorization of the debt issuance is authorized. All annual appropriations lapse at fiscal year-end, unless special approval is granted by the Finance Director and City Manager for carry over to the subsequent year.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 2 – BUDGETARY INFORMATION (Continued)

Budgets are also adopted and controlled for the proprietary funds. Budget comparisons for these funds are not legally mandated and thus are not presented in these financial statements.

In approximately February of every other year, all City departments submit requests for appropriations to the City Manager so that a budget may be prepared. In May, the proposed budget is presented to the City Council for review. The Council holds public hearings and a final budget is prepared and adopted on or before June 30.

The budget is prepared at the fund, program and department levels. The City's department heads may make transfers of appropriations within a department. The City Manager is authorized to make transfers between the departments. All other adjustments or changes require City Council approval. The legal level of budgetary control is the fund level. Budget amounts shown in these financial statements include all supplemental appropriations made during the year. Supplemental appropriations during the year ended June 30, 2015, were not significant relative to the budget as a whole.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as assigned, committed or restricted fund balance and do not constitute expenditures or liabilities because they will be re-appropriated and honored during the subsequent year.

NOTE 3 – CASH AND INVESTMENTS

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds. This pooled cash is invested in an effort to enhance interest earnings while minimizing exposure to risk. The pooled interest earned is allocated to the funds based on cash and investment balances in these funds at the end of each monthly accounting period.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value.

City portfolio value fluctuates in an inverse relationship to any change in interest rates. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen. In accordance with GASB Statement No. 31, the portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. The City's practice is to buy and hold investments until their maturity dates.

A. Deposits

The California Government Code requires California banks and savings and loans to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 3 – CASH AND INVESTMENTS (Continued)

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Cash and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Cash and investments - Governmental and Business-type activities	\$ 125,543,306
Restricted cash and investments	<u>638,825</u>
Total City cash and investments	126,182,131
Cash and investments available for operations in	
Fiduciary Funds	33,894
Restricted cash and investments in	
Fiduciary Funds	<u>4,434,973</u>
Total cash and investments	<u><u>\$ 130,650,998</u></u>

B. Investments Authorized by the California Government Code and Investment Policy

The table below identifies the investment types authorized under the provisions of the City's investment policy, and in accordance with the California Government Code. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment in One Issuer
U.S. Treasury Bonds, Notes and Bills	5 Years	N/A	None	None
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligations	5 Years	N/A	None	None
State of California or other Local Agency	5 Years	N/A	None	5%
Treasury Notes or Bonds	5 Years	N/A	None	5%
Bankers' Acceptances	180 Days	A-1, P-1	30%	Lesser of \$2,000,000 or 5%
Certificate of Deposit (Time Deposit)	2 years	None	None	\$500,000
Negotiable Certificates of Deposit	2 Years	A	30%	\$1,000,000
Commercial Paper	270 Days	A	25%	5%
Medium-Term Notes	5 Years	A	30%	5%
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	\$50,000,000	N/A
Repurchase Agreements	30 Days	N/A	20%	20%
Money Market Mutual Funds	N/A	AAA	20%	10%
California Asset Management Program	N/A	N/A	None	None

C. Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 3 – CASH AND INVESTMENTS (Continued)

The table below identifies the investment types that are authorized for investments held by bond trustee and the City.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
United States Government Agency Obligations	5 years	N/A
Federal Securities	5 years	N/A
Bankers' Acceptances	30 days to 1 year	A-1
Commercial Paper	270 days	A-1+
Repurchase Agreements	None to 30 days	A-1
Local Agency Investment Fund	n/a	Not rated
Money Market Funds	n/a	AAA-m
Investment Agreements	None	None to AA
Prefunded Municipal Obligations	None	None to AAA

D. 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, the greater the sensitivity of its fair value to change in market interest rates. The City manages its exposure to interest rate risk 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 (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments as of June 30, 2015, by maturity:

Type of Investments	Less Than One Year	One to Three Years	Three to Five Years	Total
Local Agency Investment Fund	\$ 48,081,428			\$ 48,081,428
Certificate of Deposit	3,002,374	\$ 2,505,223		5,507,597
U.S. Treasury Notes	700,530	3,930,935	\$ 16,860,118	21,491,582
Supra-National Agency Bond / Note		424,623		424,623
Corporate Notes		14,607,191	6,225,212	20,832,402
Money Market Funds (U.S. Securities)	191,465			191,465
Federal Agency Securities	30,793	20,339,549	3,043,427	23,413,768
Total Investments	\$ 52,006,590	\$ 41,807,520	\$ 26,128,756	119,942,866
<i>Cash in banks and on hand</i>				<u>10,708,132</u>
Total Cash and Investments				\$ 130,650,998

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 3 – CASH AND INVESTMENTS (Continued)

E. Disclosures Relating to Credit Risk

Credit risk is measured by the assignment of a rating by Standard & Poor's Financial Services LLC, a nationally recognized statistical rating organization. Presented below is the actual rating as June 30, 2015, for each investment type.

Investment Type	AAA/AAAm	AA+/AA/AA-	A+/A/A-/A1/A1+	Total
Certificates of Deposit		\$ 1,001,579	\$ 4,506,018	\$ 5,507,597
U.S. Treasury Notes		21,491,581		21,491,581
Supra-National Agency Bond / Note	\$ 424,623			424,623
Corporate Notes	1,638,679	9,808,696	9,385,027	20,832,402
Money Market Funds	191,465			191,465
Federal Agency Securities		23,413,769		23,413,769
Total	<u>\$ 2,254,767</u>	<u>\$ 55,715,626</u>	<u>\$ 13,891,046</u>	71,861,438
<i>Not Rated:</i>				
Local Agency Investment Fund				48,081,428
Cash in banks and on hand				10,708,132
Total Cash and Investments				<u>\$ 130,650,998</u>

F. Investments in Local Agency Investment Funds

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2015, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

Structured Notes - are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

I. Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U. S. Treasury securities, mutual funds, and external investment fund that represent 5% or more of total entity investments are as follows at June 30, 2015:

Issuer	Investment Type	Reported Amount
Federal National Mortgage Association	Federal Agency Securities	\$ 13,767,221
Federal Home Loan Mortgage Corporation	Federal Agency Securities	7,005,633

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 4 – INTERFUND TRANSACTIONS

A. Transfers

Transfers report the contribution of resources from one fund to another. The following is a summary of transfers for the year ended June 30, 2015:

	Transfers In (fund receiving transfer):					
	Governmental Funds					
Transfers Out: (fund making transfer)	General Fund	City Capital Projects Fund	Non Major Governmental Fund	Internal Service Funds	TOTALS	
Governmental Funds:						
General Fund		\$ 10,190,023 [C]	\$ 942,202 [B]		\$ 11,132,225	
Non-Major Governmental Funds	\$ 213,160 [A]	1,348,199 [C]	1,778,283 [B]		3,339,642	
Development Fees Fund	319 [A]	1,688,793 [C]			1,689,112	
Internal Service Funds	811,361 [A]				811,361	
Home Program Fund	2,413 [A]				2,413	
Governmental Funds total	1,027,253	13,227,016	2,720,485	-	16,974,754	
Proprietary Funds:						
Water Utility Fund	1,737,585 [A]		100,000 [C]	41,525 [C]	1,879,110	
Materials Diversion Utility Fund	479,908 [A]		1,834,041 [C]		2,313,949	
Housing Fund	110,705 [A]				110,705	
Proprietary Funds total	2,328,198	-	1,934,041	41,525	4,303,764	
Totals:	\$ 3,355,451	\$ 13,227,016	\$ 4,654,526	\$ 41,525	\$ 21,278,518	

[A] To Fund Citywide Overhead

[B] To Fund Operations

[C] To Fund Capital Outlay

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 4 – INTERFUND TRANSACTIONS (Continued)
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B. Interfund Balances

Interfund balances are loans between funds to provide either short-term cash flow or funding for longer-term projects. The following is a summary of interfund balances as of June 30, 2015:

Lending Fund:	Borrowing Fund:	Amount
Due to/from other funds:		
General Fund	Central Stores Fund	\$ 323,589
General Fund	Golf Course Fund	374,282
		<u>\$ 697,871</u>
Advances to/from other funds:		
Development Fees Fund	Golf Course Fund	\$ 183,600 [A]
General Fund	Golf Course Fund	482,850 [B]
City Capital Projects Fund	Golf Course Fund	675,000 [B]
		<u>\$ 1,341,450</u>

[A] Quadrant Development Fee advance used to fund Golf Course water irrigation surcharge

[B] To fund capital improvements at the City's golf course

C. Internal Balances

Internal balances are presented only in the Government-wide statements. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 5 – LOANS RECEIVABLE

The City has extended long-term loans to support affordable housing and economic development. All loans are secured by real estate. Since some of these loans are secured by trust deeds which are subordinated to other debt on the associated projects or are only repayable from residual cash receipts on the projects, collectability of some of the outstanding balances may be not be realized. As a result, a portion of the outstanding balances of the loans has been offset by a valuation allowance. These long-term loans receivable consisted of the following at June 30, 2015:

	Term (Years)	Rate %	Outstanding Balance at June 30, 2015
General Fund			
Napa Valley Opera House	15	4%	\$ 1,200,000
Home Program:			
First time homebuyers down payment assistance	20-30	3%	6,271,535
The Reserve at Napa	30	3%	874,000
Whistlestop	30	3%	939,632
CDBG Housing Rehabilitation Program	20	2-10%	2,177,802
20% Low- and Moderate Income Housing:			
Mayacamas Village Associates	30	4%	485,767
Parkwood Project	40	0%	74,896
Silverado Creek Apartments	45	3.5%	3,082,983
Pecan Court Project	40	4%	735,067
Schoolhouse Project	40	0%	591,166
First time homebuyers down payment assistance	20-30	3%	608,200
Jefferson Street Senior Housing (NVCH)	40-41/60	0-3.5%	300,000
Napa Garden Court	55	4%	1,540,000
Oak Creek Terrace	55	3%	370,174
Rohlffs Concordia Manor	55	1%	701,109
Rohlffs Manor III	55	3%	250,000
Local Housing Fund:			
- Pioneer Village	various	7%	96,000
- Charter Oaks	25	3.5%	1,269
RDA Supplemental - Bain, Thomas	0	0%	125,100
Housing and Inclusionary Fund :			
Magnolia Park	55	3.5%	300,000
Jefferson Street Housing (NVCH) - City	60	0%	514,431
Napa Garden Court Associates	5	3%	230,000
County of Napa	55	0%	500,000
Oak Creek Terrace	55	3%	1,037,646
Saratoga Downs	10	2%	256,000
Cal Home Grant	5	3%	1,142,419
Laurel Manor			
Whistle Stop Town homes	35	3.5%	44,000
Magnolia Park	55	3.5%	221,125
Water Loan			
Sucessor Agency to the Redevelopment Agency	9	Applicable	634,375
Private Purpose Trust Fund		LAIF rate	
American Canyon	7	4%	50,000
Totals, before interest and valuation allowance			25,354,696
Accured Interest			2,965,458
Valuation allowance			(4,503,345)
Net			<u>\$ 23,816,809</u>

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 6 – LAND HELD FOR REDEVELOPMENT

The City sold the remnant parcel that had been held for redevelopment in December 2014. Residual funds were returned to the Traffic fund consistent with the original investment. As of June 30, 2015, the balance of land being held for future development amounted to \$0.

NOTE 7 – CAPITAL ASSETS

A. Additions and Retirements

Governmental activities capital assets activity for the year ended June 30, 2015, was as follows:

	Balance at June 30, 2014	Additions	Retirements	Transfers	Balance at June 30, 2015
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 25,121,713				\$ 25,121,713
Construction in progress	116,890,669	\$ 6,261,136	\$ (2,031,857)	\$ (23,143,072)	97,976,876
Total capital assets not being depreciated	142,012,382	6,261,136	(2,031,857)	(23,143,072)	123,098,589
Capital assets being depreciated:					
Building and improvements	31,054,132	26,886	(162)	4,525,848	35,606,704
Equipment	7,004,051	447,502	(9,205)	3,922,795	11,365,143
Vehicles and rentals	16,164,627	780,145	(787,751)		16,157,021
Bridges	28,066,680				28,066,680
Roads	407,320,995	983,575	(1)	8,398,328	416,702,896
Curb/gutter/sidewalks	8,098,563	18,967	(562)	2,310,487	10,427,456
Traffic Signals	4,261,512	32,572	(3,228)	1,060,495	5,351,351
Stormwater	4,480,236			139,231	4,619,467
Park Improvements	4,508,858	29,596		2,785,888	7,324,342
Underground Utilities	64,761				64,761
Street Lights	1,407,671				1,407,671
Water Rights	306,000				306,000
Total capital assets being depreciated	512,738,086	2,319,243	(800,909)	23,143,072	537,399,492
Less accumulated depreciation for:					
Building and improvements	(20,539,295)	(667,015)			(21,206,310)
Equipment	(6,484,187)	(64,980)		7,523	(6,541,644)
Vehicles and rentals	(9,286,482)	(1,106,008)		776,701	(9,615,790)
Bridges	(10,130,327)	(374,222)			(10,504,549)
Roads	(236,946,820)	(10,438,308)			(247,385,128)
Curb/gutter/sidewalks	(1,131,224)	(202,466)			(1,333,690)
Traffic Signals	(970,726)	(106,539)			(1,077,265)
Stormwater	(741,381)	(112,841)			(854,222)
Park Improvements	(2,226,373)	(215,915)			(2,442,288)
Underground Utilities	(11,089)	(1,619)			(12,708)
Street Lights	(242,480)	(35,192)			(277,672)
Water Rights	(214,200)	(30,600)			(244,800)
Total accumulated depreciation	(288,924,584)	(13,355,705)		784,224	(301,496,066)
Net capital assets being depreciated	223,813,502	(11,036,463)	(800,909)	23,927,296	235,903,427
Governmental activities capital assets, net	\$ 365,825,884	\$ (4,775,327)	\$ (2,832,765)	\$ 784,224	\$ 359,002,016

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 7 – CAPITAL ASSETS (Continued)

Business-type activities capital assets activity for the year ended June 30, 2015, was as follows:

	Balance 6/30/2014	Transfers	Additions	Retirements	Balance at 6/30/2015
<i>Business-type Activities</i>					
Capital assets not being depreciated:					
Land and improvements	\$ 5,283,681				\$ 5,283,681
Construction in progress	8,411,383	\$ (4,808,730)	\$ 4,931,539		8,534,192
Total capital assets not being depreciated	13,695,064	(4,808,730)	4,931,539		13,817,873
Capital assets being depreciated:					
Building and improvements	83,812,538	308,919	369,810		84,491,267
Equipment	4,923,247		34,177		4,957,424
Transmission and distribution	91,800,738	4,499,811	576,087		96,876,636
Total capital assets being depreciated	180,536,523	4,808,730	980,074		186,325,327
Less accumulated depreciation for:					
Building and improvements	(23,193,675)		(3,033,519)		(26,227,194)
Equipment	(2,615,089)		(188,335)		(2,803,424)
Transmission and distribution	(46,190,809)		(1,491,063)		(47,681,872)
Total accumulated depreciation	(71,999,573)		(4,712,917)		(76,712,490)
Net capital assets being depreciated	108,536,950	4,808,730	(3,732,842)		109,612,838
Business-type activities capital assets, net	\$ 122,232,014	\$	\$ 1,198,697	\$	\$ 123,430,711

B. Depreciation Allocation

Depreciation expense is charged to functions and programs on the government-wide *Statement of Activities* based on their usage of the related assets. The amounts allocated to each function or program is as follows:

<u>Governmental activities</u>		<u>Business-type activities</u>	
General Government	\$ 11,877,700	Water Utility	\$ 4,339,207
Public Safety	228,703	Materials Diversion	265,327
Public Works	15,233	Housing	108,383
Parks and recreation	115,873		
Internal service funds	1,118,196		
Total	<u>\$ 13,355,705</u>		<u>\$ 4,712,917</u>

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 8 – LONG-TERM DEBT

A. Current Year Transactions and Balances

The following table summarizes the changes in the City's long-term debt and other non-current liabilities during the year ended June 30, 2015:

	Original Issue Amount	Balance 6/30/2014	Additions	Retirements	Balance 6/30/2015	Current Portion
Governmental Activity Debt:						
Fleet Capital Fund Capital Lease, 3.5%, 2/1/15	\$ 328,846	\$ 44,112		\$ (44,112)	\$ 1,442,767	\$ 107,445
California Energy Commission (LED Streetlights)	1,442,767		\$ 1,442,767			
Total Governmental Activities Debt		\$ 44,112		\$ (44,112)	\$ 1,442,767	\$ 107,445
Business-type Activity Debt:						
Revenue Bonds						
2007 Water Revenue Bonds						
4-5%, due 5/1/2035	47,350,000	\$ 42,880,000		\$ (1,245,000)	\$ 41,635,000	\$ 1,295,000
Plus Unamortized Premium on Bond		1,580,957		(75,284)	1,505,673	
Total revenue bonds		44,460,957		(1,320,284)	43,140,673	1,295,000
Water Fund Note Payable - Alston Park Tank						
2.6%, due 4/1/2023	3,080,000	1,529,255		(162,980)	1,366,275	167,177
Seminary Street, 5.5%, due 7/31/2027	1,244,000	850,740	3,861	(46,731)	807,870	46,517
Umpqua Bank Notes Payable - Solar Panel						
4.37%, due 7/01/2025	1,400,000	935,223		(67,294)	867,930	70,308
State of CA-Dept of Water Resources Notes Payable						
Imola Avenue reservoir tank						
2.4%, due 9/30/2026	2,976,131	2,039,653		(141,735)	1,897,918	145,067
CDBG Laurel Manor Rehab Loan, 2.04% due 1/01/2034	700,000	688,136		(28,885)	659,250	29,479
Total Business-type Activity Debt		\$ 50,503,964	\$ 3,861	\$ (1,767,909)	\$ 48,739,917	\$ 1,753,548

B. Fleet Capital Lease

The City entered into a lease agreement in fiscal year 2009-10 for an asphalt paver. The lease agreement qualified as a capital lease for accounting purposes, and, therefore was recorded at the present value of future minimum monthly lease payments as of the inception date. The lease was fully paid in fiscal year 2015. The leased asset has a capitalized cost of \$241,150 and accumulated depreciation of \$83,506.

C. California Energy Commission Loan

The City received a **State Loan** of \$1.4 million at an interest rate of 1.0%, to be repaid in semi-annual payments over 12 years. The note proceeds were applied towards upgrading the street lights to energy efficient LED streetlights. The replacement of the streetlights was completed in October 2014 and disbursement received by the City in December 2014. Loan repayments will begin in December 2015.

D. Water Fund Obligations

In April 2007, the City issued **Series 2007 Water Revenue Bonds** for the principal amount of \$47,350,000. The proceeds of the sale of the bond were used to provide funding to finance improvements to the City's water system. In addition the bond proceeds will go toward funding a reserve account for the bonds as well as paying the costs of issuance. Bonds bear interest payable bi-annually on May 1 and November 1 of each year commencing on November 1, 2007 until maturity in May 2035. Debt service is secured by a pledge of net revenues of the City's Water System.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 8 – LONG-TERM DEBT (Continued)
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The pledge of future Water System Revenues ends upon repayment of the \$43.2 million in remaining debt service which is scheduled to occur in 2035. For fiscal year 2015, Water Fund Operating Revenues amounted to \$24.9 million and operating expenses (including operating expenses, but not depreciation and amortization) amounted to \$19.0 million. Net Revenues available for debt service amounted to \$5.9 million which represented coverage of 1.8 over the \$3.3 million in debt service.

The City received a **State Loan** of \$3.08 million at an interest rate of 2.6%, to be repaid in semi-annual payments over 20 years. The note proceeds were applied towards building and installing a 4 million gallon tank and a pump station. The construction of the tank was completed in May 2002 and loan repayments began in April 2003.

Umpqua Bank Notes Payable – In August 2005, the Water Enterprise Fund borrowed \$1,400,000 from Umpqua bank for purchase and installation of a solar energy system for the City. The note carries an interest rate of 4.37% and payable semi annually through July 1, 2025.

State of California-Department of Water Resources Notes Payable – In May 2005, the State California- Department of Water Resources agreed to partially finance the construction of the water reservoir tank at Imola Avenue. Under the agreement, the City borrowed \$2,976,131 for the project in April 2006. The interest rate is 2.4% and installments are payable semiannually through September 2026.

E. Housing Authority Note Payable

Seminary Street – In September 1998, the City of Napa Housing Authority borrowed \$714,000 from a local bank to finance the acquisition of a commercial office building to house the Authority and another tenant. During the year ended June 30, 2003, additional bank credit was extended to finance major renovations to the building for a net increase of \$530,000. The loan was converted to permanent financing with a monthly amortization schedule through 2027.

Laurel Manor Rehabilitation Loan – In November 2012, the City of Napa Housing Authority borrowed \$700,000, payable over 20 years, from the City of Napa to help finance \$2.7 million in improvements to the Laurel Manor senior housing complex.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 8 – LONG-TERM DEBT (Continued)

F. Debt Service Requirements

The City's annual debt service requirements through maturity are as follows:

Fiscal year ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 107,445	\$ 21,054	\$ 1,753,548	\$ 2,182,218
2017	115,433	13,066	1,833,335	2,102,681
2018	116,590	11,909	1,913,268	2,019,748
2019	117,759	10,740	1,998,797	1,932,968
2020	118,914	9,585	2,089,711	6,471,434
2021-2024	487,789	26,208	8,961,866	6,471,434
2025-2028	378,837	6,660	9,373,812	4,880,409
2029-2032			10,263,506	3,102,108
2033-2036			9,046,397	913,635
Total	<u>\$ 1,442,767</u>	<u>\$ 99,222</u>	<u>47,234,239</u>	<u>\$ 30,076,636</u>
Net of unamortized premiums			<u>1,505,673</u>	
Net long-term debt			<u>\$ 48,739,912</u>	

NOTE 9 – DEBT WITH NO CITY COMMITMENT

A. Mortgage Revenue Bonds

The Housing Authority has issued the following mortgage revenue bonds to provide funds for the construction and permanent financing of multi-family housing projects. Twenty percent of units developed will be held and made available for occupancy by persons of low income. The bonds are secured by the land and housing projects. The bonds do not constitute or create a debt or pledge of the general credit or taxing power of the City and, accordingly, they are not recorded in the accompanying financial statements.

Year of Issue	Project	Original Principal	Maturity Date	Principal at June 30, 2015
Housing Authority				
1999	Silverado Creek A	\$ 3,125,000	June 1, 2031	\$ 2,319,175
2001	Vintage at Napa	7,500,000	June 15, 2034	5,635,000
2001	The Reserve at Napa	6,000,000	August 1, 2031	4,827,027
2001	Charter Oaks Apartments	4,215,000	August 1, 2018	3,220,705
2004	Magnolia Park Series 2004A	<u>4,500,000</u>	December 1, 2035	<u>1,107,128</u>
Total		<u>\$ 25,340,000</u>		<u>\$ 17,109,035</u>

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 10 – NET POSITION AND FUND BALANCES

A. *Net Position*

Net position is the excess of the City's assets and deferred outflows over all its liabilities and deferred inflow. Net position is divided into three captions on the Statement of Net Position. These captions apply only to net position, which is determined at the Government-wide level and proprietary funds and are described below:

Net Investment in Capital Assets, describes the portion of net position which is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of net position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the City cannot unilaterally alter. These principally include bond proceeds received for use on capital projects, debt service requirements, and special revenue programs subject to limitations defined regulations and laws underlying such programs.

Unrestricted describes the portion of net position which is not restricted as to use.

B. *Fund Balance*

Governmental fund balances represent the net position of each fund.

The City's fund balances are classified based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the City prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. If the expenditures incurred are *NOT* for the purpose for which the funds were originally committed or assigned, unassigned fund balance shall be reduced first, followed by assigned, and then committed. Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items that do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose.

Committed fund balances have constraints imposed by formal action (i.e. resolution) of the City Council which may be altered only by the same formal action of the City Council.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

Assigned fund balances are amounts constrained by the City's intent to be used for a specific purpose, but are neither restricted nor committed. The Finance Director is designated the authority by the Council adopted Fiscal Policy to "assign" amounts to be used for specific purposes.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

Detailed classifications of the City's Fund Balances, as of June 30, 2015, follow:

	General	Development Fees	Home Program	City Capital Projects	Other Governmental Funds	Total
Nonspendables:						
Items not in spendable form:						
Prepaid Expenses	\$ 38,377					\$ 38,377
Advances due from other funds (Note 4)	482,850	\$ 183,600		\$ 675,000		1,341,450
Inventory	1,699					1,699
Total Nonspendable Fund Balances	522,926	183,600		675,000		1,381,526
Restricted for:						
Grants			\$ 608,146		\$ 223,633	831,779
PEG Reserve	15,285					15,285
Tourism Improvement District					224,679	224,679
SB1186 Reserve	13,043					13,043
Red Light Camera					831,581	831,581
Designated Projects and Programs		18,463,896				18,463,896
Federal Urban Aide				270,173		270,173
Assessment Districts					4,615,589	4,615,589
Gas Tax					647,521	647,521
Total Restricted Fund Balances	28,328	18,463,896	608,146	270,173	6,543,002	25,913,546
Committed to:						
Housing Grant Match	500,000					500,000
Parking					3,887,926	3,887,926
Capital Projects				20,516,777		20,516,777
Building Reserve				2,516,039		2,516,039
Corp Yard Expansion				30,636		30,636
Low Flow Channel				181,270		181,270
Low Income Housing					4,341,334	4,341,334
Total Committed Fund Balances	500,000			23,244,723	8,229,261	31,973,983
Assigned to:						
Earthquake / Flood events	10,418,555					10,418,555
Public Safety Overstaffing	200,000					200,000
FY2014-15 Closure Days	149,702					149,702
Non Recurring Projects	3,199,897					3,199,897
Parking Security & Maintenance					938,933	938,933
Street Resurfacing Program					1,901,475	1,901,475
Sidewalk Replacement Program					472,422	472,422
Total Assigned Fund Balances	13,968,154				3,312,830	17,280,984
Unassigned:						
General fund	2,003,384					2,003,384
Contingency Reserve	500,000					500,000
Operating Reserve	3,720,913					3,720,913
Other governmental fund deficit residuals					(1,721,768)	(1,721,768)
Total Unassigned Fund Balances	6,224,297				(1,721,768)	4,502,530
Total Fund Balances	\$ 21,243,706	\$ 18,647,496	\$ 608,146	\$ 24,189,895	\$ 16,363,325	\$ 81,052,569

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 10 – NET POSITION AND FUND BALANCES (Continued)

C. *Encumbrances*

The City uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to encumber that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Unexpended appropriations lapse at year-end and must be reappropriated in the following year unless carried forward in accordance with the City's policy. Encumbrances outstanding in governmental funds as of June 30, 2015, were as listed below:

Governmental Funds

General	\$ 7,254,136
Other Governmental Funds	<u>2,489,144</u>
Total	<u><u>\$ 9,743,281</u></u>

D. *Deficit Net Position and Fund Balance*

As of June 30, 2015, the Golf Course Special Revenue Fund and Central Stores Internal Service Fund had fund/net position deficits amounting to \$1,721,767 and \$238,876 respectively. The deficits will be eliminated with future revenue.

E. *Excess of Expenditures over Appropriations*

1. Expenditures exceeded appropriations by \$3,207,318 in Transfers (out) of the General Fund due to an authorized transfer to replenish the Emergency (Earthquake and Flood) reserve to fund near term expenditures resulting from the August 24th 2015 South Napa Earthquake. The special items line item is related to the recording of the California Energy Commission loan for the conversion of street lights to energy efficient LED lights.
2. Expenditures exceeded appropriations by \$47,364 in the General Services Department of the Development Fees Fund to fund near term repairs and replacement of damage to City facilities by the public for cases pending resolution / insurance reimbursement.
3. Expenditures exceeded appropriations by \$257,774 in the Community Development Department of the HOME Program Fund made available by loan repayments received (Charges for Services) in fiscal 2015.
4. Expenditures exceeded appropriations by \$221,420 in the Community Development Department of the Assessment District fund due to increased pass-through payments from the downtown parking assessment on business license receipts. These expenditures were offset in total by increased Charges for Services revenue.
5. Expenditures exceeded appropriations by \$1,000 in interest and fiscal charges in the Traffic Fund due from interest on an outstanding loan.
6. Additionally, banking fees (Services - offset by interest earnings) are now being allocated to each fund in relation to their average daily cash balance, which created slight over expenditures in the following funds: Development Fees Fund (\$541), Development Fees Fund (\$6,607); Traffic Fund (\$742); and the Parking Fund (\$2,196).

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM

As of June 30, 2015 the City of Napa had a net pension liability, deferred inflow and deferred outflows as follows:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>TOTAL</u>
Net Pension Liability	\$ 64,526,982	\$ 57,520,371	\$ 122,047,353
Deferred Inflow	(9,746,466)	(9,944,465)	(19,690,931)
Deferred Outflow	5,514,800	5,845,170	11,359,970

A. Plan Description

The City of Napa's defined benefit pension plan, the City of Napa Retirement System, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to all qualified permanent and probationary employees and their beneficiaries eligible to participate in either the Safety (Police, Fire) or Miscellaneous (all other) plan. It is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions, as well as other requirements, is established by State statutes within the Public Employee's Retirement Law. The City of Napa selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local resolutions. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information. Copies of the CalPERS' annual financial report may be obtained from CalPERS Executive Office at 400 P Street, Sacramento, CA 95814 or on the CalPERS website at www.calpers.ca.gov.

Assembly Bill (AB) 340 pension reform created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member under PEPRA.

The table below provides information on the benefit formula, final compensation period and the employer and member contribution rates effective January 1, 2013 for any safety and miscellaneous employees that meet the definition of a new member under PEPRA.

Benefit Formula	Safety 2.7% at Age 57	Miscellaneous 2% at Age 62
Final Compensation Period	3 year highest compensation	3 year highest compensation
Employer Contribution Rate as a percentage of payroll	34.278% of reportable compensation	23.122% of reportable compensation
Member Contribution Rate as a percentage of payroll	11.25% of reportable compensation	6.25% of reportable compensation

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (Continued)

B. Benefits Provided

CalPERS provides service retirement and disability benefits, annual costs 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. A classic CalPERS member or Public Employees' Pension Reform Act of 2013 (PEPRA) Safety member becomes eligible for service retirement upon attainment of age 50 with at least 5 years of credited service (total service across all CalPERS employers, and with certain other Retirement Systems with which CalPERS has reciprocity agreements). PEPRA miscellaneous members become eligible for service retirement upon attainment of age 52 with at least 5 years of service. All members are eligible for non-duty disability benefits after 5 years of credited 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 will be annually adjusted on a compound basis by 2 percent and will begin the second calendar year after the year of retirement.

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

	Miscellaneous		
	Classic Members (prior to 12/21/2012)	Tier 2 (between 12/21/2012 and 1/1/2013)	PEPRA (on or after January 1, 2013)
Hire date			
Benefit formula	2.7% @ 55	2% @ 60	2% @ 62
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 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	2% to 2.7%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8%	7%	6.25%
Required employer contribution rates	24.33%	24.33%	24.327%

	Safety - Police		
	Classic Members (prior to 1/7/2012)	Tier 2 (between 1/7/2012 and 1/1/2013)	PEPRA (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	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3%	2.4% to 3.0%	2.0% to 2.7%
Required employee contribution rates	9%	9%	11.25%
Required employer contribution rates	37.23%	37.23%	37.226%

	Safety - Fire		
	Classic Members (prior to 8/11/2012)	Tier 2 (between 8/11/2012 and 1/1/2013)	PEPRA (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	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensation	3%	2.4% to 3.0%	2.0% to 2.7%
Required employee contribution rates	9%	9%	11.25%
Required employer contribution rates	37.23%	37.23%	37.226%

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (Continued)

C. Employees Covered

At June 30, 2015 the following employees were covered by the benefit terms for each Plan:

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	371	185
Inactive employees entitled to but not yet receiving benefits	214	48
Active employees	295	121
Total	880	354

D. Funding Policy

Active Classic and Tier 2 plan members in the City of Napa Retirement System are required to contribute 8% for miscellaneous employees or 9% for public safety employees of their annual covered salary. Active PEPRA plan members are required to contribute 50% of the total normal cost as actuarially calculated by CalPERS. The City of Napa is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for the year ended June 30, 2015 was 24.327% for miscellaneous employees and 37.226% for public safety employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

E. Annual Pension Expense

For the year ended June 30, 2015, the City's annual pension expense was \$11,359,970. The required contribution for that year was determined as part of the June 30, 2013, actuarial valuation completed annually in accordance with Section 20814(c) of the California Public Employee Retirement Law using the entry age normal cost method for miscellaneous and safety employees with the contributions determined as a percent of pay, as amended in November, 2002 for a change in the safety plan benefit formula.

Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into CalPERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year period with Direct Rate Smoothing with a 5-year ramp up / ramp down. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30 year amortization period.

F. Net Pension Liability

The City of Napa's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2014, using an annual actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (Continued)

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

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	30-Jun-13	30-Jun-13
Measurement Date	30-Jun-14	30-Jun-14
Actuarial Cost Method	Entry age Normal cost method	
Actuarial Assumptions:		
- Discount Rate	7.50%	7.50%
- Inflation	2.75%	2.75%
- Payroll Growth	3.00%	3.00%
- Projected Salary Increase (1)	3.3% - 14.2%	3.3% - 10.9%
- Investment Rate of Return (2)	7.50%	7.50%
- Mortality (3)	Derived using CalPERS Membership Data for all Funds	

(1) Annual increases vary by category, entry age, and duration of service

(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 2014 experience study report. (www.calpers.ca.gov)

All other actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website (www.calpers.ca.gov) under Forms and Publications.

Discount Rate – The discount rate used to measure the total pension liability was 7.5% 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 7.5% percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.5% 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 7.5% 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.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed our methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10 (a)	Real Return Years 11+ (b)
Global Equity	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 Foresland	3.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%
Total	100.0%		

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

(b) An expected inflation of 3.0% used for this period.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (Continued)

G. Changes in Net Pension Liability

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

Miscellaneous Plan:	Increase / (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2014	\$ 197,578,112	\$ 123,436,750	\$ 74,141,362
Changes in the Year			
- Service cost	4,179,121		4,179,121
- Interest on the total pension liability	14,604,950		14,604,950
- Contribution - employer		5,372,508	(5,372,508)
- Contribution - employee (paid by employer)		1,730,126	(1,730,126)
- Net investment income		21,295,817	(21,295,817)
- Benefit payments, including refunds of employee contributions	(9,870,003)	(9,870,003)	
Net changes	8,914,068	18,528,448	(9,614,380)
Balance at June 30, 2015	\$ 206,492,180	\$ 141,965,198	\$ 64,526,982

Safety Plan	Increase / (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at June 30, 2014	\$ 193,498,490	\$ 125,762,845	\$ 67,735,645
Changes in the Year			
- Service cost	4,089,713		4,089,713
- Interest on the total pension liability	14,300,336		14,300,336
- Contribution - employer		5,112,297	(5,112,297)
- Contribution - employee (paid by employer)		1,753,345	(1,753,345)
- Net investment income		21,739,681	(21,739,681)
- Benefit payments, including refunds of employee contributions	(9,744,388)	(9,744,388)	
Net changes	8,645,661	18,860,935	(10,215,274)
Balance at June 30, 2015	\$ 202,144,151	\$ 144,623,780	\$ 57,520,371

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City of Napa for each Plan, calculated using the discount rate for each Plan, as well as what Napa's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	Miscellaneous	Safety
1% Decrease	6.50%	6.50%
Net Pension Liability	90,352,301	82,727,634
Current Discount Rate	7.50%	7.50%
Net Pension Liability	64,526,982	57,520,371
1% Increase	8.50%	8.50%
Net Pension Liability	42,967,950	36,486,691

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (Continued)

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

H. Pension Expenses and Deferred Outflows / Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the City of Napa recognized pension expense of \$10,484,805. At June 30, 2015 Napa reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous Plan		Safety Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 5,514,800		\$ 5,845,170		\$ 11,359,970	
Net differences between projected and actual earnings on plan investments		\$ (9,746,466)		\$ (9,944,465)		\$ (19,690,931)
TOTAL	\$ 5,514,800	\$ (9,746,466)	\$ 5,845,170	\$ (9,944,465)	\$ 11,359,970	\$ (19,690,931)

\$11,359,970 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:

Year ended June 30	Miscellaneous	Safety	TOTAL
	Deferred outflows/(inflows) of resources	Deferred outflows/(inflows) of resources	Deferred outflows/(inflows) of resources
2016	\$ (2,436,616)	\$ (2,486,116)	\$ (4,922,732)
2017	(2,436,616)	(2,486,116)	(4,922,732)
2018	(2,436,616)	(2,486,116)	(4,922,732)
2019	(2,436,618)	(2,486,117)	(4,922,735)
	<u>\$ (9,746,466)</u>	<u>\$ (9,944,465)</u>	<u>\$ (19,690,931)</u>

I. Defined Contribution Plans

The City also provides defined contribution retirement benefits through IRS section 401(a) and 457 plans. The plans are administered by the International City Management Association Retirement Corporation and Nationwide Retirement Solutions. Plan provisions and contribution requirements are established and may be amended by City Council through negotiation with employee associations. The City contributes from \$50 to \$300 per month to its non-safety and management employees, depending upon employee group. In addition, the City contributes \$1,000 to \$1,250 for City executives. During the year ended June 30, 2015, the City fully funded its required contributions of \$300,428 to these plans.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM (Continued)

J. Other Retirement Systems

The Omnibus Budget Reconciliation Act of 1990 (OBRA) mandates that public sector employees who are not members of their employer's existing retirement system as of January 1, 1992, be covered by either Social Security or an alternative plan. The City contracts with the Public Agency Retirement Systems (PARS), to maintain a defined contribution plan that covers part time, seasonal and temporary employees. Employer liabilities are limited to the amount of current contributions.

Under PARS, employees contribute 5.0% and the City contributes 2.5% of the employee's salary each pay period. For the fiscal year ended June 30, 2015, total contribution of \$15,777 were based on a total amount of covered compensation of \$631,080.

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS

During fiscal year 2008, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits (OPEB). A summary of the eligibility requirements and benefits are shown below by bargaining unit:

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

UNIT	AMP & Exempt AMP	NCEA & Exempt NCEA	NPOA	NCFA	NPOA MID	NCFO	Exempt-Exces	Elected
■ Medical Plan	City Plan	City Plan	PEMHCA	City Plan	PEMHCA	City Plan	City Plan	City Plan
Tier 1 - Choice of Sick Leave Conversion to Retiree Single Party Health reimbursement or Supplemental Benefit except NPOA MID Life time single party medical								
■ Eligibility/DOH	N/A	<7/1/1983	Combined age + years of service as of 7-1-12 >=61	<8/1/1982 and opt out of HRA	Hired between 7/1/84 & 7/1/87;NPOA-Mid member <7/1/07	N/A	N/A	N/A
active ee eligible	N/A	2	8	1	1	N/A	N/A	N/A
Maximum hours	N/A	no cap	180 months	no cap	N/A	N/A	N/A	N/A
Retiree Medical Trust	N/A	N/A	Yes	N/A	N/A	N/A	N/A	N/A
Banked Credit	N/A	N/A	Not enrolled in PEMHCA, convert hrs to credit at single party Kaiser rate, credit banked for future use	N/A	N/A	N/A	N/A	N/A
■ Sick Leave	N/A	•One time irrevocable choice at retirement			N/A	N/A	N/A	N/A
Conversion		•Convert 8 hours unused sick leave to one month single party medical premium or to CalPERS service time						
for		•No surviving spouse benefit for City Plan, if in PEMHCA then PEMHCA min for surviving spouse						
reimbursement		•Sick leave accrual - 96 hour/year						
		•Caps for medical premiums are indicated below. (Note: premiums include Medicare Part B premium)						
Tier 2 - Choice of Sick Leave Conversion to Retiree Single Party Health reimbursement or Supplemental Benefit								
■ Eligibility/DOH	N/A	N/A	N/A	opt out of HRA	Hired >=7-1-84 and member of Management Unit as of 6-30-11	N/A	N/A	N/A
active ee eligible				4	2			
Maximum hours				180 months	180 months			
■ Sick Leave				•One time irrevocable choice at retirement				
Conversion				•Convert 8 hours unused sick leave to one month single party medical premium or to CalPERS service time				
for				•No surviving spouse benefit for City Plan, if in PEMHCA then PEMHCA min for surviving				
reimbursement				•Sick leave accrual - 96 hour/year				
				•Caps for medical premiums are indicated below. (Note: premiums include Medicare Part B premium)				
Tier 3 - Choice of Sick Leave Conversion to Retiree Single Party Health reimbursement and Retiree Medical Trust								
■ Eligibility/DOH	N/A	N/A	N/A	N/A	Member of NPOA as of 6-30-12 and promoted from NPOA into the Management unit on or after 6-1-13	N/A	N/A	N/A
active ee eligible					1			
Maximum hours					180 months			
Retiree Medical Trust					Yes			
■ Sick Leave Conversion for reimbursement					Same as Sick Leave Conversion for reimbursement in Tier 2.			
Tier 4 - Supplemental Benefit								
■ Age & years of service	50 & 10	50 & 15 (10 years if hired after 1-1-2013)	50	50	50 & 10	50 & 10	50 & 10	50 & 8
■ Supplemental Benefit	•\$274/month •EE lifetime •No increase after retirement	•\$244/month •EE lifetime •No increase after retirement			•\$237/month •EE lifetime •No increase after retirement	•\$246/month •EE lifetime •No increase after retirement •Vacation bal deposited into HRA •SL balance converted to HRA @50% of hourly rate	•\$347/month •EE lifetime •No increase after retirement	•\$347/month •EE lifetime •No increase after retirement
	•S/L conversion to CalPERS	•S/L conversion to CalPERS	•S/L conversion to CalPERS	•SL balance converted to HRA @50% of hourly rate	•S/L conversion to CalPERS		•S/L conversion to CalPERS	
■Cap (Tier 1)	• Single retiree Kaiser premium	• Single retiree Kaiser premium	Actual premium	Actual premium	• Single retiree Kaiser premium	N/A	N/A	N/A
■Cap (Tiers 2 & 3)	N/A	N/A	N/A	Actual premium	Actual premium	N/A	N/A	N/A
■Life Insurance (DOH<7/1/84)	• \$2,500 • Up to age 70	• \$2,500 • Up to age 70	N/A	• \$2,500 • Up to age 70	N/A	N/A	N/A	N/A
active ee eligible	1	3		1				
■Dental & Vision	None	None	None	None	None	None	None	None
■Portable	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy and Actuarial Assumptions

The City's policy is to fund these benefits on a pre-funded basis. The annual required contribution (ARC) was determined as part of a December 31, 2009, actuarial valuation using the entry age normal actuarial cost method, and updated June 30, 2011 and June 30, 2013. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.25% investment rate of return, (b) 3.25% projected annual salary increase, and (c) 3.00% of general inflation increase, (d) a 28 year fixed (closed) period for June 30, 2011 UAAL (24 years remaining on June 30, 2015), and (e) a healthcare trend of declining annual increases ranging from 7.50% for all plans after 2015 grading down over 6 years to 5.0% thereafter. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The City's OPEB unfunded actuarial accrued liability amounted to \$9,943,000 as of June 30, 2013, and is being amortized as a level percentage of projected payrolls over the remaining 24.5 year amortization period.

Generally accepted accounting principles permit assets to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such assets are placed in an irrevocable trust or equivalent arrangement. During the fiscal year ended June 30, 2015, the City contributed \$735,104 to current year premiums and pre-funded \$1,053,705 to CERBT Trust. As a result, the City has calculated and recorded the Net OPEB Obligation, representing the difference between the ARC, amortization and contributions, as presented below:

	Retiree Health Benefit Internal Service Fund Government Activities
Annual required contribution (ARC)	\$ 960,000
Amortization on the Net OPEB Liability	(119,000)
Interest on the Net OPEB Liability	89,000
Annual OPEB Cost	<u>930,000</u>
Contributions made:	
City portion of current year premiums paid	(735,104)
Reimbursement from CERBT Trust current year	735,104
Contribution to CERBT Trust	(1,053,705)
Total Contributions	<u>(1,053,705)</u>
Increase (decrease) in Net OPEB Obligation	(123,705)
Net OPEB Obligation at June 30, 2014	<u>1,245,029</u>
Net OPEB Obligation at June 30, 2015	<u><u>\$ 1,121,324</u></u>

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (Continued)

The City's annual required contributions and actual contributions for the years ended June 30, 2015, and the preceding two years were set forth below (in thousands):

Fiscal Year	Annual OPEB Cost	Annual Contribution	Percentage of AOC Contributed	Net OPEB Obligation
6/30/2013	\$ 1,124,000	\$ 1,065,187	95%	\$ 1,407,216
6/30/2014	903,000	1,065,187	118%	1,245,029
6/30/2015	930,000	1,053,705	113%	1,121,324

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Overfunded (Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	Overfunded (Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
6/30/2013	\$ 2,918,000	\$ 12,861,000	\$ (9,943,000)	22.69%	\$ 34,801,000	-28.57%

NOTE 13 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City has established a limited risk management program for these types of risks. Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves and administrative costs of the program.

Under this program the City is completely self-insured for unemployment insurance and is self-insured for workers' compensation and general liability insurance claims up to \$300,000 per occurrence and \$150,000 per occurrence, respectively. Claims in excess of these amounts are insured through CSAC Excess Insurance Authority up to the statutory limit and \$25,000,000, respectively. This coverage represents an increase from that of the prior year. There were no settlements that exceeded coverage for each of the past three fiscal years. In addition the City has also put in place an insurance policy covering them from earthquake and limited flood disasters in the amount of \$40,000,000 per occurrence, with a deductible of 15%.

The City has retained an independent actuary to perform an analysis of the City's potential liability for the City's self-insured portions of the general liability and workers' compensation programs. The amount recorded as a liability is the specific reserves for individual known claims or lawsuits not covered under the general liability or the workers' compensation insurance program and estimates for incurred but not reported claims. The actuarial analysis uses a rate of 5% for general liability and workers' compensation to discount future investment earnings. Claims liability has been recorded at an 80% confidence level.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 13 – RISK MANAGEMENT (Continued)

Below is a reconciliation of changes in the aggregate liabilities for claims for the fiscal years beginning and ending June 30, 2014 and 2015:

	2015	2014
Claims liability - beginning	\$ 5,740,880	\$ 5,520,000
Changes in estimates for claims in prior years	1,968,025	1,268,339
Payments on claims	<u>(1,646,905)</u>	<u>(1,047,459)</u>
Claims liability - ending	<u>\$ 6,062,000</u>	<u>\$ 5,740,880</u>
Current portion	<u>\$ 2,278,400</u>	<u>\$ 1,818,440</u>

NOTE 14 – JOINT POWERS AGREEMENT

On March 16, 1993, the City of Vallejo and the County of Napa formed the South Napa Waste Management Authority (the “Authority”), a separate legal entity, for the purpose of collectively managing the waste disposal needs of the communities they represent. The City of Napa resolved to join the Authority on March 18, 1993. In August, 1993, the City of Napa officially became a member of the Authority. The Authority has purchased the American Canyon Landfill site and accepted responsibility for its closure. State and federal laws and regulations require the Authority to place a final cover on this landfill site and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

The City has no ongoing financial interest in the Authority. Closure and related costs will be paid through tipping fees assessed by the Authority at its Waste Transfer Facility. This Transfer Facility serves the waste disposal needs of the communities represented by the Authority. The tipping fees are paid by the citizens of these communities through rate assessments for waste pickup and disposal.

Financial information related to the Authority can be obtained from the South Napa Waste Management Authority located in Napa, California.

NOTE 15 – CONTINGENT LIABILITIES

The City is involved in several claims and lawsuits. In the opinion of the City’s management, it is unlikely that these claims and lawsuits will have a material adverse effect on the accompanying financial statements.

The City has received federal and state grants for specific purposes that are subject to reviews by the grantor agencies. Such reviews could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although City management expects such amounts, if any, to be immaterial.

The City has a number of material construction contracts that are in process or are set to go into production. The total of these contracts as of June 30, 2015, is \$4,419,884.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 15 – CONTINGENT LIABILITIES (Continued)

North Bay Aqueduct - The City has a water supply contract with the Napa County Flood Control and Water Conservation District (NCFCWCD) that is linked to a master contract between the NCFCWCD and the State of California Department of Water Resources (DWR). Under these contracts, the State of California built the North Bay Aqueduct and peripheral infrastructure and allocated the costs to the benefiting municipalities. The contract calls for an annual payment that includes capital and operating components as well as a charge for water that varies widely each year based on the amount of consumption which is a function of climate, availability of other water supplies and pumping. The contract is non-cancelable and expires in the year 2035.

The components of the payments are as follows:

1. *Capital Cost Component* contains the conservation and transportation capital cost components for the use of the infrastructure and water rights and related debt obligation.
2. *Conservation and transportation minimum Operation, Maintenance, Power & Replacement (OMP&R) components.* Additionally, there is an obligation to pay an OMP&R component is based on the water entitlement, which is not dependent on the quantity of water actually delivered.
3. *Transportation variable OMP&R component* is dependent upon the quantities of water actually delivered to the City.
4. *Delta Water Charge* is split into two components; (a) a capital piece for the initial conservation facilities, and (b) a minimum OMP&R component.
 - a. The capital cost component of the Delta Water Charge became applicable in 2013, and is paid in two semi-annual installments due January 1 and July 1 of each year. These payments are used to fund the initial conservation facilities and are partially offset by a rate management credit provided to agencies (including NCFCWCD) who have executed the Monterey Amendment which focuses on water shortage issues.
 - b. The minimum OMP&R component of the Delta Water Charge is paid monthly in 12 equal installments.

The total estimated obligation of the City of Napa over the next five years and thereafter, are presented in the table below:

Calendar Year	Estimated Total Payment
2016	\$ 6,914,175
2017	7,130,589
2018	7,353,776
2019	7,583,949
2020	7,821,327
2021-2025	40,330,672
2026-2030	41,593,022
2031-2035	42,894,884

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES

The Successor Agency to the Napa Community Redevelopment Agency was established as a result of the dissolution of the Redevelopment Agency February 1, 2012.

A. *Cash and Investments*

The Successor Agency pools cash from all sources and all funds with the City 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 details of the City's investment pool can be found in Note 3 – Cash and Investments.

Restricted cash and investments may be used only for capital projects by the Successor Agency.

The Successor Agency's cash and investments are classified in the financial statements, based on whether or not their use is restricted under the terms of debt instruments or agreements.

B. *Capital Assets*

The Successor Agency transferred all its public domain (infrastructure) capital assets, which include landscape, storm, street, and traffic systems to the City of Napa pursuant to the Long Range Property Management Plan approval from Department of Finance on March 20, 2014.

(a) *Capital Asset Additions, Retirements, and Balances*

	Balance at June 30, 2014	Additions	Balance at June 30, 2015
Capital assets not being depreciated:			
Land	\$ 35,480	\$ -	\$ 35,480
Total capital assets not being depreciated	35,480	-	35,480
Capital assets being depreciated:			
Building and improvements	75,400	-	75,400
Furniture and equipment	7,238		7,238
Total capital assets being depreciated	82,638	-	82,638
Less accumulated depreciation for:			
Building and improvements	(75,400)	-	(75,400)
Furniture and equipment	(2,842)	(603)	(3,445)
Total accumulated depreciation	(78,242)	(603)	(78,845)
Net capital assets being depreciated	4,396	(603)	3,793
Net, Capital Assets, Trust Fund	\$ 39,876	\$ (603)	\$ 39,273

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

C. Long-Term Debt

The Successor Agency assumed the long-term debt of the Redevelopment Agency as of February 2012.

(a) Current Year Transactions and Balances

The Successor Agency's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance 6/30/2014	Additions	Retirements	Balance 6/30/2015	Current Portion
Trust Fund:						
Successor Agency (Redevelopment) Tax Allocation Bonds						
2003A Parkway Plaza Redevelopment Project, 2.3-4.8%, due 9/1/2019	\$ 22,715,000	\$ 11,470,000		\$ (11,470,000)		
2003B Parkway Plaza Redevelopment Project, 3.1-5.8%, due 9/1/2019	2,475,000	1,155,000		(170,000)	\$ 985,000	\$ 175,000
2003B Refunding Parkway Plaza Redevelopment Project, 3.1-5.8%, due 9/1/2019	2,050,000	950,000		(950,000)		
2015A Tax Allocation Refunding Bond Redevelopment Project, 3.1-5.8%, due 9/1/2019	8,145,000		\$ 8,145,000		8,145,000	
2015B Tax Allocation Refunding Bond Redevelopment Project, 3.1-5.8%, due 9/1/2019	2,270,000		2,270,000		2,270,000	2,125,000
Total Tax Allocation Bonds	37,655,000	13,575,000	10,415,000	(12,590,000)	11,400,000	2,300,000
Notes & Loans						
Water Fund for Drainage Improvements Project, LAIF Interest %, due 2024	735,063	735,063		(100,688)	634,375	90,625
Total Debt	38,390,063	14,310,063	10,415,000	(12,690,688)	12,034,375	2,390,625
Premiums / (discounts)			623,141		623,141	
Total debt net of Premiums / (discounts)	\$ 38,390,063	\$ 14,310,063	\$ 11,038,141	\$ (12,690,688)	\$ 12,657,516	\$ 2,390,625

(b) Redevelopment Tax Allocation Bonds

In August, 2003, the Agency issued \$27 million in tax allocation bonds including: Series A Bonds were issued to provide \$12 million for redevelopment projects, \$2 million for a debt reserve fund and \$9 million to refund then outstanding 1993 Bonds. The 1993 Bonds were subsequently redeemed in full. Series B and C Bonds were issued to provide \$2.1 million for affordable housing projects and \$1.8 million for the refunding of the Housing Authority's 1999 revenue bonds. These bonds were secured by the Agency's 20% low & moderate housing set-aside of tax increment revenues. Upon dissolution of the Agency, the Successor Agency assumed this debt, which will be paid from distributions from the Redevelopment Property Tax Trust Fund.

With the dissolution of the Redevelopment Agency discussed above, Tax Increment is no longer distributed, and instead the Successor Agency receives payments from the County's Redevelopment Property Tax Trust Fund (RPTTF) that are to be used to fund debt service on the Bonds, with no distinction between housing and non-housing revenues. In addition, under the provisions of the laws dissolving the Napa Community Redevelopment Agency, the Successor Agency only receives the funds necessary to fulfill its approved obligations.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 16 – REDEVELOPMENT AGENCY DISSOLUTION AND SUCCESSOR AGENCY ACTIVITIES (Continued)

At June 30, 2015, future debt service requirement for the Redevelopment Tax Allocation Bonds were as follows:

Fiscal year ending June 30	Principal	Interest	Total
2016	\$ 2,300,000	\$ 256,043	\$ 2,556,043
2017	2,380,000	338,225	2,718,225
2018	2,230,000	264,350	2,494,350
2019	2,315,000	171,950	2,486,950
2020	2,175,000	75,000	2,250,000
Total	<u>\$ 11,400,000</u>	<u>\$ 1,105,568</u>	<u>\$ 12,505,568</u>

D. State Approval of Enforceable Obligations

The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) semi-annually that contains all proposed expenditures for the subsequent six-month period. The ROPS is subject to the review and approval of the Oversight Board as well as the State Department of Finance. Although the State Department of Finance may not question items included on the ROPS in one period, they may question the same items in a future period and disallow associated activities. The amount, if any, of current obligations that may be denied by the State Department of Finance cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

NOTE 17 – EXTRAORDINARY ITEMS

A. Public Projects Funding Agreement

On September 17, 2013, the Successor Agency appropriated the remaining \$3.4 million in proceeds from the 2003 Parkway Plaza Tax Allocation Bonds for priority capital projects approved by the Oversight Board of the Successor Agency to the former Napa Community Redevelopment Agency. A transfer of \$1,220,333 was completed in fiscal 2014 per the approved ROPS. The final transfer of \$2,173,091 was completed in fiscal 2015 per the approved ROPS.

	Balance June 30, 2014	Transfer from Successor Agency Private Purpose Trust	Balance June 30, 2015
Government Activities			
Public Projects Funding Agreement	\$ 1,220,333	\$ 2,173,091	\$ 3,393,424
Total Public Projects Funding Agreement	<u>\$ 1,220,333</u>	<u>\$ 2,173,091</u>	<u>\$ 3,393,424</u>

NOTE 18 – SUBSEQUENT EVENTS

On December 15, 2015 the City of Napa City Council adopted a resolution authorizing the issuance and sale of refunding water revenue bonds for the purpose of refinancing the costs of acquiring and constructing water system improvement projects to realize a cash flow savings. Bonds were sold in January 2016.

CITY OF NAPA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2015

NOTE 19 – PRIOR PERIOD ADJUSTMENT

Due to the City's implementation of GASB 68 and GASB 71 related to pensions, the City had a restatement of net position as of July 1, 2014 to recognize the net pension liability and deferred outflows of resources (as of July 1 2013) in the amount of \$12,852,311 in the business-type activities (as shown below) and \$118,539,891 in the governmental activities. The July 1, 2014 restatements of net positions, at both the fund level and the government-wide level are presented as follows:

Fund Financial Statements			
	Business-type Activities Water Utility	Business-type Activities Materials Diversion Utility	Business-type Activities Housing
Net position at July 1, 2014, as previously stated	\$ 80,509,870	\$ 21,578,795	\$ 17,896,877
Prior period adjustment:			
Recognize Net Pension Liability	(12,144,185)	(1,476,726)	(235,481)
Recognize Deferred Outflow of Resources (2013/14 contributions)	880,008	107,008	17,066
Net position at July 1 2014 as restated	<u>\$ 69,245,693</u>	<u>\$ 20,209,077</u>	<u>\$ 17,678,462</u>

Government-Wide Level		
	Governmental Activities	Business-type Activities
Net position at July 1, 2014, as previously stated	\$ 453,034,846	\$ 119,985,542
Prior period adjustment:		
Recognize Net Pension Liability	(128,020,615)	(13,856,392)
Recognize Deferred Outflow of Resources (2013/14 contributions)	9,480,723	1,004,082
Net position at July 1 2014 as restated	<u>\$ 334,494,954</u>	<u>\$ 107,133,232</u>

NOTE 20 – PUBLIC-PRIVATE SERVICE CONCESSION ARRANGEMENT – CITY GOLF COURSE

At the end of the year ended June 30, 2013, the City entered into an agreement with Napa Golf Course, LLC under which the company will operate and collect user fees from the Napa Municipal Golf Course for the next ten (10) years. The company will pay the City of Napa installment payments over the course of the arrangement; the present value of these installment payments is estimated to be \$657,946. The company will also pay the City a percentage of the revenues it earns from the operation of the golf course (percentage rent based on tiers set forth in the agreement). The company is required to operate and maintain the golf course in accordance with the Agreement. The City plans to use the proceeds from the installment payments to offset the deficit net position of the golf course fund, with any additional revenues to be used to fund golf course improvements. The City reports the golf course and related equipment as a capital asset with a carrying amount of \$712,682 at June 30, 2015, and reports a receivable and deferred inflow of resources in the amount of \$657,946 at June 30, 2015, pursuant to the service concession arrangement.



REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION

Miscellaneous and Safety Plans
Agent Multiple-Employer Defined Benefit Pension Plan
As of June 30, 2015
Last 10 years*

Schedule of Changes in the Net Pension Liability and Related Ratios

Measurement Date	Miscellaneous June 30, 2014	Safety June 30, 2014
Total Pension Liability		
Service Cost	\$ 4,179,121	\$ 4,089,713
Interest on total pension liability	14,604,950	14,300,336
Benefit payments, including refunds of employee contributions	(9,870,003)	(9,744,388)
Net change in total pension liability	8,914,068	8,645,661
Total Pension Liability - beginning	197,578,112	193,498,490
Total Pension Liability - ending (a)	\$ 206,492,180	\$ 202,144,151
 Plan fiduciary net position		
Contributions - employer	\$ 5,372,508	\$ 5,112,297
Contributions - employee	1,730,126	1,753,345
Net investment income	21,295,817	21,739,681
Benefit payments	(9,870,003)	(9,744,388)
Net change in fiduciary net position - beginning	18,528,448	18,860,935
Plan fiduciary net position - beginning	123,436,750	125,762,845
Plan fiduciary net position - ending (b)	\$ 141,965,198	\$ 144,623,780
 Net pension liability - ending (a) - (b)	\$ 64,526,982	\$ 57,520,371
 Plan fiduciary net position as a percentage of the total pension liability	68.75%	71.54%
 Covered employee payroll	22,195,380	14,428,768
 Net pension liability as a percentage of covered employee payroll	290.72%	398.65%

* Fiscal year 2014/15 was the 1st year of implementation, therefore only one year is shown.

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

**Miscellaneous and Safety Plans
Schedule of Contributions
As of June 30, 2015
Last 10 years***

	Miscellaneous	Safety
Actuarially determined contributions	\$ 5,372,508	\$ 5,112,297
Contributions in relation to the actuarially determined contribution	(5,372,508)	(5,112,297)
Contribution deficiency (excess)	\$ -	\$ -
 Covered employee payroll (from current year)	 \$ 22,669,463	 \$ 15,757,671
 Contributions as a percentage of covered-employee payroll	 23.70%	 32.44%

* Fiscal year 2014/15 was the 1st year of implementation, therefore only one year is shown.

Notes to Schedule

	Miscellaneous	Safety
Valuation Date	30-Jun-13	30-Jun-13
Measurement Date	30-Jun-14	30-Jun-14
Actuarial Cost Method	Entry age Normal cost method	
Actuarial Assumptions:		
- Discount Rate	7.50%	7.50%
- Inflation	2.75%	2.75%
- Payroll Growth	3.00%	3.00%
- Projected Salary Increase (1)	3.3% - 14.2%	3.3% - 10.9%
- Investment Rate of Return (2)	7.50%	7.50%
- Mortality (3)	Derived using CalPERS Membership Data for all Funds	

(1) Annual increases vary by category, entry age, and duration of service

(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 2014 experience study report. (www.calpers.ca.gov)

REQUIRED SUPPLEMENTARY INFORMATION (Continued)

Schedule of Funding Progress for Other Post Employment Benefits (OPEB)

Retiree Health Plan Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	(Underfunded) Actuarial Accrued Liability (A-B)	Funded Ratio (A/B)	Covered Payroll (C)	(Underfunded) Actuarial Liability as Percentage of Covered Payroll [(A-B)/C]
12/31/2009		\$ 10,922,000	\$ (10,922,000)	0.00%	\$ 34,927,000	-31.27%
6/30/2011	\$ 2,231,000	12,917,000	(10,686,000)	17.27%	32,613,000	-32.77%
6/30/2013	2,918,000	12,861,000	(9,943,000)	22.69%	34,801,000	-28.57%

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
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Note 1: This information is intended to help users assess the City's Public Safety and Miscellaneous Retirement Plans and the City's OPEB plan status on a going-concern basis, and make comparisons with other employers. When possible, it presents multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

Note 2: The information presented relates to the City's Public Safety and Miscellaneous Retirement Plans and the City OPEB plan only.



OTHER SUPPLEMENTARY INFORMATION

CITY OF NAPA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 12,630,943	
Revenues:				
Intergovernmental		\$ 4,611,230	1,047,684	\$ (3,563,546)
Charges for services		38,454	9,859	(28,595)
Miscellaneous revenues		100,000	100,000	
Total Revenues		4,749,684	1,157,543	(3,592,141)
Expenditures:				
Current:				
Capital outlay	\$ 5,782,156	23,699,057	5,546,106	18,152,951
Total Expenditures	5,782,156	23,699,057	5,546,106	18,152,951
Other Financing Sources (Uses):				
Transfers in	2,952,089	16,284,803	13,227,016	3,057,787
Proceeds from the sale of capital assets			547,408	
Total Other Financing Sources (Uses)	2,952,089	16,284,803	13,774,424	3,057,787
Extraordinary Item				
Bond proceed transfer from Successor Agency		2,367,758	2,173,091	194,667
Total Other Financing Sources (Uses)		2,367,758	2,173,091	194,667
Net Change in Fund Balances	\$ (2,830,067)	\$ (296,812)	11,558,952	\$ (18,492,638)
Ending Fund Balance			\$ 24,189,895	

See accompanying notes to financial statements

NON-MAJOR GOVERNMENTAL FUNDS

All funds not defined as major funds for the Fund Financial Statements are consolidated in one column entitled "Other Governmental Funds". These non-major funds are identified and included in this supplemental section and includes all the City's Special Revenue Funds and several distinct Capital Project Funds.

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Assessment Districts

Tourism Improvement District (TID)

Community Development Block Grant

Traffic

Parking

Cal Home Grant

Public Safety Programs

Parks & Recreation Trust

Public Infrastructure Program

Housing Inclusionary Program

Golf Fund

The Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

Street Resurfacing

Sidewalk Program

CITY OF NAPA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2015

SPECIAL REVENUE FUNDS							
	Assessment Districts	Tourism Improvement District	Community Development Block Grant	Traffic	Parking	CAL Home Grant	Public Safety Programs
ASSETS							
Cash and investments	\$4,717,653	\$ 166,847	\$ 38,090	\$1,414,585	\$4,856,490	\$ 65,318	\$ 26,394
Receivables:							
Accounts receivable	12,816	135,340	51,172	86,782	12,160		
Federal, state and other			69,019				
Interest receivable	370	13	9	112	384	5	1
Loans receivable			1,961,026			960,508	
Total Assets	<u>\$4,730,839</u>	<u>\$ 302,200</u>	<u>\$ 2,119,316</u>	<u>\$1,501,479</u>	<u>\$4,869,034</u>	<u>\$1,025,831</u>	<u>\$ 26,395</u>
LIABILITIES							
Accounts payable and accrued liabilities	\$ 69,637	\$ 77,521	\$ 45,127	\$ 22,377	\$ 42,064	\$ 4,116	
Deposits payable	54,620				109		
Due to other funds							
Unearned Revenue							
Advances from other funds							
Total Liabilities	<u>124,257</u>	<u>77,521</u>	<u>45,127</u>	<u>22,377</u>	<u>42,173</u>	<u>4,116</u>	
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - Charges for Services							
Unavailable revenue - Housing			1,961,026			960,507	
Total Deferred Inflows			<u>1,961,026</u>			<u>960,507</u>	
Fund balances (Deficit):							
Restricted	4,606,582	224,679	113,163	1,479,102	3,887,926	61,208	\$ 26,395
Committed							
Assigned					938,935		
Unassigned							
Total Fund Balances (Deficit)	<u>4,606,582</u>	<u>224,679</u>	<u>113,163</u>	<u>1,479,102</u>	<u>4,826,861</u>	<u>61,208</u>	<u>26,395</u>
Total Liabilities and Deferred Inflows of Resources and Fund Balances	<u>\$4,730,839</u>	<u>\$ 302,200</u>	<u>\$ 2,119,316</u>	<u>\$1,501,479</u>	<u>\$4,869,034</u>	<u>\$1,025,831</u>	<u>\$ 26,395</u>

CITY OF NAPA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2015

	SPECIAL REVENUE FUNDS			CAPITAL PROJECT FUNDS			
	Parks & Recreation Trust Programs	Public Infrastructure Program	Housing Inclusionary Program	Golf Fund	Street Resurfacing	Sidewalk Program	Total Nonmajor Governmental Funds
ASSETS							
Cash and investments	\$ 22,868	\$ 9,004	\$ 4,342,477		\$ 2,061,701	\$ 546,942	\$ 18,268,369
Receivables:							
Accounts receivable			6,640	\$ 19,632	3,294		327,836
Federal, state and other							69,019
Interest receivable		1	343		163	44	1,445
Loans receivable			2,425,234				5,346,768
Total Assets	<u>\$ 22,868</u>	<u>\$ 9,005</u>	<u>\$ 6,774,694</u>	<u>\$ 19,632</u>	<u>\$ 2,065,158</u>	<u>\$ 546,986</u>	<u>\$ 24,013,437</u>
LIABILITIES							
Accounts payable and accrued liabilities			\$ 1,488	\$ 1,417	\$ 163,683	\$ 74,564	\$ 501,994
Deposits payable				10,000			64,729
Due to other funds				374,282			374,282
Unearned Revenue				14,250			14,250
Advances from other funds				1,341,450			1,341,450
Total Liabilities			1,488	1,741,399	163,683	74,564	2,296,705
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - Charges for Services							
Unavailable revenue - Housing			2,431,874				5,353,407
Total Deferred Inflows			2,431,874				5,353,407
Fund balances (Deficit):							
Restricted	\$ 22,868	\$ 9,005	4,341,332				14,772,260
Committed							
Assigned					1,901,475	472,422	3,312,832
Unassigned				(1,721,767)			(1,721,767)
Total Fund Balances (Deficit)	<u>22,868</u>	<u>9,005</u>	<u>4,341,332</u>	<u>(1,721,767)</u>	<u>1,901,475</u>	<u>472,422</u>	<u>16,363,325</u>
Total Liabilities and Deferred Inflows of Resources and Fund Balances							
	<u>\$ 22,868</u>	<u>\$ 9,005</u>	<u>\$ 6,774,694</u>	<u>\$ 19,632</u>	<u>\$ 2,065,158</u>	<u>\$ 546,986</u>	<u>\$ 24,013,437</u>

CITY OF NAPA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	SPECIAL REVENUE FUNDS						
	Assessment Districts	Tourism Improvement District	Community Development Block Grant	Traffic	Parking	CAL Home Grant	Public Safety Programs
REVENUES							
Taxes		\$ 638,786					
Intergovernmental			\$ 973,005	\$ 2,148,388			
Charges for services	\$ 1,434,160		175,831	346,894	\$ 517,941	\$ 83,063	
Investment income	49,627	1,329		19,406	43,496	1,175	\$ 244
Miscellaneous revenues							1,000
Total Revenues	1,483,787	640,115	1,148,836	2,514,688	561,437	84,238	1,244
EXPENDITURES							
Current:							
Public safety							
Police				375,691	273,423		1,017
Public works	77,389			742			
Parks and recreation	98,510				179,857		
Community Development	558,006	593,646	702,191		2,196	226,909	
Capital outlay							
Debt service:							
Principal repayment				50,000			
Interest and fiscal charges				3,000			
Total Expenditures	733,905	593,646	702,191	429,433	455,476	226,909	1,017
Excess (Deficiency) of Revenues over (under) Expenditures	749,882	46,469	446,645	2,085,255	105,961	(142,671)	227
OTHER FINANCING SOURCES (USES)							
Transfers in					226,131		
Transfers (out)	(801,633)	(8,535)	(375,246)	(2,131,712)	(17,516)		
Proceeds from sale of cap assets				224,246			
Total Other Financing Sources (Uses)	(801,633)	(8,535)	(375,246)	(1,907,466)	208,615		
Net Change in Fund Balances	(51,751)	37,934	71,399	177,789	314,576	(142,671)	227
Beginning Fund Balances (Deficit)	4,658,333	186,745	41,764	1,301,313	4,512,285	203,879	26,168
Ending Fund Balances (Deficit)	\$ 4,606,582	\$ 224,679	\$ 113,163	\$ 1,479,102	\$ 4,826,861	\$ 61,208	\$ 26,395

CITY OF NAPA
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

	SPECIAL REVENUE FUNDS				CAPITAL PROJECT FUNDS		
	Parks & Recreation Trust Programs	Public Infrastructure Program	Housing Inclusionary Program	Golf Fund	Street Resurfacing	Sidewalk Program	Total Nonmajor Governmental Funds
REVENUES							
Taxes							\$ 638,786
Intergovernmental							3,121,393
Charges for services		\$ 9,000	\$ 439,198	\$ 8,382			3,014,469
Investment income	\$ 257	5	40,600	(8,855)	\$ 13,600	\$ 5,374	166,258
Miscellaneous revenues	19,400						20,400
Total Revenues	19,657	9,005	479,798	(473)	13,600	5,374	6,961,306
EXPENDITURES							
Current:							
Public safety							
Police							650,131
Public works							78,131
Parks and recreation	9,897			30			288,294
Community Development			1,387,786				3,470,734
Capital outlay					2,579,831	\$ 1,074,194	3,654,025
Debt service:							
Principal repayment							50,000
Interest and fiscal charges							3,000
Total Expenditures	9,897		1,387,786	30	2,579,831	1,074,194	8,194,315
Excess (Deficiency) of Revenues over (under) Expenditures	9,760	9,005	(907,988)	(503)	(2,566,231)	(1,068,820)	(1,233,009)
OTHER FINANCING SOURCES (USES)							
Transfers in					3,150,901	1,277,494	4,654,526
Transfers (out)			(5,000)				(3,339,642)
Proceeds from sale of cap assets							224,246
Total Other Financing Sources (Uses)			(5,000)		3,150,901	1,277,494	1,539,130
Net Change in Fund Balances	9,760	9,005	(912,988)	(503)	584,670	208,674	306,121
Beginning Fund Balances (Deficit)	13,108		5,254,320	(1,721,264)	1,316,805	263,748	16,057,204
Ending Fund Balances (Deficit)	\$ 22,868	\$ 9,005	\$ 4,341,332	\$(1,721,767)	\$ 1,901,475	\$ 472,422	\$ 16,363,325

CITY OF NAPA
ASSESSMENT DISTRICTS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 4,658,333	
Revenues:				
Charges for services	\$ 962,890	\$ 1,184,890	1,434,160	\$ 249,270
Investment income	53,461	53,461	49,627	(3,834)
Total Revenues	1,016,351	1,238,351	1,483,787	245,436
Expenditures:				
Current:				
Public works	244,009	244,009	77,389	166,620
Parks and recreation	166,263	165,252	98,510	66,742
Community Development	135,586	336,586	558,006	(221,420)
Total Expenditures	545,858	745,847	733,905	11,942
Other Financing Sources (Uses):				
Transfers (out)	(225,883)	(1,068,224)	(801,633)	266,591
Total Other Financing Sources (Uses)	(225,883)	(1,068,224)	(801,633)	266,591
Net Change in Fund Balances	\$ 244,610	\$ (575,720)	(51,751)	\$ 523,969
Ending Fund Balance			\$ 4,606,582	

CITY OF NAPA
TOURISM IMPROVEMENT DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 186,745	
Revenues:				
Taxes	\$ 547,960	\$ 601,350	638,786	\$ 37,436
Investment income	1,000	1,000	1,329	329
Total Revenues	548,960	602,350	640,115	37,765
Expenditures:				
Current:				
Community Development	506,465	602,964	593,646	9,318
Total Expenditures	506,465	602,964	593,646	9,318
Other Financing Sources (Uses):				
Transfers (out)	(8,535)	(8,535)	(8,535)	
Total Other Financing Sources (Uses)	(8,535)	(8,535)	(8,535)	
Net Change in Fund Balances	\$ 33,960	\$ (9,149)	37,934	\$ 47,083
Ending Fund Balance			\$ 224,679	

CITY OF NAPA
COMMUNITY DEVELOPMENT BLOCK GRANT
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 41,764	
Revenues:				
Intergovernmental	\$ 616,484	\$ 1,554,529	973,005	\$ (581,524)
Charges for services	63,316	63,316	175,831	112,515
Total Revenues	679,800	1,617,845	1,148,836	(469,009)
Expenditures:				
Current:				
Community Development	499,869	771,518	702,191	69,327
Total Expenditures	499,869	771,518	702,191	69,327
Other Financing Sources (Uses):				
Transfers (out)	(204,121)	(810,991)	(375,246)	435,745
Total Other Financing Sources (Uses)	(204,121)	(810,991)	(375,246)	435,745
Net Change in Fund Balances	\$ (24,190)	\$ 35,336	71,399	\$ 36,063
Ending Fund Balance			\$ 113,163	

CITY OF NAPA
TRAFFIC FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 1,301,313	
Revenues:				
Intergovernmental	\$ 2,216,684	\$ 2,244,671	2,148,388	\$ (96,283)
Charges for services	369,744	369,744	346,894	(22,850)
Investment income	30,000	30,000	19,406	(10,594)
Miscellaneous revenues	14,000	14,000		(14,000)
Total Revenues	2,630,428	2,658,415	2,514,688	(143,727)
Expenditures:				
Current:				
Public safety				
Police	375,744	375,744	375,691	53
Public works			742	(742)
Debt Service				
Principal repayment	50,000	50,000	50,000	
Interest and fiscal charges	2,000	2,000	3,000	(1,000)
Total Expenditures	427,744	427,744	429,433	(1,689)
Other Financing Sources (Uses):				
Transfers in				
Transfers (out)	(1,864,711)	(2,388,576)	(2,131,712)	256,864
Proceeds from the sale of capital assets			224,246	224,246
Total Other Financing Sources (Uses)	(1,864,711)	(2,388,576)	(1,907,466)	481,110
Net Change in Fund Balances	\$ 337,973	\$ (157,905)	177,789	\$ 335,694
Ending Fund Balance			\$ 1,479,102	

CITY OF NAPA
PARKING FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 4,512,285	
Revenues:				
Intergovernmental				
Charges for services	\$ 478,000	\$ 478,000	517,941	\$ 39,941
Investment income	73,700	73,700	43,496	(30,204)
Total Revenues	551,700	551,700	561,437	9,737
Expenditures:				
Current:				
Police	330,879	330,879	273,423	57,456
Parks and recreation	213,709	213,709	179,857	33,852
Community Development			2,196	(2,196)
Total Expenditures	544,588	544,588	455,476	89,112
Other Financing Sources (Uses):				
Transfers in	162,682	162,682	226,131	63,449.00
Transfers (out)	(17,516)	(17,516)	(17,516)	
Total Other Financing Sources (Uses)	145,166	145,166	208,615	63,449
Net Change in Fund Balances	\$ 152,278	\$ 152,278	314,576	\$ 162,298
Ending Fund Balance			\$ 4,826,861	

CITY OF NAPA
CAL HOME GRANT
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 203,879	
Revenues:				
Intergovernmental		\$ 1,230,980		\$ (1,230,980)
Charges for services		83,063	83,063	
Investment income	\$ 500	1,573	1,175	(398)
Total Revenues	500	1,315,616	84,238	(1,231,378)
Expenditures:				
Current:				
Community Development	22,000	1,060,173	226,909	833,264
Total Expenditures	22,000	1,060,173	226,909	833,264
Net Change in Fund Balances	\$ (21,500)	\$ 255,443	(142,671)	\$ (398,114)
Ending Fund Balance			\$ 61,208	

CITY OF NAPA
PUBLIC SAFETY PROGRAMS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 26,168	
Revenues:				
Investment income	\$ 250	\$ 250	244	\$ (6)
Miscellaneous revenues	1,000	1,000	1,000	
Total Revenues	1,250	1,250	1,244	(6)
Expenditures:				
Current:				
Police	5,000	5,000	1,017	3,983
Total Expenditures	5,000	5,000	1,017	3,983
Net Change in Fund Balances	<u>\$ (3,750)</u>	<u>\$ (3,750)</u>	<u>227</u>	<u>\$ 3,977</u>
Ending Fund Balance			<u>\$ 26,395</u>	

CITY OF NAPA
PARKS & RECREATION TRUST PROGRAMS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 13,108	
Revenues:				
Investment income			257	\$ 257
Miscellaneous revenues		\$ 19,400	19,400	
Total Revenues		19,400	19,657	257
Expenditures:				
Current:				
Parks and recreation		31,784	9,897	21,887
Total Expenditures		31,784	9,897	21,887
Net Change in Fund Balances	\$	\$ (12,384)	9,760	\$ 22,144
Ending Fund Balance			\$ 22,868	

CITY OF NAPA
PUBLIC INFRASTRUCTURE PROGRAM
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$	
Revenues:				
Charges for services			9,000	\$ 9,000
Investment income			5	5
Total Revenues			9,005	9,005
Expenditures:				
Current:				
Public Works				
Total Expenditures				
Net Change in Fund Balances	\$	\$	9,005	\$ 9,005
Ending Fund Balance			\$ 9,005	

CITY OF NAPA
HOUSING INCLUSIONARY PROGRAM
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 5,254,320	
Revenues:				
Charges for services		\$ 380,000	439,198	\$ 59,198
Investment income	\$ 12,017	12,017	40,600	28,583
Total Revenues	12,017	392,017	479,798	87,781
Expenditures:				
Current:				
Community Development	173,932	3,845,576	1,387,786	2,457,790
Total Expenditures	173,932	3,845,576	1,387,786	2,457,790
Other Financing Sources (Uses):				
Transfers in				
Transfers (out)	(2,063)	(5,000)	(5,000)	
Total Other Financing Sources (Uses)	(2,063)	(5,000)	(5,000)	
Net Change in Fund Balances	\$ (163,978)	\$ (3,458,559)	(912,988)	\$ 2,545,571
Ending Fund Balance			\$ 4,341,332	

CITY OF NAPA
GOLF FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with
	Original	Final Budget	Actual	Final Budget Positive (Negative)
Beginning Fund Balance			\$ (1,721,264)	
Revenues:				
Charges for services			8,382	\$ 8,382
Investment income			(8,855)	(8,855)
Miscellaneous revenues	\$ 2,000	\$ 2,000		(2,000)
Total Revenues	2,000	2,000	(473)	(2,473)
Expenditures:				
Parks and recreation	30	2,030	30	2,000
Total Expenditures	30	2,030	30	2,000
Net Change in Fund Balances	\$ 1,970	\$ (30)	(503)	\$ (473)
Ending Fund Balance			\$ (1,721,767)	

CITY OF NAPA
STREET RESURFACING PROGRAM
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 1,316,805	
Revenues:				
Investment Income			13,600	\$ (13,600)
Total Revenues			13,600	
Expenditures:				
Capital outlay	\$ 2,925,901	\$ 4,452,462	2,579,831	1,872,631
Total Expenditures	2,925,901	4,452,462	2,579,831	1,872,631
Other Financing Sources (Uses):				
Transfers in	2,925,901	3,150,901	3,150,901	
Total Other Financing Sources (Uses)	2,925,901	3,150,901	3,150,901	
Net Change in Fund Balances	\$	\$ (1,301,561)	584,670	\$ 1,872,631
Ending Fund Balance			\$ 1,901,475	

CITY OF NAPA
SIDEWALK REPLACEMENT PROGRAM
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
Beginning Fund Balance			\$ 263,748	
Revenues:				
Investment Income			5,374	\$ 5,374
Total Revenues			5,374	5,374
Expenditures:				
Current:				
Capital outlay	\$ 1,467,948	\$ 1,731,696	1,074,194	657,502
Total Expenditures	1,467,948	1,731,696	1,074,194	657,502
Other Financing Sources (Uses):				
Transfers in	1,467,948	1,407,234	1,277,494	129,740
Total Other Financing Sources (Uses)	1,467,948	1,407,234	1,277,494	129,740
Net Change in Fund Balances	\$	\$ (324,462)	208,674	\$ 792,616
Ending Fund Balance			\$ 472,422	

INTERNAL SERVICE FUNDS

The Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis.

The concept of major funds does not extend to internal service funds. For the Statement of Activities, the net revenues and expenses of each internal service fund are eliminated by netting them against the operations of the City departments that generated them. The remaining balance sheet items are consolidated with these same funds in the Statement of Net Position. However, internal service funds are still presented separately in the Fund Financial Statements.

Risk Management Fund

The Risk Management Fund is an internal service fund established to account for resources and uses related to the City's self-insurance program. The City's self-insurance retention amounts are \$150,000 for general liability claims, \$300,000 for Workers' Compensation claims and 100% of Unemployment Claims. The risk management function is funded by charges to the various City departments.

Central Stores Fund

The Central Stores facility was established to manage inventory for the City's Water, Streets, Electrical, Parks, Building and Facilities Maintenance Divisions, as well as emergency (disaster preparedness) and general office operations. Materials used frequently by City departments or required for emergency repair are ordered and centrally stocked in the warehouse facility located at the Corporation Yard. Consolidation of various departments' usage allows effective cost control and effective quantity control. Staff works together to reduce inventory through effective techniques such as just-in-time delivery, vendor-managed inventory and establishment of correct minimum and maximum stock quantities. Central Stores also handles in-bound and out-bound freight as needed.

Fleet Fund

The Fleet Management Fund provides full-service, lifetime management of the vehicles and equipment used by all City operations. This begins with specification development and replacement scheduling, transitioning to in-service preparation, then performing regular repairs and scheduled maintenance and inspections. Also included in Fleet services are regulatory compliance, fuel data capture, decommissioning, and ultimately the disposal of said assets. The Fleet Management Division also administers the two City motor pools.

Information Technology Replacement Fund

The Information Technology (IT) Replacement Fund provides for the replacement of IT and telephone infrastructure throughout General Fund departments as necessary to maintain staff productivity.

Post-Employment Benefit Fund

The Post-Employment Benefits Fund is established to collect contributions from the General Fund and proprietary funds to cover the cost of retiree benefits for current and past employees. Expenditures from this fund includes payments for current retirees' benefits earned in prior years and contributions to an irrevocable trust to provide resources from which future retiree benefits will be paid.

CITY OF NAPA
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2015

	Risk Management	Central Stores	Fleet	Information Technology Replacement	Post Employment Benefit	Total
ASSETS						
Current Assets:						
Cash and investments	\$ 7,787,571		\$ 4,180,677	\$ 8,248	\$ 821,166	\$ 12,797,662
Accounts receivable	1,189,375		26,531		54	1,215,960
Federal, state and other governments			1,667		735,104	736,771
Interest receivable	615		330		65	1,010
Prepaid items	168,692		46,041			214,733
Inventory		\$ 264,252				264,252
Total Current Assets	9,146,253	264,252	4,255,246	8,248	1,556,389	15,230,388
Capital Assets:						
Nondepreciable			112,694			112,694
Depreciable, net		38,154	6,628,119			6,666,273
Total Assets	9,146,253	302,406	10,996,059	8,248	1,556,389	22,009,355
DEFERRED OUTFLOWS						
Deferred outflows related to pension	26,126	16,565	126,243			168,934
Total deferred outflows of resources	26,126	16,565	126,243			168,934
LIABILITIES						
Current Liabilities:						
Accounts payable and accrued liabilities	67,353	4,468	277,991	16	(18,791)	331,037
Compensated absences	7,732	6,696	10,804			25,232
Claims payable	2,278,400					2,278,400
Due to other funds		323,589				323,589
Total Current Liabilities	2,353,485	334,753	288,795	16	(18,791)	2,958,258
Long-Term Obligations:						
Net OPEB Obligation					1,121,324	1,121,324
Net Pension Obligation	305,691	193,819	1,477,126			1,976,636
Compensated absences			18,880			18,880
Claims payable	3,783,600					3,783,600
Total Long-Term Obligations	4,089,291	193,819	1,496,006		1,121,324	6,900,440
Total Liabilities	6,442,776	528,572	1,784,801	16	1,102,533	9,858,698
Deferred Inflow						
Deferred Inflow related to Pensions	46,173	29,275	223,112			298,560
Total Deferred Inflows	46,173	29,275	223,112			298,560
NET POSITION						
Net investment in capital assets		38,154	6,740,813			6,778,967
Unrestricted	2,683,430	(277,030)	2,373,576	8,232	453,856	5,242,064
Total Net Position (Deficit)	\$ 2,683,430	\$ (238,876)	\$ 9,114,389	\$ 8,232	\$ 453,856	\$ 12,021,031

CITY OF NAPA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Risk Management</u>	<u>Central Stores</u>	<u>Fleet</u>	<u>Information Technology Replacement</u>	<u>Post Employment Benefit</u>	<u>Total</u>
OPERATING REVENUES						
Intergovernmental Revenue			\$ 2,790			\$ 2,790
Charges for services	\$ 5,611,421	\$ 936,784	3,700,179	\$ 167,600	\$ 1,160,170	11,576,154
Total Operating Revenues	<u>5,611,421</u>	<u>936,784</u>	<u>3,702,969</u>	<u>167,600</u>	<u>1,160,170</u>	<u>11,578,944</u>
OPERATING EXPENSES						
Cost of goods sold		645,556				645,556
Employee services and benefits	216,503	112,682	771,689			1,100,874
Materials and services	644,292	13,913	1,313,817	170,382		2,142,404
Insurance premiums and claims	3,069,975				974,602	4,044,577
Depreciation		4,487	1,113,709			1,118,196
Total Operating Expenses	<u>3,930,770</u>	<u>776,638</u>	<u>3,199,215</u>	<u>170,382</u>	<u>974,602</u>	<u>9,051,607</u>
Operating Income (Loss)	<u>1,680,651</u>	<u>160,146</u>	<u>503,754</u>	<u>(2,782)</u>	<u>185,568</u>	<u>2,527,337</u>
NONOPERATING REVENUES (EXPENSES)						
Investment income	68,634	(4,255)	34,569	(265)	542	99,225
Total Nonoperating Revenues (Expenses)	<u>68,634</u>	<u>(4,255)</u>	<u>34,569</u>	<u>(265)</u>	<u>542</u>	<u>99,225</u>
Income (loss) before transfers	<u>1,749,285</u>	<u>155,891</u>	<u>538,323</u>	<u>(3,047)</u>	<u>186,110</u>	<u>2,626,562</u>
TRANSFERS						
Transfers in			41,525			41,525
Transfers (out)	(475,048)	(168,932)	(167,381)			(811,361)
OTHER FINANCING SOURCES						
Sale of Capital Assets			41,185			41,185
Change in Net Position	1,274,237	(13,041)	453,652	(3,047)	186,110	1,897,911
Beginning Net Position (Deficits), as restated (Note 19)	<u>1,409,193</u>	<u>(225,835)</u>	<u>8,660,737</u>	<u>11,279</u>	<u>267,746</u>	<u>10,123,120</u>
Ending Net Position (Deficits)	<u>\$ 2,683,430</u>	<u>\$ (238,876)</u>	<u>\$ 9,114,389</u>	<u>\$ 8,232</u>	<u>\$ 453,856</u>	<u>\$ 12,021,031</u>

CITY OF NAPA
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	Risk Management	Central Stores	Fleet	Information Technology Replacement	OPEB	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 4,446,707	\$ 936,784	\$ 3,718,241	\$ 167,600	\$ 1,129,492	\$ 10,398,824
Payments to suppliers	(646,228)	(650,977)	(1,235,779)	(170,503)	4,511	(2,698,976)
Payments to / or on behalf of employees	(3,285,385)	(112,658)	(765,275)		(1,098,307)	(5,261,625)
Net cash provided (used) by Operating Activities	515,094	173,149	1,717,187	(2,903)	35,696	2,438,223
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in			41,525			41,525
Transfers out	(475,048)	(168,932)	(167,381)			(811,361)
Interfund receipts (payments)		38				38
Net cash provided (used) by Noncapital Financing Activities	(475,048)	(168,894)	(125,856)			(769,798)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Sale of capital assets			41,185			41,185
Principal payments on capital debt			(44,112)			(44,112)
Acquisition of capital assets			(792,226)			(792,226)
Net cash provided (used) by Capital and Related Financing Activities			(795,153)			(795,153)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest	80,822	(4,255)	39,720	(205)	477	116,559
Net cash provided (used) by Investing Activities	80,822	(4,255)	39,720	(205)	477	116,559
Net Cash Increase (Decrease) in cash and cash equivalents	120,868		835,898	(3,108)	36,173	989,831
Cash and cash equivalents at beginning of period	7,666,703		3,344,779	11,356	784,993	11,807,831
Cash and cash equivalents at end of period	<u>\$ 7,787,571</u>	<u>\$ -</u>	<u>\$ 4,180,677</u>	<u>\$ 8,248</u>	<u>\$ 821,166</u>	<u>\$ 12,797,662</u>
Reconciliation of operating income (loss) to net cash flows from operating activities:						
Operating income (loss)	1,680,651	160,146	503,754	(2,782)	185,568	2,527,337
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation		4,487	1,113,709			1,118,196
Change in assets and liabilities:						
Receivables, net (increase)/decrease	(1,164,714)		15,272		(30,678)	(1,180,120)
Deferred Outflow (increase)/decrease	(46,221)	(29,307)	(223,345)			(298,873)
Other assets (Increase)/decrease	(68,184)	7,909	(46,041.0)			(106,316)
Accounts payable and other accrued expenses increase/(decrease)	(254,952)	583	124,079	(121)	4,511	(125,900)
Net OPEB Obligation increase/(decrease)					(123,705)	(123,705)
Deferred Inflow increase/(decrease)	46,173	29,275	223,112			298,560
Claims payable increase/(decrease)	321,200					321,200
Vacation and sick leave payable increase/(decrease)	1,141	56	6,647			7,844
Net cash provided (used) by Operating Activities	<u>\$ 515,094</u>	<u>\$ 173,149</u>	<u>\$ 1,717,187</u>	<u>\$ (2,903)</u>	<u>\$ 35,696</u>	<u>\$ 2,438,223</u>

AGENCY FUNDS

These funds are used to account for assets held by the city as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the City-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

Agency Funds

Payroll Fund

To account for the collection and payment of all payroll deductions made from the City employees and for monies collected from retirees to reimburse the City for their share of their health insurance premiums.

CITY OF NAPA
AGENCY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
PAYROLL				
Assets				
Cash and investments	\$ 14,613	\$ 33,264,790	\$ (33,245,508)	\$ 33,895
Accounts receivable	6,976	15,985	(16,478)	6,483
Loan receivable	4,061	362	(4,423)	
Total Assets	<u>\$ 25,650</u>	<u>\$ 33,281,137</u>	<u>\$ (33,266,409)</u>	<u>\$ 40,378</u>
Liabilities				
Accounts payable	<u>\$ 25,650</u>	<u>\$ 33,281,137</u>	<u>\$ (33,266,409)</u>	<u>\$ 40,378</u>
TOTAL AGENCY FUNDS				
Assets				
Cash and investments	\$ 14,613	\$ 33,264,790	\$ (33,245,508)	\$ 33,895
Accounts receivable	6,976	15,985	(16,478)	6,483
Loan receivable	4,061	362	(4,423)	
Total Assets	<u>\$ 25,650</u>	<u>\$ 33,281,137</u>	<u>\$ (33,266,409)</u>	<u>\$ 40,378</u>
Liabilities				
Accounts payable	<u>25,650</u>	<u>33,281,137</u>	<u>(33,266,409)</u>	<u>40,378</u>
Total Liabilities	<u>\$ 25,650</u>	<u>\$ 33,281,137</u>	<u>\$ (33,266,409)</u>	<u>\$ 40,378</u>

SECTION 3

STATISTICAL SECTION



STATISTICAL SECTION

This part of the City's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents:

Financial Trends Information

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity Information

These schedules contain trend information to help the reader understand the City's most significant local revenue source, property taxes.

Debt Capacity Information

These schedules present information to help the reader assess the affordability of the City's current level of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

City of Napa - Financial Trends Information
Net Position by Component
Last Ten Fiscal Years
(Accrual basis accounting, in thousands)

	2006	2007	2008	2009	2010
Governmental Activities					
Net investment in capital assets	\$ 70,998	\$ 334,182	\$ 337,798	\$ 348,410	\$ 332,285
Restricted	43,799	50,670	52,663	39,645	38,113
Unrestricted	4,463	2,715			37,658
Total governmental activities net position	\$ 119,260	\$ 387,568	\$ 390,461	\$ 388,055	\$ 408,056
Business-type Activities					
Net investment in capital assets	\$ 48,654	\$ 57,118	\$ 61,909	\$ 67,094	\$ 70,797
Restricted				9,523	1,187
Unrestricted	26,596	24,915	39,155	26,294	29,400
Total business-type activities net position	\$ 75,250	\$ 82,033	\$ 101,064	\$ 102,910	\$ 101,384
Primary Government					
Net investment in capital assets	\$ 119,652	\$ 391,300	\$ 399,707	\$ 415,504	\$ 403,082
Restricted	43,799	50,670	52,663	49,168	39,299
Unrestricted	31,059	27,630	39,155	26,294	67,059
Total primary government activities net position	\$ 194,510	\$ 469,601	\$ 491,525	\$ 490,965	\$ 509,440

Source: City of Napa - Audited Financials

City of Napa - Financial Trends Information
Net Position by Component
Last Ten Fiscal Years
(Accrual basis accounting, in thousands)

	2011	2012	2013	2014	2015
Governmental Activities					
Net investment in capital assets	\$ 338,198	\$ 356,311	\$ 356,406	\$ 365,826	\$ 357,559
Restricted	33,576	34,398	38,205	37,699	37,848
Unrestricted	49,287	47,907	40,475	49,510	(55,768)
Total governmental activities net position	\$ 421,061	\$ 438,616	\$ 435,086	\$ 453,035	\$ 339,639
Business-type Activities					
Net investment in capital assets	\$ 60,887	\$ 62,435	\$ 63,898	\$ 72,262	\$ 75,160
Restricted		1,077	799	534	169
Unrestricted	46,648	42,933	45,474	47,189	31,439
Total business-type activities net position	\$ 107,535	\$ 106,445	\$ 110,172	\$ 119,986	\$ 106,768
Primary Government					
Net investment in capital assets	\$ 399,085	\$ 418,746	\$ 420,304	\$ 438,088	\$ 432,720
Restricted	33,576	35,475	39,004	38,234	38,017
Unrestricted	95,935	90,840	85,948	96,699	(24,329)
Total primary government activities net position	\$ 528,596	\$ 545,061	\$ 545,257	\$ 573,020	\$ 446,407

Source: City of Napa - Audited Financials

City of Napa - Financial Trends Information
Changes in Net Position
Last Ten Fiscal Years
(Accrual basis accounting, in thousands)

	2006	2007	2008	2009	2010
Expenses					
Governmental activities					
General Government	\$ 14,224	\$ 15,527	\$ 18,376	\$ 22,803	\$ 20,261
Public Safety	26,880	32,219	27,477	34,179	34,152
Public Works	9,313	4,597	18,605	16,496	20,185
Parks & Recreation	5,983	6,185	5,197	4,903	8,569
Community Development					238
Redevelopment	15,696	13,207	1,841	1,171	1,418
Interest on long term debt	1,335	1,123	1,124	1,056	1,058
Total Governmental activities expenses	\$ 73,432	\$ 72,857	\$ 72,621	\$ 80,607	\$ 85,880
Business-type activities					
Water	\$ 14,779	\$ 15,722	\$ 18,563	\$ 19,976	\$ 21,423
Materials Diversion	12,823	16,701	18,173	18,851	19,776
Golf	1,562	1,656	1,760	1,746	1,768
Housing	400	411	11,230	10,602	11,187
Total business-type activities expenses	29,563	34,490	49,725	51,175	54,154
Total Primary government expenses	\$ 102,995	\$ 107,346	\$ 122,346	\$ 131,782	\$ 140,034

Source: City of Napa Audited Financial Statements

City of Napa - Financial Trends Information
Changes in Net Position
Last Ten Fiscal Years
(Accrual basis accounting, in thousands)

	2006	2007	2008	2009	2010
Program Revenues					
Governmental activities					
Charges for Services					
General Government	\$ 5,139	\$ 5,246	\$ 4,700	\$ 4,658	\$ 2,106
Public Safety	2,120	2,815	2,561	2,919	3,784
Public Works	1,480	3,052	3,027	410	2,503
Parks & Recreation	2,695	2,803	1,917	1,216	1,481
Community Development					
Redevelopment					179
Operating grants and contributions	14,550	14,465	5,931	5,246	4,827
Capital grants and contributions	9,674	7,249	17,857	9,535	13,006
Total governmental activities program revenues	\$ 35,658	\$ 35,629	\$ 35,992	\$ 23,985	\$ 27,885
Business type activities					
Charges for Services					
Water	\$ 16,571	\$ 19,659	\$ 21,111	\$ 19,721	\$ 19,386
Materials Diversion	13,474	18,971	21,290	20,848	21,726
Golf	1,364	1,755	1,757	1,673	1,495
Housing	150	156	520	540	1,322
Operating grants and contributions	774	491	10,644	10,086	10,376
Capital grants and contributions	2,209	1,018	1,015	71	334
Total business-type activities program revenues	34,542	42,050	56,337	52,939	54,639
Total Primary government revenues	\$ 70,200	\$ 77,680	\$ 92,329	\$ 76,923	\$ 82,524
Net (expense)/revenue					
Governmental activities	\$ (37,773)	\$ (37,227)	\$ (36,629)	\$ (56,623)	\$ (57,995)
Business-type activities	4,979	7,560	6,612	1,764	485
Total Primary government net expense	\$ (32,794)	\$ (29,667)	\$ (30,017)	\$ (54,859)	\$ (57,510)

Source: City of Napa-Audited Financial Statements

City of Napa - Financial Trends Information
Changes in Net Position
Last Ten Fiscal Years
(Accrual basis accounting, in thousands)

	2006	2007	2008	2009	2010
General Revenues and other changes in net position					
Governmental activities					
Taxes					
Property taxes	\$ 15,003	\$ 15,852	\$ 23,317	\$ 23,059	\$ 23,326
Property tax increment	3,167	3,487	4,538	4,975	6,278
Franchise taxes	1,439	1,377	1,423	1,561	1,610
Sales taxes	8,837	12,914	9,648	8,637	11,559
Transient Occupancy	6,249	7,779	8,725	8,175	8,256
Motor vehicle license fees	7,201	5,936	3,406	3,533	221
Business license	2,650	3,038	3,145	2,938	2,508
Investment earnings	1,672	3,266	4,436	3,030	1,369
Miscellaneous	1,269	918	2,590	2,331	
Transfers	1,671	2,443	1,353	2,694	2,729
Total governmental activities	\$ 49,157	\$ 57,010	\$ 62,581	\$ 60,933	\$ 57,857
Business -type activities					
Investment earnings	570	1,666	4,136	2,777	717
Miscellaneous	65				
Transfers	(1,671)	(2,443)	(1,353)	(2,694)	(2,729)
Total business-type activities	(1,036)	(777)	2,782	83	(2,012)
Total primary government	\$ 83,780	\$ 91,862	\$ 101,356	\$ 85,000	\$ 83,731
<i>Special Items (Transfer to Successor Agency Trust)</i>					
<i>Extraordinary Items - Governmental activities</i>					
<i>Extraordinary Items - Business-type activities</i>					
Change in Net Position					
Governmental activities	\$ 11,384	\$ 19,783	\$ 25,952	\$ 4,310	\$ (138)
Business-type activities	3,943	6,783	9,394	1,847	(1,527)
Total primary government	\$ 15,327	\$ 26,566	\$ 35,347	\$ 6,156	\$ (1,664)

Source: City of Napa-Audited Financial Statements

** In fiscal 2014 and
Charges for Services

City of Napa - Financial Trends Information
Changes in Net Position
Last Ten Fiscal Years
(Accrual basis accounting, in thousands)

	2011	2012	2013	2014	2015
Expenses					
Governmental activities					
General Government	\$ 16,605	\$ 19,664	\$ 19,452	\$ 10,614	\$ 21,312
Public Safety	29,081	32,266	34,946	36,764	38,299
Public Works	20,431	18,201	22,914	27,223	17,370
Parks & Recreation	7,241	6,734	6,765	7,269	7,598
Community Development	1,119	492	3,418	6,246	7,970
Redevelopment	1,363	580			
Interest on long term debt	986	937			
Total Governmental activities expenses	\$ 76,826	\$ 78,874	\$ 87,494	\$ 88,117	\$ 92,549
Business-type activities					
Water	\$ 19,494	\$ 21,627	\$ 21,173	\$ 23,801	\$ 25,699
Materials Diversion	19,747	20,505	21,277	21,078	22,563
Golf	1,778	1,783	1,459		
Housing	11,368	13,626	13,291	12,169	12,571
Total business-type activities expenses	52,387	57,542	57,200	57,047	60,832
Total Primary government expenses	\$ 129,213	\$ 136,416	\$ 144,695	\$ 145,164	\$ 153,382

Source: City of Napa Audited Financial Statements

City of Napa - Financial Trends Information
Changes in Net Position
Last Ten Fiscal Years
(Accrual basis accounting, in thousands)

	2011	2012	2013	2014	2015
Program Revenues					
Governmental activities					
Charges for Services					
General Government	\$ 2,975	\$ 1,876	\$ 3,230	\$ 10,156	\$ 6,300
Public Safety	4,076	2,953	4,722	4,487	5,155
Public Works	1,953	418	2,352	4,558	5,042
Parks & Recreation	1,470	1,257	1,966	1,659	2,670
Community Development			2,579	2,930	5,175
Redevelopment	20	1			
Operating grants and contributions	4,776	5,152	2,448	2,329	1,948
Capital grants and contributions	9,322	5,785	2,116	12,765	2,293
Total governmental activities program revenues	\$ 24,593	\$ 17,444	\$ 19,413	\$ 38,885	\$ 28,583
Business type activities					
Charges for Services					
Water	\$ 19,422	\$ 22,166	\$ 25,454	\$ 28,510	\$ 24,946
Materials Diversion	23,285	24,609	24,461	24,117	24,249
Golf	1,394	1,580	1,260		
Housing	5,167	1,163	1,160	1,116	1,415
Operating grants and contributions	11,611	10,221	11,501	10,543	11,539
Capital grants and contributions	322	352	462	729	2,450
Total business-type activities program revenues	61,201	60,092	64,298	65,015	64,599
Total Primary government revenues	\$ 85,794	\$ 77,536	\$ 83,711	\$ 103,900	\$ 93,182
Net (expense)/revenue					
Governmental activities	\$ (52,233)	\$ (61,430)	\$ (68,081)	\$ (49,232)	\$ (63,966)
Business-type activities	8,814	2,551	7,097	7,967	3,767
Total Primary government net expense	\$ (43,419)	\$ (58,880)	\$ (60,984)	\$ (41,264)	\$ (60,200)

Source: City of Napa-Audited Financial Statements

City of Napa - Financial Trends Information
Changes in Net Position
Last Ten Fiscal Years
(Accrual basis accounting, in thousands)

	2011	2012	2013	2014	2015
General Revenues and other changes in net position					
Governmental activities					
Taxes					
Property taxes	\$ 27,452	\$ 25,399	\$ 25,419	\$ 26,785	\$ 27,915
Property tax increment	6,235	3,057			
Franchise taxes	1,685	1,748	1,818	1,871	1,981
Sales taxes	12,192	13,019	14,267	15,150	16,184
Transient Occupancy	9,872	11,817	14,032	15,803	15,869
Motor vehicle license fees	358	39	40	**	**
Business license	2,572	2,661	2,766	**	**
Investment earnings	1,368	849	93	531	686
Miscellaneous					
Transfers	3,504	4,178	4,128	4,299	4,304
Total governmental activities	\$ 65,238	\$ 62,767	\$ 62,562	\$ 64,439	\$ 66,938
Business -type activities					
Investment earnings	841	537	11	364	172
Miscellaneous					
Transfers	(3,504)	(4,178)	(4,128)	(4,299)	(4,304)
Total business-type activities	(2,663)	(3,641)	(4,117)	(3,935)	(4,131)
Total primary government	\$ 62,575	\$ 59,126	\$ 58,445	\$ 60,504	\$ 62,806
<i>Special Items (Transfer to Successor Agency Trust)</i>		\$ 16,327			\$ -
<i>Extraordinary Items - Governmental activities</i>			\$ 3,995	\$ 3,415	\$ 2,173
<i>Extraordinary Items - Business-type activities</i>			747		
Change in Net Position					
Governmental activities	\$ 13,005	\$ 17,664	\$ (1,524)	\$ 18,622	\$ 5,145
Business-type activities	6,152	(1,090)	3,727	4,033	(365)
Total primary government	\$ 19,157	\$ 16,574	\$ 2,203	\$ 22,655	\$ 4,780

Source: City of Napa-Audited Financial Statements

2015 Business License and Motor Vehicles Fees are included in General Government

City of Napa - Financial Trends Information
Changes in Fund Balances, Government Funds
Last Ten Fiscal Years

(Modified accrual basis accounting, in thousands)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenues										
Taxes	\$ 27,332	\$ 30,067	\$ 40,035	\$ 39,635	\$ 39,471	\$ 43,717	\$ 42,483	\$ 41,269	\$ 44,459	\$ 46,861
Licenses and permits	8,223	12,083	10,483	6,318	3,477	3,618	4,084	3,945	4,198	4,766
Intergovernmental	37,854	38,111	22,141	18,544	29,404	24,550	21,551	23,394	26,268	23,344
Charges for services	4,673	5,043	6,003	5,671	8,937	9,297	9,226	11,711	12,238	12,030
Investment earnings	1,784	3,029	4,110	2,739	1,155	1,003	726	93	531	632
Loan repayments	596	907	715	269	-	-	-	155	-	-
Miscellaneous	516	911	1,709	672	172	466	777	124	514	504
Total Revenues	80,979	90,151	85,196	73,847	82,616	82,652	78,846	80,692	88,208	88,136
Expenditures										
General government	14,094	15,364	18,595	23,178	17,610	16,588	16,538	12,691	-	-
City Council									279	307
City Clerk									623	829
City Manager									1,213	1,174
Finance									4,697	5,203
City Attorney									876	867
Human Resources									1,071	1,034
General Services									2,234	6,260
Public safety	27,238	28,618	30,557	33,202	34,781	33,268	34,009	34,946	-	-
Police									22,911	23,741
Fire									13,755	14,560
Public Works	8,458	6,094	6,494	6,840	8,871	6,752	6,773	7,257	7,252	7,675
Parks & Recreation	5,790	5,828	5,000	4,526	8,101	6,813	6,580	6,765	7,269	7,565
Community Development					238	392	3,849	3,418	6,246	7,976
Housing	12,109	12,152	1,574	1,088	-	-	-	-	-	-
Redevelopment	4,694	1,447	996	473	935	974	-	-	-	-
County Fees and pass-through		-		67	211	116	124	-	-	-
Capital Outlay	12,355	14,846	11,029	20,795	17,395	15,663	10,793	15,657	16,469	9,267
Debt Service										
Principal	865	1,020	1,210	1,240	1,535	3,365	1,730	-	328	473
Interest and fiscal charges	1,105	1,081	1,088	1,019	1,025	1,216	801	-	5	3
Total Expenditures	86,709	86,451	76,542	92,429	90,704	85,147	81,197	80,733	85,228	86,934
Excess of revenues over/(under) expenditures	(5,730)	3,700	8,654	(18,583)	(8,088)	(2,495)	(2,351)	(42)	2,980	1,202
Other financing sources (uses)										
Transfer in	8,290	14,382	16,904	18,748	15,385	30,927	11,822	22,210	17,369	21,237
Transfer out	(6,419)	(11,738)	(18,059)	(17,064)	(12,607)	(27,185)	(7,280)	(17,274)	(13,224)	(16,163)
Debt Proceeds										
Payments to refunded bond escrow agent										
Sale of capital assets					221			4		772
Total other financing Sources (uses)										-
Special Items										
Total Other Financing Sources	1,871	2,643	(1,154)	1,683	2,999	3,743	4,542	4,940	4,145	5,846
Change in Accounting Method	407									
Extraordinary Items (Transfer to/from Successor Agency Trust)							(1,199)		1,220	2,173
Net Change in fund balances	\$ (3,452)	\$ 6,344	\$ 7,499	\$ (16,899)	\$ (5,089)	\$ 1,248	\$ 991	\$ 4,899	8,345	9,220
Debt service as a percentage of non-capital expenditures	1%	1%	2%	2%	2%	5%	3%	0%	0%	1%

Source: City of Napa -Audited Financial Statements

City of Napa - Revenue Capacity
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years
(in millions)

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Taxable Assessed Value</u>	<u>Net Increase / (Decrease) Amount</u>	<u>Net Increase %</u>	<u>Direct Tax Rate</u>
2006	\$ 6,823	\$ 203	\$ 7,027	\$ 756	11%	0.015%
2007	7,607	215	7,822	796	10%	0.015%
2008	8,369	242	8,611	789	9%	0.015%
2009	8,702	251	8,954	343	4%	0.015%
2010	8,455	256	8,711	(242)	-3%	0.015%
2011	8,382	259	8,641	(70)	-1%	0.015%
2012	8,414	251	8,665	23	0%	0.015%
2013	8,509	254	8,763	98	1%	0.015%
2014	8,970	248	9,219	456	5%	0.015%
2015	9,542	247	9,788	570	6%	0.015%

Source: Napa County Auditor Controller's Office <http://www.countyofnapa.org/Pages/DepartmentContent.aspx?id=4294973814>

**City of Napa - Revenue Capacity
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>County</u>	<u>City</u>	<u>Education</u>	<u>Lake Park Maintenance District</u>	<u>River Park Maintenance District</u>	<u>Total</u>
2005/06	1.0000%	0.0150%	0.0703%	0.1125%	0.1688%	1.3666%
2006/07	1.0000%	0.0150%	0.0590%	0.1125%	0.1688%	1.3553%
2007/08	1.0000%	0.0150%	0.0875%	0.1125%	0.1688%	1.3838%
2008/09	1.0000%	0.0150%	0.0807%	0.1125%	0.1688%	1.3770%
2009/10	1.0000%	0.0150%	0.0986%	0.1125%	0.1688%	1.3949%
2010/11	1.0000%	0.0150%	0.0779%	0.1125%	0.1688%	1.3742%
2011/12	1.0000%	0.0150%	0.0973%	0.1125%	0.1688%	1.3936%
2012/13	1.0000%	0.0150%	0.0904%	0.1125%	0.1688%	1.3867%
2013/14	1.0000%	0.0150%	0.0986%	0.1125%	0.1688%	1.3949%
2014/15	1.0000%	0.0150%	0.0954%	0.1125%	0.1688%	1.3917%

Source: Napa County Auditor Controller's Office <http://www.countyofnapa.org/Pages/DepartmentContent.aspx?id=4294973814>

**City of Napa - Revenue Capacity
Principal Property Taxpayers
Current Year and Nine Years Ago**

		2015			2006		
<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>	<u>Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total Assessed Valuation</u>
Kaiser Foundation Hospitals	Hospital	\$ 270,490,811	1	2.76%			
Meritage Resort LLC	Hotels	92,854,818	2	0.95%			
Inland American Lodging Napa Solano LLC	Hotels	73,372,381	3	0.75%			
IA Lodging Napa First LLC	Hotels	68,733,238	4	0.70%			
South Napa Fee LLC		51,486,446	5	0.53%			
Hawthorn Village Limited Partnership	Apartments	54,931,686	6	0.56%			
Shell Owners Association West	Timeshares	41,420,180	7	0.42%			
Chelsea Financing Partnership LP	Real Estate	45,445,695	8	0.46%			
First Napa Acquisition LLC	Apartments	39,237,859	9	0.40%			
Napa ES Hotel LLC	Hotels	23,020,136	10	0.24%			

Source: Napa County Auditor Controller's Office

1 Information for 2006 is not readily available.

**City of Napa - Revenue Capacity
Property Tax Levies and Collections
Last Ten Fiscal Years**

<u>Fiscal Year ended June</u> <u>30</u>	<u>Total Tax Levy for</u> <u>Fiscal Year</u> ²	<u>Collected within the Fiscal Year</u> <u>of the Levy</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>
2006	\$ -	\$ -	100%
2007	-	-	100%
2008	-	-	100%
2009	-	-	100%
2010	-	-	100%
2011	14,378,036	14,378,036	100%
2012	¹ 14,922,304	14,922,304	100%
2013	15,207,190	15,207,190	100%
2014	15,334,229	15,334,229	100%
2015	16,558,128	16,558,128	100%

Source: Napa County Auditor Controller's Office

¹ Information prior to fiscal year 2010 is not readily available.

² Levy does not include ERAF or RDA pass through.

**City of Napa - Debt Capacity
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

Governmental Activities				
<u>Fiscal Year</u> <u>Ended June</u> <u>30</u>	<u>General</u> <u>Obligation</u> <u>Bonds</u>	<u>Redevelopment</u> <u>Bonds</u> ¹	<u>Capital</u> <u>Leases</u>	<u>Total</u> <u>Governmental</u> <u>Activities</u>
2006	\$ -	\$ 25,640,000	\$ -	\$ 25,640,000
2007		24,620,000		24,620,000
2008		23,410,000	121,664	23,531,664
2009		22,170,000	157,688	22,327,688
2010		20,635,000	432,534	21,067,534
2011		19,020,000	329,190	19,349,190
2012			240,944	240,944
2013			106,236	106,236
2014			44,112	44,112
2015			1,442,767	1,442,767

¹ Redevelopment Bonds were previously classified as governmental. With the dissolution of Redevelopment in fiscal year 2012 they are now presented under a separate fiduciary fund.

City of Napa - Debt Capacity
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

<u>Business Type Activities</u>							
<u>Fiscal Year</u> <u>Ended June</u> <u>30</u>	<u>Water</u> <u>Revenue</u> <u>Bonds</u>	<u>Solid Waste</u> <u>Revenue Bonds</u>	<u>Loans & Notes</u> <u>Payable</u>	<u>Total</u> <u>Business Type</u> <u>Activities</u>	<u>Total</u> <u>Primary</u> <u>Government</u>	<u>Percentage</u> <u>of Personal</u> <u>Income</u>	<u>Debt</u> <u>Per</u> <u>Capita</u>
2006	\$ -	\$ 6,545,000	\$ 3,859,374	\$ 10,404,374	\$ 36,044,374	0.99%	483
2007		6,200,000	7,964,758	14,164,758	38,784,758	1.03%	519
2008	47,350,000	5,840,000	7,611,029	60,801,029	84,332,693	2.20%	1,122
2009	47,350,000	5,465,000	7,263,293	60,078,293	82,405,981	2.23%	1,083
2010	47,350,000	5,075,000	6,904,816	59,329,816	80,397,350	2.14%	1,046
2011	46,300,000	4,665,000	6,535,107	57,500,107	76,849,297	1.95%	999
2012	45,205,000	4,235,000	6,154,139	55,594,139	55,835,083	1.31%	720
2013	44,065,000	3,785,000	5,760,697	53,610,697	53,716,933	1.22%	690
2014	42,880,000		7,623,965	50,503,965	50,548,077	1.14%	645
2015	43,140,673		5,599,244	48,739,917	50,182,684	1.16%	635

**City of Napa - Debt Capacity
Direct and Overlapping Debt
As of June 30, 2015**

City Assessed Valuation \$ 9,787,994,372

	Total Debt at June 30, 2015	Percentage Applicable¹	Estimated Share of Overlapping Debt
<u>Direct and Overlapping Tax and Assessment Debt</u>			
Napa Joint Community College District	\$ 124,133,911	31.047%	\$ 38,539,855
Napa Valley Unified School District	263,110,000	46.587%	122,575,056
California Statewide Development Authority 1915 Act Bonds	2,229,739	100.000%	2,229,739
Total Direct and Overlapping Tax and Assessment Debt			\$ 163,344,650
<u>Overlapping General Fund Obligation Debt</u>			
Napa County Certificates of Participation	\$ 30,235,000	31.324%	\$ 9,470,811
Napa County Board of Education Certificates of Participation	2,830,000	31.324%	886,469
Total Overlapping General Fund Obligation Debt			\$ 10,357,281
<u>Overlapping Tax Increment Debt (Successor Agency)</u>			
Successor Agency to the Napa City Redevelopment Authority	\$ 11,400,000	100.000%	\$ 11,400,000
<i>Total Direct Debt</i>			
<i>Total Overlapping Debt</i>			<i>\$ 185,101,931</i>
Total Direct and Overlapping Debt ²			\$ 185,101,931

Source: California Municipal Statistics, Inc

¹ Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that if within the boundaries of the city divided by the district's total taxable assessed value.

² Excludes tax and revenue anticipation notes, revenue, mortgage revenue and non-bonded capital lease obligations.

**City of Napa - Debt Capacity
Legal Debt Margin Information
Last Ten Fiscal Years**

	2006	2007	2008	2009	2010
Assessed valuation	\$ 7,026,578,770	\$ 7,822,180,558	\$ 8,610,881,711	\$ 8,953,549,785	\$ 8,711,134,526
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	1,756,644,693	1,955,545,140	2,152,720,428	2,238,387,446	2,177,783,632
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 263,496,704	\$ 293,331,771	\$ 322,908,064	\$ 335,758,117	\$ 326,667,545
Total net debt applicable to limit: General obligation bonds	-	-	-	-	-
Legal debt margin	\$ 263,496,704	\$ 293,331,771	\$ 322,908,064	\$ 335,758,117	\$ 326,667,545
Total debt applicable to the limit as percentage of debt limit	0.0%	0.0%	0.0%	0.0%	0.0%
	2011	2012	2013	2014	2015
Assessed valuation	\$ 8,641,413,264	\$ 8,664,660,774	\$ 8,762,995,441	\$ 9,218,760,715	\$ 9,787,994,372
Conversion percentage	25%	25%	25%	25%	25%
Adjusted assessed valuation	2,160,353,316	2,166,165,194	2,190,748,860	2,304,690,179	2,446,998,593
Debt limit percentage	15%	15%	15%	15%	15%
Debt limit	\$ 324,052,997	\$ 324,924,779	\$ 328,612,329	\$ 345,703,527	\$ 367,049,789
Total net debt applicable to limit: General obligation bonds	-	-	-	-	-
Legal debt margin	\$ 324,052,997	\$ 324,924,779	\$ 328,612,329	\$ 345,703,527	\$ 367,049,789
Total debt applicable to the limit as percentage of debt limit	0.0%	0.0%	0.0%	0.0%	0.0%

City of Napa - Debt Capacity
Pledged Revenue Coverage
Last Ten Fiscal Years

Water							
Debt Service							
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Gross Water</u> <u>Revenues</u>	<u>Less Expenses</u>	<u>Net Available</u> <u>Revenues</u>	<u>Principal</u>	<u>Interest</u>	<u>Notes Payable</u>	<u>City System</u> <u>Coverage</u>
2006	\$ 18,117,923	\$ 10,241,233	\$ 7,876,690	\$ 1,160,000	\$ 240,266	\$ 192,096	4.95
2007	19,659,303	10,649,138	9,010,165	1,225,000	199,666	302,392	5.22
2008	21,111,182	12,610,256	8,500,926	1,270,000	2,487,730	382,464	2.05
2009	19,721,108	13,972,193	5,748,915	1,320,000	2,352,124	391,537	1.41
2010	19,385,902	15,789,037	3,596,865	1,365,000	2,300,644	391,537	0.89
2011	19,422,077	14,022,037	5,400,040	1,050,000	2,246,044	391,537	1.46
2012	22,160,235	15,389,343	6,770,892	1,095,000	2,204,044	391,537	1.83
2013	25,454,220	15,452,198	10,002,022	1,140,000	2,160,244	391,537	2.71
2014	28,510,172	14,339,154	14,171,018	1,541,062	5,313,787	391,537	1.96
2015	24,945,963	19,254,164	5,691,799	1,245,000	2,052,894	391,537	1.54

Solid Waste Revenue Bonds							
Debt Service							
<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Gross Solid Waste</u> <u>Revenues</u>	<u>Less Expenses</u>	<u>Net Available</u> <u>Revenues</u>	<u>Principal</u>	<u>Interest</u>	<u>Notes Payable</u>	<u>City System</u> <u>Coverage</u>
2006	13,482,083	12,191,639	1,290,444	335,000	342,926		1.90
2007	18,970,522	16,080,291	2,890,231	345,000	329,972		4.28
2008	21,290,455	17,546,499	3,743,956	360,000	316,542		5.53
2009	20,848,145	18,227,150	2,620,995	375,000	302,540		3.87
2010	15,567,913	14,105,116	1,462,797	390,000	285,529		2.17
2011	15,986,299	13,015,485	2,970,813	410,000	265,289		4.40
2012	16,538,005	14,061,154	2,476,851	430,000	244,037		3.67
2013	24,461,038	20,763,495	3,697,543	450,000	221,773		5.50
2014	24,117,179	20,464,194	3,652,985	3,552,784	278,931		0.95
2015	24,248,868	22,297,405	1,951,463	-	-		

City of Napa - Demographic and Economic Information
Demographic and Economic Information
Last Ten Fiscal Years

<u>Year</u>	<u>Population</u>	<u>Personal Income</u> <u>(in thousands)</u>	<u>Per Capita</u> <u>Income</u>	<u>School</u> <u>Enrollment</u>	<u>Unemployment</u> <u>Rate</u>
2006	74,620	\$ 3,630,860	\$ 48,658	19,908	3.9%
2007	74,688	3,777,047	50,571	20,087	4.0%
2008	75,186	3,831,479	50,960	20,108	5.1%
2009	76,090	3,696,376	48,579	20,370	8.6%
2010	76,856	3,756,337	48,875	20,520	9.7%
2011	76,915	3,937,587	51,194	20,582	9.1%
2012	77,513	4,271,199	55,103	20,593	7.8%
2013	77,881	4,410,713	56,634	20,725	6.3%
2014	78,358	4,437,727	56,634	20,868	5.4%
2015	78,971	4,311,501	54,596	21,002	4.4%

(1) California Department of Finance offers multiple statistics for City of Napa population. These numbers come from "E-4 Population and Housing Estimates for Cities, Counties and the State, 2001-2010." and "E-1 Current Population Estimates".

(2) Source: US Department of Commerce, Bureau of Economic Analysis. Per capita income represented is for 2014 Napa County. 2015 per capita income is not yet available.

(3) California Department of Education, Educational Demographics Unit (District and School Enrollment by Grade)

(4) United States Department of Labor, Bureau of Labor Statistics. Unemployment rate presented is for Napa County. 2015 unemployment rate is an average of January 2015 through November 2015.

City of Napa - Demographic and Economic Information
Principal Employers
Current Year and Nine Years Ago

Employer	2014		2005 ¹	
	Number of Employees	Percent of Total Employment	Number of Employees	Percent of Total Employment
Napa Valley Unified School District	1,900	5.16%	2,000	2.97%
Queen of the Valley Medical Center	1,365	3.71%	1,400	2.08%
County of Napa	1,248	3.39%	1,289	1.91%
City of Napa	458	1.24%		
Target ²	292	0.79%		
Napa Valley College	290	0.79%	525	0.78%
Walmart Supercenter	275	0.75%		
Kohl's Department Store	200	0.54%		
Meritage Resort and Spa	190	0.52%		
Kaiser Permanente	180	0.49%		
Marriott-Napa Valley	165	0.45%		
Coldwell Banker Brokers of the Valley	159	0.43%		
Aldea Children & Family Services	150	0.41%		
Regulus Integrated Solutions	150	0.41%		
The Meadows of Napa Valley Assisted Living	150	0.41%		
Whole Foods	150	0.41%		

Source: Economic Development Division of the City of Napa and United States Census Bureau.

¹ Information prior to 2013 is not readily available.

² Includes two retail locations.

City of Napa - Demographic and Economic Information
Full Time Equivalent City Government Employees by Function / Program
Last Ten Fiscal Years

Function/Program	2006 ¹	2007	2008	2009	2010	2011	2012	2013	2014	2015
<i>Governmental Activities</i>										
General Government	57.00	49.45	58.62	59.27	62.88	57.62	57.35	54.88	56.43	57.06
Public Safety										
Police	122.00	131.89	134.76	137.85	132.79	126.28	125.18	128.53	130.03	132.42
Fire	66.00	68.12	70.74	70.56	70.93	65.36	65.57	65.60	67.84	69.01
Public Works	53.00	57.50	59.96	61.18	64.22	59.22	58.70	63.70	65.38	72.58
Parks and recreation	43.00	70.30	73.75	72.00	69.04	57.89	59.12	59.41	69.59	63.38
Community development and Housing	34.00	41.98	39.11	43.48	42.11	38.71	38.98	37.71	35.29	38.36
<i>Business type Activities</i>										
Water Utility	47.00	50.23	50.50	52.50	54.57	52.57	53.23	54.17	55.66	59.23
Materials Diversion Utility	5.00	6.20	6.75	6.66	6.44	6.36	7.26	6.26	7.00	7.38
TOTAL	427.00	475.67	494.19	503.50	502.98	464.01	465.39	470.26	487.22	499.42

Source: Budget Document, City of Napa

¹ Excludes Part Time

Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Police										
Physical arrests	-	-	3,728	3,923	4,602	4,170	3,752	3,505	3,205	3,440
Parking violations	8,787	9,597	9,501	8,512	8,159	6,497	6,551	6,408	7,683	8,683
Traffic violations	-	-	5,687	6,007	6,099	4,715	3,054	3,332	3,078	3,668
Fire										
Number of calls answered	6,159	6,553	6,976	6,807	7,002	6,953	6,941	7,197	7,646	7,897
Inspections	632	634	560	1,555	1,296	1,496	1,425	1,425	1,464	1,379
Highways and streets										
Street resurfacing (miles)	-	-	-	-	10	9.15	8.25	8.95	8.97	8.8
Potholes repairs	-	-	-	1,182	653	294	211	326	300	358
Materials Diversion Utility										
Refuse collected (tons/day)	126	122	108	103	98	98	94	92	90	-
Recyclables collected (tons/day)	44	70	69	71	64	68	60	64	64	-
Culture and recreation										
Athletic field permits issued	46	26	25	21	29	37	30	25	10	17
Water										
New connections	-	-	-	127	618	-	-	326	-	-
Water Main breaks	-	-	123	98	59	99	64	93	63	-
Average daily consumption (per thousand gallons)	14.02	13.39	14.98	15.33	14.94	13.14	13.35	13.79	14.27	-

Source: City of Napa

¹ Information prior to 2014 is not readily available.

City of Napa - Operating Information
Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Police										
Physical arrests	-	3,728	3,923	4,602	4,170	3,752	3,505	3,205	3,440	3,803
Parking violations	9,597	9,501	8,512	8,159	6,497	6,551	6,408	7,683	8,683	2,953
Traffic violations	-	5,687	6,007	6,099	4,715	3,054	3,332	3,078	3,668	4,835
Fire										
Number of calls answered	6,553	6,976	6,807	7,002	6,953	6,941	7,197	7,646	7,897	8,969
Inspections	634	560	1,555	1,296	1,496	1,425	1,425	1,464	1,379	1,401
Highways and streets										
Street resurfacing (miles)	-	-	-	10	9.15	8.25	8.95	8.97	8.8	6.0
Potholes repairs	-	-	1,182	653	294	211	326	300	358	383
Materials Diversion Utility										
Refuse collected (tons/day)	122	108	103	98	98	94	92	90	94	89
Recyclables collected (tons/day)	70	69	71	64	68	60	64	64	72	76
Culture and recreation										
Athletic field permits issued	26	25	21	29	37	30	25	10	17	18
Water										
New connections	-	-	127	618	-	-	326	-	238	98
Water Main breaks ¹	-	123	98	59	99	64	93	63	38	272
Average daily consumption (per thousand gallons)	13.39	14.98	15.33	14.94	13.14	13.35	13.79	14.27	14.12	12.27

Source: City of Napa

¹ 233 of the 272 water main breaks in 2015 were related to the August 24, 2014 South Napa Earthquake

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

Certain provisions of the Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture. In the event of a conflict between this summary and the Indenture, the terms of the Indenture shall govern.

Definitions

“Additional Revenues” means any or all of the following amounts:

(a) An allowance for Net Revenues from any additions or improvements to or extensions of the Solid Waste System to be financed from the proceeds of the proposed series of Parity Bonds or from any other source but in any case which, during all or any part of the most recent completed Fiscal Year for which audited financial statements are available or for any other 12-month period selected by the City under the Indenture, were not in service, all in an amount equal to 80% of the estimated additional average annual Net Revenues to be derived from such additions, improvements and extensions for the first 36-month period in which each addition, improvement or extension is to be in operation, all as shown by the certificate or opinion of a qualified independent engineer employed by the City.

(b) An allowance for Net Revenues arising from any increase in the Charges made for service from the Solid Waste System which has become effective prior to the incurring of the proposed Parity Bonds but which, during all or any part of such Fiscal Year or such 12-month period, was not in effect, in an amount equal to the total amount by which the Net Revenues would have been increased if such increase in charges had been in effect during the whole of such Fiscal Year or such 12-month period, all as shown by the certificate or opinion of an Independent Accountant.

“Authorized Investments” means any of the following, but only to the extent that the same are acquired at Fair Market Value, which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(a) Federal Securities;

(b) obligations of any of the following federal agencies which obligations represent full faith and credit of the United States of America, including: (i) Export-Import Bank; (ii) Farm Credit System Financial Assistance Corporation, (iii) Farmers Home Administration; (iv) General Services Administration; (v) U.S. Maritime Administration; (vi) Small Business Administration; (vii) Government National Mortgage Association (GNMA); (viii) U.S. Department of Housing & Urban Development (PHA's); (ix) Federal Housing Administration and (x) Federal Financing Bank;

(c) senior debt obligations rated “Aaa” by Moody’s and “AAA” by S&P issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, senior debt obligations of other government-sponsored agencies, obligations of the Resolution Funding Corporation (RFFCORP) and senior debt obligations of other government sponsored agencies;

(d) Bank deposit products, trust funds, trust accounts, certificates of deposit (including those placed by a third party pursuant to an agreement between the City and the Trustee), overnight bank deposits, interest bearing deposits, interest bearing money market accounts, U.S. dollar denominated deposit accounts, federal funds and banker's acceptances with domestic commercial banks (including the Trustee and its affiliates) which (i) have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P or collateralized by Federal Securities and maturing no more than 360 days after the date of purchase, provided that ratings on holding companies are not considered as the rating of the bank or (ii) are fully insured by the Federal Deposit Insurance Corporation;

(e) commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P, and which matures not more than 270 days after the date of purchase;

(f) investments in a money market mutual fund rated "AAAm" or "AAAm-G" or better by S&P, including any such money market fund from which the Trustee or its affiliates receive fees for services to such fund (including as transfer agent, investment advisor, custodian or other management services) but excluding such funds with a floating net asset value;

(g) pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (i) which are rated, based upon an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's and S&P or any successors thereto; or (ii)(A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) general obligations of States with a rating of at least "A2/A" or higher by both Moody's and S&P;

(i) any investment agreement representing general unsecured obligations of a financial institution rated A or better by any Rating Agency, by the terms of which the Trustee is permitted to withdraw all amounts invested therein in the event any such rating falls below A;

(j) the Local Agency Investment Fund maintained by the State of California;

(k) CalTrust, provided that, for investment of funds held by the Trustee, the Trustee is entitled to make investments and withdrawals in its own name as Trustee; and

(l) repurchase or reverse repurchase agreements (including those of the Trustee or any of its affiliates) collateralized with Federal Securities.

"Bond Counsel" means any attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America.

"Bond Proceeds Fund" means the fund of that name established pursuant to the Indenture.

"Bond Year" means each twelve-month period extending from August 2 in one calendar year to August 1 of the succeeding calendar year, both dates inclusive; except that the first Bond Year commences on the Closing Date and extends to and including the immediately succeeding August 1.

"Bonds" means, collectively, the Series 2016 Bonds and any Parity Bonds issued and at any time outstanding under the Indenture and under a Parity Bonds Instrument.

"Charges" means fees prescribed by the Council for the collection, recycling and disposal of Solid Waste in the City, whether the fees are collected by the City or a Contractor.

"City" means the City of Napa, a chartered city and municipal corporation organized and existing under the Constitution and laws of the State, and any successor thereto.

"Closing Date" means the date upon which there is an exchange of the Series 2016 Bonds for the proceeds representing the purchase of such Series by the Original Purchaser thereof.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate executed by the City and dated the date of original execution and delivery of the Series 2016 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Contractor" means any company awarded a contract by the City to collect, sort, recycle or dispose of solid waste in the City.

"Cost of Issuance Fund" means the Account by that name under the Indenture.

"Costs of Issuance" means all expenses incurred in connection with the authorization, issuance, sale and delivery of the Series 2016 Bonds, including but not limited to compensation, fees and expenses of the City and the Trustee and their respective counsel, compensation to any financial consultants and underwriters, legal fees and expenses, municipal bond insurance or surety bond premiums, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

"Council" means the Council of the City or any other legislative body of the City hereafter provided for pursuant to law.

"Debt Service" means, during any period of computation, the amount obtained for such period by totaling the following amounts:

(a) The principal amount of all outstanding Serial Bonds payable by their terms in such period;

(b) The principal amount of all outstanding Term Bonds scheduled to be paid or redeemed by operation of mandatory Sinking Fund Installments in such period;

(c) The interest which would be due during such period on the aggregate principal amount of Bonds which would be outstanding in such period if the Bonds are paid or redeemed as scheduled; and

"Debt Service Fund" means the fund by that name established and held by the Trustee pursuant to the Indenture.

"Defeasance Obligations" means (a) cash, (b) non-callable Federal Securities described in paragraph (a) of the definition thereof ("Treasuries"), (c) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated or (d) pre-refunded municipal obligations rated "AAA" and "Aaa" by S&P and Moody's, respectively (or any combination thereof).

"Event of Default" means any of the events described as "events of default" in the Indenture.

"Federal Securities" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America); and

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

"Fiscal Year" means the period commencing on July 1 of each year and terminating on the next succeeding June 30.

"Gross Revenues" means, with respect to Solid Waste System, all revenue received by the City from the levy of Charges, and all other gross income and receipts derived by the City from the ownership and operation of the Solid Waste System or otherwise arising with respect to the Solid Waste System, including but not limited to investment earnings thereon; but excluding (a) the proceeds of any ad valorem property taxes levied for the purpose of paying general obligation bonds of the City relating to the Solid Waste System and (b) the proceeds of any special assessments or special taxes levied upon real property within any improvement district for the purpose of paying special assessment bonds or special tax obligations of the City relating to the Solid Waste System.

"Improvement" means any addition, extension, improvement, equipment, machinery or other facilities to or for the Solid Waste System.

"Improvement Fund" means the fund of that name established and held by the Trustee pursuant to the Indenture.

"Indenture" means the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Parity Bonds Instrument pursuant to the provisions hereof.

"Independent Certified Public Accountant" means any certified public accountant or firm of such accountants appointed and paid by the City, and who, or each of whom-

- (a) is in fact independent and not under domination of the City;
- (b) does not have any substantial identity of interest, direct or indirect, with the City; and
- (c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

"Independent Consultant" means any financial or engineering consultant (including without limitation any Independent Certified Public Accountant) with an established reputation in the field of municipal finance or firm of such consultants appointed and paid by the City, and who, or each of whom-

- (a) is in fact independent and not under domination of the City;
- (b) does not have any substantial identity of interest, direct or indirect, with the City; and
- (c) is not and no member of which is connected with the City as an officer or employee of the City, but who may be regularly retained to make annual or other audits of the books of or reports to the City.

"Information Services" means in accordance with then-current guidelines of the Securities and Exchange Commission, the Electronic Municipal Market Access System (referred to as "EMMA"), a facility of the Municipal Securities Rulemaking Board (at <http://emma.msrb.org>), or such service or services as the City may designate in a certificate delivered to the Trustee.

"Interest Payment Date" means, with respect to the Series 2016 Bonds, August 1 and February 1 in each year, beginning February 1, 2017.

"Interest Requirement" means, as of any particular date of calculation, the amount equal to any unpaid interest then due and payable, plus an amount which will on the next succeeding Interest Payment Date be equal to the interest to become due and payable on the Bonds on such next succeeding Interest Payment Date.

"Maintenance and Operation Costs" means the reasonable and necessary costs spent or incurred by the City or a Contractor for collecting, recycling and disposing of Solid Waste, and all reasonable and necessary expenses of management (including a reasonable profit for the Contractor, if applicable) and repair and other expenses to collect, recycle and dispose of Solid Waste, and including all reasonable and necessary administrative costs of the City or the Contractor attributable to the collection, recycling and disposal of Solid Waste, such as landfill closure costs, salaries and wages and the necessary contribution to retirement of employees, overhead, insurance, taxes (if any), expenses, compensation and indemnification of the Trustee, and fees of auditors, accountants, attorneys or engineers, and including all other reasonable and necessary costs of the City or the Contractor or charges required to be paid by it or the

Contractor to comply with the terms of the Bonds or the Indenture, but excluding depreciation, interest expense, replacement and obsolescence charges or reserves therefor and amortization of intangibles or other bookkeeping entries of a similar nature. Although it would be consistent with generally accepted accounting principles to characterize it as a Maintenance and Operation Cost, the Solid Waste System's contribution to the City's Street Resurfacing Fund to pay for the impact of refuse vehicles on City streets shall not be paid as a Maintenance and Operation Cost pursuant to the Indenture and instead shall be paid as set forth in the Indenture.

"Net Proceeds", when used with reference to any insurance or condemnation award or sale of property, means the gross proceeds from the sale of property or insurance or condemnation award with respect to which that term is used remaining after payment of all expenses (including attorneys' fees and any extraordinary expenses of the Trustee) incurred in the collection of such gross proceeds.

"Net Revenues" means Gross Revenues minus Maintenance and Operation Costs.

"Original Purchaser" means, in the case of the Series 2016 Bonds, Raymond James & Associates, Inc.

"Outstanding", when used as of any particular time with reference to Series 2016 Bonds issued under the Indenture, means (subject to the provisions of the Indenture) all Series 2016 Bonds theretofore executed, issued and delivered by the City under the Indenture except -

(a) Series 2016 Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Series 2016 Bonds paid or deemed to have been paid within the meaning of the Indenture; and

(c) Series 2016 Bonds in lieu of or in substitution for which other Series 2016 Bonds shall have been executed, issued and delivered by the City pursuant to the Indenture or any Parity Bonds Instrument.

"Owner" or "Bond Owner" or "Bondowner", when used with respect to any Bond issued under this Indenture, means the person in whose name the ownership of such Bond shall be registered on the Bond Registration Books.

"Parity Bonds" means all bonds, notes or other obligations (including without limitation long-term contracts, loans, sub-leases or other legal financing arrangements) of the City payable from and secured by a pledge of and lien upon any of the Net Revenues issued or incurred pursuant to the Indenture.

"Parity Bonds Instrument" means the resolution, trust indenture or installment sale agreement adopted, entered into or executed and delivered by the City, and under which Parity Bonds are issued.

"Principal Installment" means , with respect to any particular Principal Payment Date, an amount equal to the sum of (i) the aggregate principal amount of outstanding Serial Bonds payable on such Principal Payment Date as determined by the applicable Parity Bonds Instrument (but not including Sinking Fund Installments) and (ii) the aggregate of Sinking Fund Installments with respect to all outstanding Term Bonds payable on such Principal Payment Date as determined by the applicable Parity Bonds Instrument.

"Project Costs" means, with respect to any Improvements financed with proceeds of the Series 2016 Bonds, all costs of the acquisition, construction and installation thereof which are paid from moneys on deposit in the Improvement Fund, including but not limited to:

(a) all costs required to be paid to any person under the terms of any agreement for or relating to the acquisition, construction and installation of the Improvements;

(b) obligations incurred for labor and materials in connection with the acquisition, construction and installation of the Improvements;

(c) the cost of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect in connection with the acquisition, construction and installation of the Improvements;

(d) all costs of engineering and architectural services, including the actual out-of-pocket costs for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees, sales commissions, and for supervising construction, as well as for the performance of all other duties required by or consequent to the proper acquisition, construction and installation of the Improvements;

(e) any sums required to reimburse the City for advances made for any of the above items or for any other costs incurred and for work done which are properly chargeable to the acquisition, construction and installation of the Improvements;

(f) all costs of issuing the Series 2016 Bonds and other financing costs incurred in connection with the acquisition, construction and installation of the Improvements; and

(g) the interest components of the debt service on the Series 2016 Bonds allocable to the Improvements or any component thereof, which come due during the period of acquisition, construction and installation of the Improvements or such component.

"Qualified Surety Bond" means any irrevocable standby or direct-pay letter of credit, insurance policy or surety bond issued by a commercial bank or insurance company, provided that all of the following requirements are met at the time of acceptance thereof: (a) the long-term credit rating of such bank or insurance company is "A" or better from at least one rating agency; (b) such letter of credit or surety bond has a term of at least twelve (12) months; (c) such letter of credit or surety bond has a stated amount at least equal to the required amount; and (d) such letter of credit or surety bond may be drawn upon in thereunder an amount equal to any deficiencies which may exist from time to time in the Debt Service Fund for the purpose of making payments on the related Bonds.

"Rate Stabilization Account" means the Rate Stabilization Account established and maintained within the City's Solid Waste and Materials Diversion Fund pursuant to the Indenture.

"Record Date" means, with respect to the Series 2016 Bonds, the fifteenth (15th) calendar day of the month immediately preceding an Interest Payment Date or, with respect to any Parity Bonds, any other date established in the applicable Parity Bonds Instrument.

"Redemption Account" means the Account by that name established and held by the Trustee pursuant to the Indenture.

"Redemption Price" means, with respect to any Bond, the principal amount thereof, plus the applicable premium, if any, payable upon redemption thereof pursuant to the Indenture and the Parity Bonds Instrument pursuant to which the same was issued.

"Request of the City" means a request in writing signed by an Authorized Officer.

"Reserve Account" means the Account by that name established and held by the Trustee pursuant to the Indenture.

"Reserve Requirement" means an amount equal to the maximum amount of annual debt service coming due and payable on the Series 2016 Bonds in the current or any future Bond Year.

"Serial Bonds" means all Bonds issued under the Indenture other than Term Bonds.

"Series" when used with respect to less than all of the Bonds, means and refers to all of the Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions, and any Bond thereafter delivered in lieu of or substitution for any of such Bonds pursuant to the Indenture.

"Sinking Fund Installment" means, with respect to any particular date, the amount of money required thereby or by or pursuant to a Parity Bonds Instrument to be paid by the City on such date toward the retirement of any particular Term Bonds prior to their respective stated maturities.

"Solid Waste" means solid waste generated by residents and commercial and industrial entities in the City, including refuse and recyclables.

"Solid Waste and Materials Diversion Fund" means the enterprise fund of that name established and held by the City for the Solid Waste System.

"Solid Waste System" means the existing solid waste collection, recycling and disposal system of the City, comprising all facilities for the collection, disposal or recycling of Solid Waste in the City.

"State" means the State of California.

"Supplemental Indenture" means any supplement or amendment to the Indenture which complies with the provisions of the Indenture.

"Term Bonds" means, with respect to any Series 2016 Bonds or any Parity Bonds issued under the Indenture, such Series 2016 Bonds or Parity Bonds which are payable prior to their stated maturity by operation of Sinking Fund Installments.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., appointed by the City to act as trustee pursuant to the Indenture, and its assigns or any other corporation or association which may at any time be substituted in its place, as provided in the Indenture.

"2016 Financial Guaranty Agreement" means the Financial Guaranty Agreement relating to the 2016 Reserve Insurance Policy between the City and the 2016 Reserve Insurer.

"2016 Reserve Insurance Policy" means the Debt Service Reserve Fund Surety Bond relating to the 2016 Bonds issued by the 2016 Reserve Insurer.

"2016 Reserve Insurer" means National Public Finance Guarantee Corporation, or any successor thereto or assignee thereof.

Issuance of Parity Bonds. In addition to the Series 2016 Bonds, the City may, by Parity Bonds Instrument, issue or incur other loans, advances or indebtedness payable from Net Revenues, to provide financing for the Solid Waste System, in such principal amount as shall be determined by the City. The City may issue or incur any such Parity Bonds subject to the following specific conditions which are in the Indenture made conditions precedent to the issuance and delivery of such Parity Bonds:

(a) The City shall be in compliance with all covenants set forth in the Indenture, unless any non-compliance will be cured as a result of the issuance of the Parity Bonds.

(b) The Net Revenues of the Solid Waste System (excluding any amounts derived from a Rate Stabilization Fund), calculated in accordance with sound accounting principles, as shown by the books of the City for the most recent completed Fiscal Year for which audited financial statements of the City are available, or for any more recent consecutive 12 month period selected by the City, in either case verified by an Independent Accountant or an Independent Consultant or shown in the audited financial statements of the City, plus (at the option of the City) any Additional Revenues, are at least equal to 125% of maximum scheduled Debt Service for the current or any future Bond Year (taking into account the Parity Bonds then proposed to be issued); provided, however, that in the event that all or a portion of the Parity Bonds being issued are to be issued for the purpose of refunding and retiring all or a portion of the unpaid Bonds, then the Debt Service on the Bonds to be so refunded and retired from the proceeds of such Parity Bonds being issued shall be excluded from the foregoing computation of maximum scheduled Debt Service; provided further, however, that the City may at any time enter into or incur Parity Bonds without compliance with the foregoing condition if the aggregate annual Debt Service for all Bonds for each Bond Year during which such Parity Bonds being issued will be outstanding will not be increased by reason of the entry into or incurrence of such Parity Bonds.

(c) The Parity Bonds Instrument providing for the issuance of such Parity Bonds under the Indenture shall provide that:

(i) The proceeds of such Parity Bonds shall be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Solid Waste System, or otherwise for facilities, improvements or property that the City determines are of benefit to the Solid Waste System, or for the purpose of refunding any Bonds in whole or in part, including all costs (including costs of issuing such Parity Bonds and including capitalized interest on such Parity Bonds during any period which the City deems necessary or advisable) relating thereto;

(ii) interest on the Parity Bonds shall be payable on an Interest Payment Date and principal on the Parity Bonds shall be payable on a Principal Payment Date; and

(iii) Money or a Qualified Surety Bond may (but is not required to) be deposited in a reserve account for such Parity Bonds from the proceeds of the sale of such Parity Bonds or otherwise in an amount defined in the Parity Bonds Instrument.

Subordinate Bonds. Nothing in the Indenture prohibits or impairs the authority of the City from issuing bonds or other obligations secured by a lien on Net Revenues which is subordinate to the lien established under the Indenture, upon such terms and in such principal amounts as the City may determine; provided, that the City must satisfy the following specific conditions which are thereby made conditions precedent to the issuance and delivery of such Subordinate Bonds:

(a) The City shall be in compliance with all covenants set forth in the Indenture, unless any non-compliance will be cured as a result of the issuance of the Subordinate Bonds.

(b) The Subordinate Bonds Instrument providing for the issuance of such Subordinate Bonds under the Indenture shall provide that the proceeds of such Subordinate Bonds shall be applied to the acquisition, construction, improvement, financing or refinancing of additional facilities, improvements or extensions of existing facilities within the Solid Waste System, or otherwise for facilities, improvements or property that the City determines are of benefit to the Solid Waste System, or for the purpose of refunding any Bonds or Subordinate Bonds in whole or in part, including all costs (including costs of issuing such Subordinate Bonds and including capitalized interest on such Subordinate Bonds during any period which the City deems necessary or advisable) relating thereto.

Pledge of Net Revenues

(a) Under the Indenture, the City transfers, places a charge upon, assigns and sets over to the Trustee, for the benefit of the Owners of the Series 2016 Bonds and any Parity Bonds issued under the Indenture, and the owners of any other Parity Bonds that portion of the Net Revenues that is necessary to pay the principal or redemption price of and interest on the Bonds in any Fiscal Year.

In addition, under the Indenture, the City transfers, places a charge upon, assigns and sets over to the Trustee, for the benefit of the Owners of the Bonds issued pursuant to this Indenture, all moneys on deposit in the Debt Service Fund.

The Gross Revenues shall be used only for the purposes set forth in the Indenture while any of the Bonds remain outstanding.

The pledge described in the Indenture shall constitute a first, direct and exclusive charge and lien on the Net Revenues and the moneys in the Debt Service Fund, as applicable, in accordance with the terms of the Indenture.

(b) Under the Indenture, the City transfers, places a charge upon, assigns and sets over to the 2016 Reserve Insurer that portion of the Net Revenues that is necessary in any Fiscal Year to pay the 2016 Reserve Insurer any amounts owed to the 2016 Reserve Insurer under the 2016 Financial Guaranty Agreement. The pledge described in the preceding sentence shall constitute a charge and lien on the Net Revenues subject only to the lien granted to the Trustee, for the benefit of the Owners of the Series 2016 Bonds and any Parity Bonds issued under the Indenture, and the owners of any other Parity Bonds.

(c) The Net Revenues constitute a trust fund for the security and payment of the principal or Redemption Price of and interest on the Bonds. The general fund of the City is not liable and the credit or taxing power of the City is not pledged, for the payment of the principal or Redemption Price of and interest on the Bonds. The Owner of the Bonds shall not compel the

exercise of the taxing power by the City or the forfeiture of its property. The principal or Redemption Price of and interest on the Bonds are not a debt of the City, nor a legal or equitable pledge, charge, lien or encumbrance, upon any of its property, or upon any of its income, receipts, or revenues except the Net Revenues.

Receipt, Deposit and Application of Gross Revenues.

(a) The City covenants and agrees that all Gross Revenues, when and as received, will be held by the City in the Solid Waste and Materials Diversion Fund, and will be deposited by the City, or caused to be deposited, in the Solid Waste and Materials Diversion Fund, and will be accounted for through and held in trust in the Solid Waste and Materials Diversion Fund, and the City shall only have such beneficial right or interest in any of such money as provided in the Indenture. All such Gross Revenues shall be transferred, disbursed, allocated and applied solely to the uses and purposes thereafter in the Indenture set forth, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the City and the Contractor.

(b) The City in the Indenture covenants to hold the Solid Waste and Materials Diversion Fund in trust for the benefit of the Owners of the Bonds. For purposes of record-keeping, the City may establish and maintain separate accounts within the Solid Waste and Materials Diversion Fund.

(c) Gross Revenues deposited in the Solid Waste and Materials Diversion Fund shall be applied by the City to pay the following amounts when due, in the following order of priority:

(i) to pay Maintenance and Operation Costs;

(ii) no later than the fifth (5th) Business Day preceding each Interest Payment Date and Principal Payment Date, to transfer to the Trustee for deposit in the Debt Service Fund held by the Trustee an amount sufficient to pay Debt Service on the Series 2016 Bonds and any Parity Bonds issued pursuant to a Supplemental Indenture and to transfer an amount sufficient to pay debt service on any other Parity Bonds (in the event of a shortfall, amounts shall be used to pay Debt Service on the Series 2016 Bonds and any Parity Bonds on a pro rata basis based on the amounts required to be deposited, and the amounts distributed shall not take into account the existence of the 2016 Reserve Insurance Policy or any Qualified Surety Bond for any other series of Bonds);

(iii) to transfer to the Trustee for reimbursement of the 2016 Reserve Insurer and to transfer as required to make a deposit into a debt service reserve fund (if any) for any Parity Bonds issued under a Parity Bonds Instrument an amount necessary to bring the funds then on hand in the debt service reserve fund (if any) for any Parity Bonds to its required level (in the event of a shortfall, amounts shall be transferred to the Trustee to reimburse the 2016 Reserve Insurer and as required to make a deposit into such other debt service reserve fund on a pro rata basis based on the required amounts); and

(iv) to pay for any lawful purpose of the Solid Waste System.

Debt Service Fund, Reserve Account and Redemption Account.

The Debt Service Fund, as a special Fund, and the Reserve Account, as a special account therein, have been created under the Indenture and the Redemption Account will be created when needed.

The Debt Service Fund, and the Redemption Account and Reserve Account therein, are held and maintained by the Trustee.

Debt Service Fund.

(a) The Trustee shall withdraw from the Debt Service Fund, prior to each Interest Payment Date, an amount equal to the Interest Requirement on the Bonds issued and outstanding pursuant to the Indenture payable on such Interest Payment Date, and shall cause the same to be applied to the payment of said interest when due and is thereby authorized to apply the same to the payment of such interest by check or draft (or by wire transfer, as the case may be), as provided in the Indenture.

(b) The Trustee shall withdraw from the Debt Service Fund, prior to each Principal Payment Date, an amount equal to the principal amount of the outstanding Bonds issued pursuant to the Indenture that are Serial Bonds, if any, maturing on said Principal Payment Date and any Sinking Fund Installments due and payable with respect to any Bonds issued pursuant to the Indenture that are Term Bonds on said Principal Payment Date, and shall cause the same to be applied to the payment of the principal of said such Bonds when due and is thereby authorized to apply the same to such payment upon presentation and surrender of such Bonds as they become due and payable, as provided in the Indenture.

(c) All withdrawals and transfers under the provisions of subsection (a) or subsection (b) above shall be made not earlier than one (1) day prior to the Interest Payment Date or Principal Payment Date to which they relate, and the amount so withdrawn or transferred shall, for the purposes of the Indenture, be deemed to remain in and be part of the appropriate Account until such Interest Payment Date or Principal Payment Date.

(d) Moneys in the Debt Service Fund shall be applied as set forth in the Indenture. All interest earnings and profits or losses on the investment of amounts in the Debt Service Fund shall be deposited in or charged to the Debt Service Fund and applied to the purposes thereof. No transfer and deposit need be made into the Debt Service Fund if the amount contained therein, taking into account investment earnings and profits, is at least equal to the Interest Requirement or Principal Installments to become due on the next Interest Payment Date or Principal Payment Date upon all Outstanding Bonds issued under the Indenture.

Reserve Account.

(a) On the Closing Date, the Trustee shall credit to the Reserve Account the 2016 Reserve Insurance Policy. Amounts, if any, drawn on the 2016 Reserve Insurance Policy shall be available only for the purposes specified below. The provisions governing the administration of the 2016 Reserve Insurance Policy are set forth in the 2016 Financial Guaranty Agreement.

(b) The Reserve Requirement for the 2016 Bonds shall be satisfied by the delivery of the 2016 Reserve Insurance Policy by the 2016 Reserve Insurer to the Trustee on the Closing Date. The Trustee shall draw on the 2016 Reserve Insurance Policy in accordance with its terms and conditions and the terms of the Indenture.

If at any time there shall not be sufficient amounts in the Debt Service Fund to pay Principal Installments or Redemption Price of or interest on the Series 2016 Bonds when due, the Trustee shall provide notice of such insufficiency to the City and draw amounts available under the 2016 Reserve Insurance Policy solely for the purpose of making transfers to the Debt Service Fund or the Redemption Account. Amounts drawn on the 2016 Reserve Insurance Policy are not available to pay debt service on any Bonds other than the Series 2016 Bonds.

The Trustee shall comply with all documentation relating to the 2016 Reserve Insurance Policy as shall be required to maintain the 2016 Reserve Insurance Policy in full force and effect and as shall be required to receive payments thereunder in the event and to the extent required to make any payment when and as required under the Indenture.

The City shall have no obligation to replace the 2016 Reserve Insurance Policy or to fund the Reserve Account with cash if, at any time that the 2016 Bonds are Outstanding, amounts are not available under the 2016 Reserve Insurance Policy.

(c) Notwithstanding anything to the contrary set forth in the Indenture, and so long as the 2016 Reserve Insurance Policy is in full force and effect and the 2016 Reserve Insurer is not in payment default thereunder, the following provisions shall govern.

(i) The Trustee shall make a Demand for Payment (as such term is defined in the 2016 Reserve Insurance Policy) at least three days prior to the date on which funds are required. Amounts drawn on the 2016 Reserve Insurance Policy may be used only to pay debt service on the 2016 Bonds.

(ii) The City may not redeem any of the 2016 Bonds pursuant to Section 2.02(a) for so long as any amounts are due to the 2016 Reserve Insurer pursuant to the 2016 Financial Guaranty Agreement.

(iii) The Indenture may not be discharged until all amounts owed to the 2016 Reserve Insurer under the 2016 Financial Guaranty Agreement have been paid.

Redemption Account. On or before the date which is at least two (2) Business Days prior to any Interest Payment Date on which Series 2016 Bonds are subject to redemption pursuant to the Indenture or on which any Parity Bonds that were issued pursuant to a Supplemental Indenture are subject to optional redemption pursuant to the provisions of the Supplemental Indenture authorizing such Parity Bonds, the City shall transfer from the Solid Waste and Materials Diversion Fund to the Trustee for deposit in the Redemption Account an amount at least equal to the Redemption Price (excluding accrued interest, which is payable from the Debt Service Fund) of such Bonds to be redeemed on such Interest Payment Date. Amounts in the Redemption Account shall be applied by the Trustee solely for the purpose of paying the Redemption Price of such Bonds to be redeemed. If, after all of the Bonds have been paid or deemed to have been paid, there are moneys remaining in the Redemption Account, such moneys shall be transferred by the Trustee to the City for deposit in the Solid Waste and Materials Diversion Fund.

Investments.

All moneys in the Solid Waste and Materials Diversion Fund and Rate Stabilization Fund may be invested by the City from time to time in any investments authorized by law, consistent with the City's investment policy.

All moneys in the Debt Service Fund, Improvement Fund and Cost of Issuance Fund or any other moneys held by the Trustee under the Indenture shall be invested by the Trustee

solely in Authorized Investments, as directed pursuant to a Request of the City. In the absence of any such Request of the City, the Trustee shall hold any such amounts uninvested. Obligations purchased as an investment of moneys in any Fund or Account shall be deemed to be part of such Fund or Account, and all interest or gain derived from the investment of amounts in any of the Funds or Accounts established under the Indenture shall be deposited in the Fund or Account from which such investment was made.

For purposes of acquiring any investments under the Indenture, the Trustee may commingle funds held by it thereunder with the written approval of the City. The Trustee or an affiliate may act as principal or agent in the acquisition or disposition of any investment, and shall be entitled to its customary fees therefor. The Trustee shall incur no liability for losses arising from any investments made pursuant to the Indenture. The Trustee may rely conclusively upon the investment direction of the City as to the suitability and legality of the directed investments.

The Trustee shall furnish the City periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the City. Upon the City's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The City waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur, which brokerage confirmations are at no additional cost, to the extent permitted by law. The City further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

In computing the amount in any Fund or Account, Authorized Investments shall be valued at their fair market value. With respect to all Funds and Accounts, valuation shall occur annually, except in the event of a withdrawal from the Reserve Account, whereupon securities shall be valued immediately after such withdrawal. In determining the market value of Authorized Investments, the Trustee may use and rely conclusively and without liability upon any generally recognized pricing information service (including brokers and dealers in securities) available to it.

Rate Stabilization Fund.

The City has the right at any time to establish a rate stabilization fund (a "Rate Stabilization Fund") to be held by it and administered in accordance with the Indenture, for the purpose of stabilizing the Charges imposed by the City with respect to the Solid Waste System. From time to time the City may deposit amounts in a Rate Stabilization Fund, from any source of legally available funds, including but not limited to Net Revenues that are released from the pledge and lien which secures the Series 2016 Bonds and any Parity Bonds, as the City may determine.

The City may, but is not required to, withdraw from any amounts on deposit in a Rate Stabilization Fund and deposit such amounts in the Solid Waste and Materials Diversion Fund in any Fiscal Year. Amounts so transferred from a Rate Stabilization Fund to the Solid Waste and Materials Diversion Fund shall constitute Gross Revenues for such Fiscal Year (except as otherwise provided in the Indenture), and shall be applied for the purposes of the Solid Waste and Materials Diversion Fund. Amounts on deposit in a Rate Stabilization Fund shall not be pledged to or otherwise secure the Series 2016 Bonds or any Parity Bonds. All interest or other earnings on deposits in the Rate Stabilization Fund will be retained therein or, at the option of the City, be applied for any other lawful purposes of the Solid Waste System. The City has the right at any time to withdraw any or all amounts on deposit in a Rate Stabilization Fund and apply such amounts for any lawful purposes of the Solid Waste System.

Covenants of the City; Special Tax Covenants

Punctual Payment; Compliance With Documents. The City shall punctually pay or cause to be paid the interest and principal to become due with respect to all of the Bonds issued pursuant to the Indenture in strict conformity with the terms of the Bonds and of the Indenture, and will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Parity Bonds Instruments.

Against Encumbrances. The City will not mortgage or otherwise encumber, pledge or place any charge upon the assets of the Solid Waste System or any part thereof, or upon any of the Net Revenues, except as provided in the Indenture.

Discharge of Claims. The City covenants that in order to fully preserve and protect the priority and security of the Bonds the City shall pay from the Gross Revenues and discharge all lawful claims for labor, materials and supplies furnished for or in connection with the Solid Waste System which, if unpaid, may become a lien or charge upon the Gross Revenues prior or superior to the lien of the Bonds and impair the security of the Bonds. The City shall also pay from the Gross Revenues all taxes and assessments or other governmental charges lawfully levied or assessed upon or in respect of the Solid Waste System or upon any part thereof or upon any of the Gross Revenues therefrom.

Acquisition, Construction or Financing of any Project and Improvements to the Solid Waste System. The City will acquire, construct, or finance Improvements to the Solid Waste System to be financed with the proceeds of any Parity Bonds with all practicable dispatch, and such Improvements will be made in an expeditious manner and in conformity with laws so as to complete the same as soon as possible.

Maintenance and Operation of Solid Waste System in Efficient and Economical Manner; Contractor.

(a) The City covenants and agrees to maintain and operate, or cause a Contractor to maintain and operate, the Solid Waste System in an efficient and economical manner and to operate, maintain and preserve, or cause a Contractor to maintain and operate, the Solid Waste System in good repair and working order.

(b) No later than one year prior to the termination date of a contract with a Contractor for which the City does not plan to exercise an option to extend the contract, the City shall either (i) initiate a process for identifying a new company that is experienced in the operations of solid waste enterprises like the Solid Waste System or (ii) initiate a process for assuming responsibility for managing the Solid Waste System itself.

Against Sale, Eminent Domain.

(a) The City will not sell, lease or otherwise dispose of any assets of the Solid Waste System that are essential to the proper operation of the Solid Waste System or to the maintenance of the Net Revenues except as in the Indenture expressly permitted. The City will not enter into any lease or agreement which impairs the operation of the Solid Waste System or any part thereof necessary to secure adequate Net Revenues for the payment of the interest on and principal or Redemption Price, if any, on the Bonds, or which would otherwise impair the rights of the Holders with respect to the Net Revenues or the operation of the Solid Waste System. Any real or personal property which has become non-operative or which is not needed for the efficient and proper operation of the Solid Waste System, or any material or equipment which has worn out, may be sold at not less than the market value thereof without the consent of

the Holders if such sale will not reduce Net Revenues and if all of the Net Proceeds of such sale are deposited in the Solid Waste and Materials Diversion Fund.

(b) If all or any part of the Solid Waste System shall be taken by eminent domain proceedings, the Net Proceeds realized by the City therefrom shall be deposited by the City with the Trustee in a special fund in trust and applied by the City to the cost of acquiring or constructing or financing Improvements to the Solid Waste System if (A) the City first secures and files with the Trustee a Certificate of the City (i) showing the estimated loss in annual Net Revenues, if any, suffered, or to be suffered, by the City by reason of such eminent domain proceedings, (ii) describing the Improvements to the Solid Waste System then proposed to be acquired or constructed by the City from such Net Proceeds, (iii) estimating the additional Net Revenues to be derived from such Improvements, and (iv) stating that such additional Net Revenues will sufficiently offset the loss of Net Revenues, resulting from such eminent domain proceedings so that the ability of the City to meet its obligations under the Indenture will not be substantially impaired, which determination shall be final and conclusive.

If the foregoing conditions are met, the City shall then promptly proceed with the acquisition or construction or financing of such Improvements substantially in accordance with such Certificate of the City and payments therefor shall be made by the Trustee from such Net Proceeds and from other moneys of the City lawfully available therefor, and any balance of such Net Proceeds not required by the City for the purposes aforesaid shall be deposited in the Solid Waste and Materials Diversion Fund.

If the foregoing conditions are not met, then such Net Proceeds shall be applied by the Trustee pro rata to the redemption or purchase of the Bonds of each Series then outstanding in the proportion which the principal amount of the outstanding Bonds of each Series bears to the aggregate principal amount of all Bonds then outstanding. If the Trustee is unable to purchase or redeem Bonds in amounts sufficient to exhaust the available moneys allocable to each such Series, the remainder of such moneys for each such Series shall be held in trust by the Trustee and applied to the payment of the Bonds as the same become due by their terms, and, pending such application, such remaining moneys may be invested by the Trustee in the manner specified in writing by the City.

Insurance. The City covenants that it shall at all times maintain, or cause the Contractor to maintain, such insurance on the Solid Waste System as is customarily maintained with respect to works and properties of like character against accident to, loss of or damage to such works or properties. If any part of the Solid Waste System that is essential to the proper operation of the Solid Waste System or to the maintenance of the Net Revenues shall be damaged or destroyed, such part shall be restored to use. The City may determine whether the Net Proceeds of insurance against accident to or destruction of the physical assets of the Solid Waste System shall be (i) used by the City to repair or rebuild the damaged or destroyed portions of the Solid Waste System (to the extent that such repair or rebuilding is determined by the City to be useful or of continuing value to the Solid Waste System), (ii) transferred to the Trustee at the same time that the City delivers a Certificate of the City directing the Trustee to use the Net Proceeds for the redemption or purchase of the Bonds of each Series then outstanding in the proportion which the principal amount of the outstanding Bonds of each Series bears to the aggregate principal amount of all Bonds then outstanding or (iii) deposited in the Solid Waste and Materials Diversion Fund if the City delivers a Certificate of the City to the Trustee in which it describes the City's determination that that it is not necessary to repair or rebuild the damaged or destroyed portions of the Solid Waste System or redeem Bonds because the damaged or destroyed portions of the Solid Waste System are not essential to the proper operation of the Solid Waste System or to the maintenance of the Net Revenues .

Any such insurance shall be in the form of policies or contracts for insurance with insurers of good standing and shall be payable to the City, or may be in the form of self-insurance by the City. The City shall establish such fund or funds or reserves as it determines, in its sole judgment, are necessary to provide for its share of any such self-insurance.

Protection of Security and Rights of Owners. The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any Parity Bonds by the City, such Parity Bonds shall be incontestable by the City.

Against Competitive Facilities. The City will not acquire, construct, operate or maintain a solid waste system or utility within the service area of the City that would be competitive with the Solid Waste System.

Payment of Taxes, Etc. The City will pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Solid Waste System or any part thereof or upon any Net Revenues when the same shall become due. The City will duly observe and conform with all valid requirements of any governmental authority relative to the Solid Waste System or any part thereof, and will comply with all requirements with respect to any state or federal grants received to assist in paying for the costs of the acquisition, construction or financing of any Improvements to the Solid Waste System.

Rates and Charges. (a) The City shall fix, prescribe, revise and cause to be collected Charges during each Fiscal Year which will yield Gross Revenues that are at least sufficient, after making allowances for contingencies and error in the estimates and not including any transfers to the Solid Waste and Materials Diversion Fund from a Rate Stabilization Fund, to pay the following amounts in the following order:

- (i) all Maintenance and Operation Costs estimated by the City to become due payable in such Fiscal Year;
- (ii) the Debt Service on the Bonds;
- (iii) any amounts owed to the 2016 Reserve Insurer under the 2016 Financial Guaranty Agreement and replenishment of the debt service reserve fund for any Parity Bonds, if needed;
- (iv) all other payments required for compliance with the Indenture and any Parity Bonds Instrument; and
- (v) all payments required to meet any other obligations of the City which are charges, liens, encumbrances upon or payable from the Gross Revenues.

(b) In addition, the City shall fix, prescribe, revise and cause to be collected Charges during each Fiscal Year which are sufficient to yield Net Revenues least equal to One Hundred Twenty-Five percent (125%) of the amounts payable under the preceding clause (a)(ii) in such Fiscal Year for Bonds which have a lien on Net Revenues. For purposes of this subsection, the amount of Net Revenues for a Fiscal Year will be computed on the basis that (1) any transfers into the Solid Waste and Materials Diversion Fund in that Fiscal Year from the Rate Stabilization Fund are included in the calculation of aggregate Net Revenues, and (2) any deposits into the Rate Stabilization Fund in that Fiscal Year are deducted from the amount of Net Revenues, but only to the extent such deposits are made from Gross Revenues received by the City during that Fiscal Year.

(c) The City covenants that it will cause to be prepared annually, and filed with the Trustee, not more than two hundred seventy (270) days after the close of each Fiscal Year, a certificate stating that the City is in compliance with the rate covenant set forth in the Indenture.

No Priority for Additional Obligations. The City covenants that no additional bonds or other obligations shall be issued or incurred having any priority in payment of principal or interest out of the Net Revenues over the Bonds.

Further Assurances. The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Series 2016 Bonds the rights and benefits provided in the Indenture.

Continuing Disclosure. The City covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the City to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, any holder or beneficial owner of the Series 2016 Bonds may, take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

In furtherance of its covenant set forth in the Indenture, the City shall require by contract any Contractor to provide to the City the information it needs in order to comply with the Continuing Disclosure Certificate and shall use all reasonable means to enforce such obligations.

Modification and Amendment of the Indenture

Amendment by Consent of Bond Owners. The Indenture and the rights and obligations of the City and of the Owners of the Bonds issued under the Indenture may be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of such Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Bond issued under the Indenture or otherwise alter or impair the obligation of the City to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee.

Amendment Without Consent of Bondholders. The Indenture and the rights and obligations of the City and of the Owners of the Bonds issued under the Indenture may also be modified or amended at any time by a Supplemental Indenture which shall become binding upon execution and delivery, without consent of any Bond Owners, but only to the extent permitted by law and only for any one or more of the following purposes-

- (a) to add to the covenants and agreements of the City in the Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power in the Indenture reserved to or conferred upon the City;
- or

(b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the City may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interests of the Owners of the Bonds, as evidenced by the opinion of counsel delivered under the Indenture;

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, including but not limited to the establishment of special funds and accounts relating to such Parity Bonds and any other provisions relating solely to such Parity Bonds, subject to and in accordance with the provisions of the Indenture; or

(d) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the Series 2016 Bonds.

Disqualified Bonds. Bonds owned or held by or for the account of the City (but excluding Bonds held in any employees' retirement fund) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds, and shall not be entitled to consent to, or take any other action in the Indenture provided for; except that in determining whether the Trustee shall be protected in relying upon any such consent or other action of an Owner, only Bonds which the Trustee actually knows to be owned or held by or for the account of the City, shall be disregarded unless all Bonds are so owned or held, in which case such Bonds shall be considered Outstanding for the purpose of such determination..

Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as provided in the Indenture, the City may determine that the Bonds shall bear a notation, by endorsement in form approved by the City, as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for that purpose at the Trust Office of the Trustee, a suitable notation as to such action shall be made on such Bond. If the City shall so determine, new Bonds so modified as, in the opinion of the City, shall be necessary to conform to such Bond Owners' action shall be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds shall be exchanged at the Trust Office of the Trustee, without cost to each Bond Owner, for Bonds then Outstanding, upon surrender of such Outstanding Bonds.

Amendment by Mutual Consent. The provisions of the Indenture shall not prevent any Bond Owner from accepting any amendment as to the particular Bond held by him, provided that due notation thereof is made on such Bond.

Execution of Amendments. In executing, or accepting the additional trusts created by, any amendment permitted by the Indenture or the modification thereby of the trusts created by the Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of counsel stating that the execution of such amendment is authorized or permitted by the Indenture and complies with the terms hereof. The Trustee may, but shall not be obligated to, enter into any such amendment which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

Events of Default and Remedies of Bond Owners

Events of Default and Acceleration of Maturities. The following events shall be Events of Default under the Indenture:

- (a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise;
- (b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;
- (c) Default by the City in the observance of any of the covenants, agreements or conditions on its part in the Indenture or in any Parity Bonds Instrument or in the Bonds contained, and such default shall have continued for a period of sixty (60) days after the City shall have been given notice in writing of such default by the Trustee; or
- (d) The filing by the City of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the City, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property.

Upon the occurrence of an Event of Default, the Trustee may, and shall, at the direction of the owners of a majority of the principal amount of the Bonds, by written notice to the City, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and there interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding. This provision, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the City shall deposit with the Trustee a sum sufficient to pay all of the principal of and interest on the Bonds having come due prior to such declaration, with interest on such overdue principal and interest calculated at the rate of interest per annum then borne by the Outstanding Bonds, and the reasonable fees and expenses of the Trustee and those of its attorneys, and any and all other defaults known to the Trustee (other than in the payment of the principal of and interest on the Bonds having come due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of a majority in aggregate principal amount of the Series 2016 Bonds at the time Outstanding may, by written notice to the City and to the Trustee, on behalf of the Owners of all of the Outstanding Bonds, rescind and annul such declaration and its consequences. However, no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All amounts held by the Trustee under the Indenture or received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture with respect to the Outstanding Bonds issued under the Indenture shall be applied by the Trustee in the following order upon presentation of the

several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment of the fees, costs and expenses of the Trustee, including reasonable compensation to their agents, attorneys and counsel, and to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of the Indenture, including reasonable compensation to its agents, attorneys and counsel, then to the Bond Owners' costs and expense in declaring such Event of Default; and

Second, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with interest on such overdue amounts to the extent permitted by law at the rate of interest then borne by the Outstanding Bonds, and in case such moneys shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and interest on overdue amounts without preference or priority among such interest, principal and interest on overdue amounts ratably in proportion to the aggregate of such interest, principal and interest on overdue amounts.

Other Remedies; Rights of Bond Owners. Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy, in addition to the remedy specified in the Indenture, at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture.

If an Event of Default shall have occurred and be continuing and if requested so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Series 2016 Bonds and indemnified as provided in the Indenture, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Series 2016 Bond Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Bond Owners under the Indenture or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of a majority in principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in principal amount of the Outstanding Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation and the Trustee has been indemnified to its satisfaction. Any suit, action or proceeding which any Owner of Bonds shall

have the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and the Trustee is appointed (and the successive respective Owners of the Bonds issued under the Indenture, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact. Nothing in the Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Bonds or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

Appointment of Receivers. Upon the occurrence of an Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Revenues and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment shall confer.

Non-Waiver. Nothing in the Indenture, or in the Bonds, shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as provided in the Indenture, out of the Net Revenues and other moneys therein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or Bond Owners by the Bond Law or by the Indenture may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

If a suit, action or proceeding to enforce any right or exercise any remedy is abandoned or determined adversely to the Bond Owners, the City and the Bond Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

Rights and Remedies of Bond Owners. No Owner of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers thereinbefore granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are in the Indenture declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner therein provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium (if any) on such Bond as provided in the Indenture or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions or any other provision of the Indenture.

Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the City, the Trustee and the Bond Owners shall be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Miscellaneous

Limited Liability of City. Notwithstanding anything in the Indenture contained, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues for the payment of the principal of or interest on the Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants therein contained (except to the extent any such covenants are expressly payable under the Indenture from the Net Revenues). The City may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the City for such purpose without incurring indebtedness.

Parties Interested Therein.

Nothing in the Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the City, the Trustee, the 2016 Reserve Insurer and the Owners any right, remedy or claim under or by reason of the Trust Indenture, or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Trust Indenture contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Trustee, the 2016 Reserve Insurer and the Owners.

Discharge of Indenture. If the City shall pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and premium (if any) on such Bonds, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts

established pursuant to the Indenture, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums; or

(c) by depositing with a qualified escrow holder, in trust, Federal Securities in such amount as the City (verified by an Independent Certified Public Accountant) shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the Funds and Accounts established pursuant to the Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums, if any) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed pursuant to the Indenture or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the election of the City, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Net Revenues and other funds provided for in the Indenture with respect to such Bonds, and all other pecuniary obligations of the City under the Indenture with respect to all such Bonds, shall cease and terminate, except only the obligation of the City indemnify the Trustee under the Indenture, and to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Notice of such election shall be filed with the Trustee.

Any funds thereafter held by the Trustee, which are not required for said purposes, shall be paid over to the City or to its order.

Refunding bonds may be issued at any time without regard to whether an Event of Default exists.

To accomplish defeasance of the Bonds as provided in paragraph (c) above the City shall cause to be delivered (i) a report of an Independent Certified Public Accountant verifying the sufficiency of the escrow established to pay the Series 2016 Bonds in full on the maturity or earlier redemption date ("Verification"), (ii) an escrow deposit agreement, and (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under the Indenture; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the City and the Trustee.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

City of Napa
\$12,500,000
Solid Waste Revenue Bonds,
Series 2016 (Federally Taxable)
(Napa Materials Diversion Facility)
(Green Bonds)

This Continuing Disclosure Certificate (this “**Disclosure Certificate**”) is executed and delivered by the City of Napa (the “**City**”) in connection with the issuance of the solid waste revenue bonds captioned above (the “**Bonds**”). The Bonds are being issued pursuant to an Indenture of Trust dated as of October 1, 2016 (the “**Indenture**”) by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”). The City covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriters in complying with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Rule.

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

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

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

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

“*Listed Events*” means any of the events listed in Section 5(a).

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

“*Official Statement*” means the final official statement dated September 28, 2016, executed by the City in connection with the issuance of the Bonds.

“*Participating Underwriter*” means Raymond James & Associates, Inc., as the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2017, with the report for the 2015-16 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

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

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

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

Section 4. Content of Annual Reports. The City’s Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the City prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not contained in the audited financial statements filed under the preceding clause (a), the Annual Report shall contain information showing the following information for the most recently completed fiscal year:

(i) Financial schedules of the Solid Waste Enterprise System showing (1) revenues and expenses of the Solid Waste Enterprise System, (2) debt service secured by or payable from Net Revenues (including but not limited to the Bonds), and (3) resulting debt service coverage, in substantially the form of Table 12 of the Official Statement.

(ii) For the most recently completed Calendar Year, the volume of Solid Waste (including refuse, solid waste recyclables and green waste) collected by the operator of the Solid Waste Enterprise System, in substantially the form of Table 1 of the Official Statement.

(iii) For the current Calendar Year, representative residential and commercial rates, and amount of decrease or increase (if any) from the previous year's rates, in substantially the form of Table 2 and Table 3 of the Official Statement.

(iv) For the current Fiscal Year, the Transfer Facility tipping fee charged by the Napa-Vallejo Waste Management Authority, if the tipping fee was changed for such Fiscal Year.

(v) For the most recently completed Fiscal Year, a summary of doubtful accounts, in substantially the form of Table 6 of the Official Statement.

(vi) The balance of the Rate Stabilization Account as of the last day of the most recently completed Fiscal Year.

(vii) For the most recently completed Calendar Year, the number of customers and amount of revenue by account type, in substantially the form of Table 7 of the Official Statement.

(viii) For the most recently completed Calendar Year, a list of the 10 largest customers of the Solid Waste Enterprise System, in substantially the form of Table 9 of the Official Statement.

(ix) For any Fiscal Year in which Parity Bonds are issued, (A) the principal amount of the Parity Bonds, (B) a debt service schedule for the Parity Bonds and (C) a statement of the amount of Net Revenues for the latest Fiscal Year and maximum annual debt service that complies with the Indenture.

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

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

(e) The City hereby further covenants and agrees that it shall, for so long as the Bonds are Outstanding, provide to the MSRB, in an electronic format as prescribed by the MSRB:

(1) on an annual basis, updates regarding the use of proceeds of the Bonds, substantially in the form attached to the Official Statement as Appendix G; and

(2) one time, once all proceeds of the Bonds have been spent, a list of projects funded with the Bonds.

The foregoing information may, but need not, be provided as part of an Annual Report.

Section 5. Reporting of Significant Events.

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

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

agreement relating to any such actions, other than pursuant to its terms, if material.

- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, and, if the Listed Event is described in subsections (a)(2), (a)(6), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13) or (a)(14) above, the City determines that knowledge of the occurrence of that Listed Event would be material under applicable Federal securities law, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

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

Section 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

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

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

- (a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;
- (b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and
- (c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

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

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

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

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

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific

performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

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

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

Date: October 20, 2016

CITY OF NAPA

By _____

Roberta Raper
Finance Director

AGREED AND ACCEPTED

NHA Advisors, LLC, as Dissemination Agent

By _____
Authorized Representative

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Napa

Name of Issue: \$12,500,000 City of Napa Solid Waste Revenue Bonds, Series 2016
(Federally Taxable) (Napa Materials Diversion Facility) (Green Bonds)

Date of Issuance: October 20, 2016

NOTICE IS HEREBY GIVEN that the City of Napa has not provided an Annual Report with respect to the above-named bonds as required by the Continuing Disclosure Certificate dated as of October 20, 2016, executed by the City of Napa. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF NAPA

By _____
Name:
Title:

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

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

Neither the issuer of the Bonds (the “Issuer”) nor the trustee appointed with respect to the Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

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

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

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is

a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

APPENDIX F
PROPOSED FORM OF BOND COUNSEL OPINION
[LETTERHEAD OF JONES HALL]

October 20, 2016

City Council
City of Napa
955 School Street
Napa, CA 94559

OPINION: \$12,500,000 City of Napa Solid Waste Revenue Bonds, Series 2016
 (Federally Taxable) (Napa Materials Diversion Facility) (Green Bonds)

Members of the Council:

We have acted as bond counsel in connection with the issuance by the City of Napa (the "City") of the \$12,500,000 City of Napa Solid Waste Revenue Bonds, Series 2016 (Federally Taxable) (Napa Materials Diversion Facility) (Green Bonds) (the "Bonds"), pursuant to the powers of the City with respect to municipal affairs in accordance with Section 5 of Article XI of the California Constitution, Section 4 of the City Charter, and the procedures specified in Article 4 (commencing with Section 6584) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (collectively, the "Bond Law"), an Indenture of Trust, dated as of October 1, 2016, by and between the City and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Indenture"), and a resolution of the City Council of the City (the "Resolution") adopted on September 20, 2016. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

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

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

1. The City is duly created and validly existing as a municipal corporation and charter city with the power to enter into the Indenture, perform the agreements on its part contained therein, and issue the Bonds.

2. The Indenture has been duly approved by the City and constitutes a valid and binding obligation of the City, enforceable upon the City in accordance with its terms.

3. Pursuant to the Bond Law, the Indenture creates a valid lien on the Net Revenues pledged by the Indenture for the security of the Bonds, on a parity with other Parity Bonds (if any), as that term is defined in the Indenture.

4. The Bonds have been duly authorized, executed and delivered by the City, and are valid and binding special obligations of the City, payable solely from the sources provided therefor in the Indenture.

5. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX G
FORM OF GREEN BOND PROJECT REPORT

City of Napa
\$12,500,000
Solid Waste Revenue Bonds,
Series 2016 (Federally Taxable)
(Napa Materials Diversion Facility)
(Green Bonds)

Date of issuance: October 20, 2016
CUSIP: 630337

NOTICE IS HEREBY GIVEN, that the City of Napa has financed the following project with the above-referenced bonds (the "Bonds"):

Amount Financed	Project Description
\$	

This notice is to provide interested parties with information regarding the use of proceeds of the Bonds. [Once all proceeds of the Bonds have been spent, no further updates will be provided.] [All proceeds of the Bonds have been spent; no further updates on the projects or the use of the Bonds will be provided.]

Dated: _____