

**City of Guadalupe**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2018**

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**11. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDVELOPMENT AGENCY, Continued**

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California were prohibited from entering into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets could only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure of encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency of the Bill.

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

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012. After the date of dissolution, the assets and activities of the dissolved redevelopment agency were transferred to and are reported in a fiduciary fund (private purpose trust fund, the Trust Fund) in the financial statements of the City.

**A. Cash and Investments**

The City maintained investments with the State of California Local Agency Investment Fund (LAIF) for all City activities, including the Trust Fund. The Trust had \$1,155,894 in cash and investments as of June 30, 2018, that was held in LAIF. The City manages the Trust Fund's cash and investments in a consistent manner with the rest of its cash and investment pool. Refer to Note 2 for additional information regarding LAIF.

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**11. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDVELOPMENT AGENCY, Continued**

**B. Cash with Fiscal Agent**

The Trust Fund had \$333,366 in cash and investments as of June 30, 2018, held by fiscal agents pledged for the payment or security of certain bonds. The California Government code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, may be invested in accordance with the ordinance, resolutions, or indentures specifying the types of investments its fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the Trust's general investment policy. In no instance have additional types of investments, not permitted by the Trust's general investment policy, been authorized.

**C. Property Held for Resale**

At June 30, 2018, the carrying value of property held for resale was as follows:

West side of Obispo Street	\$	105,507
Next door to Royal Theatre		75,308
Royal Theatre		41,667
Total	\$	<u>222,482</u>

**D. Capital Assets**

For the year ended June 30, 2018, capital assets activity was as follows:

	Balance July 1, 2017	Transfers/ Additions	Retirements	Balance June 30, 2018
Capital assets being depreciated				
Infrastructure	\$ 201,197	\$ -	\$ -	\$ 201,197
Structures and improvements	83,333	-	-	83,333
Less accumulated depreciation	(111,270)	(9,900)	-	(121,170)
Net capital assets	<u>\$ 173,260</u>	<u>\$ (9,900)</u>	<u>\$ -</u>	<u>\$ 163,360</u>

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**11. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDVELOPMENT AGENCY, Continued**

**E. Long-Term Liabilities**

For the year ended June 30, 2018, long-term liabilities activity was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due within One Year
Note payable	\$ 13,645	\$ -	\$ (3,784)	\$ 9,861	\$ 3,524
2003 Tax allocation bonds	5,005,000	-	(5,005,000)	-	-
2017 Tax allocation bonds	-	4,900,000	-	4,900,000	260,000
Discount on 2017 bonds	-	(98,965)	-	(98,965)	(5,498)
<b>Total</b>	<b>\$ 5,018,645</b>	<b>\$ 4,801,035</b>	<b>\$ (5,008,784)</b>	<b>\$ 4,810,896</b>	<b>\$ 258,026</b>

**Note Payable**

The Trust Fund had a note payable to a private party related to the purchase of property currently held for resale. Principal and interest payments on the note payable are due on the 16th of each month and the note matures in 2021. Interest accrues at 9.0% per annum. At June 30, 2018, the principal balance outstanding was \$9,861.

At June 30, 2018, the aggregate maturities of the note payable were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2019	\$ 3,854	\$ 887	\$ 4,741
2020	4,215	541	4,756
2021	1,792	161	1,953
<b>Total</b>	<b>\$ 9,861</b>	<b>\$ 1,589</b>	<b>\$ 11,450</b>

**Tax Allocation Bonds**

On April 3, 2003, the former redevelopment agency issued \$6,455,000 of tax allocation bonds for a refunding of Series 1997 Tax Allocation Bonds.

On November 1, 2017, the Successor Agency to the Guadalupe Community Redevelopment Agency issued \$4,900,000 of tax allocation bonds to refund the 2003 series bonds. The refunding was undertaken to reduce total future debt service payments. The refunding resulted in \$1,326,400 gross debt service (principal and interest) savings over 18 years, an economic gain of \$147,832, and an accounting deferred loss on refunding of \$92,886. The bonds were scheduled to mature through August 1, 2035, with interest rates from 2.0 to 5.125%.

**City of Guadalupe**  
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**11. SUCCESSOR AGENCY TRUST FOR ASSETS OF THE FORMER REDVELOPMENT AGENCY, Continued**

*E. Long-Term Liabilities, Continued*

The scheduled payment of principal of and interest on the Bonds when due is guaranteed under an insurance policy issued concurrently with the Bonds. The Bonds mature through August 1, 2035, with interest rates from 1.5% to 3.5%. Principal on the bonds is due annually on August 1 of each year, commencing August 1, 2018, and interest on the Bonds is due semiannually on February 1 and August 1 of each year, commencing February 1, 2018. At June 30, 2018, the total principal and interest remaining to be paid on the bonds was \$6,469,816. The outstanding principal balance net of bond discounts was \$4,801,035.

For the year ended June 30, 2018, the aggregate maturities of the tax allocation bonds were as follows:

For the Year Ending June 30,	Principal	Interest	Total
2019	\$ 260,000	\$ 144,781	\$ 404,781
2020	215,000	140,681	355,681
2021	220,000	136,331	356,331
2022	225,000	131,600	356,600
2023	230,000	126,194	356,194
2024-2028	1,260,000	526,744	1,786,744
2029-2033	1,475,000	309,672	1,784,672
2034-2036	1,015,000	53,813	1,068,813
Subtotal	4,900,000	<u>\$ 1,569,816</u>	<u>\$ 6,469,816</u>
Bond Discount	<u>(98,965)</u>		
	<u>\$ 4,801,035</u>		

**Pollution Remediation**

The Trust owns property designated by the Santa Barbara County Fire Department as a LUFT (Leaking Underground Fuel Tank) site (#52010). The Agency has been accepted into the State Water Resources Cleanup of Underground Storage Tanks Fund (USTCF), which approved a total Letter of Commitment (LOC) in the amount of \$1.5 Million.

Between the fiscal years 2008/2009 through June 30, 2018, the former Agency expended a total of \$638,697 toward the cleanup costs. Cleanup costs incurred and paid for the 2017/18 FY, but which the City had not yet been reimbursed for by the State as of June 30, 2018, totaled \$23,269. Some of these costs (approximately \$16,389) were contested by the State and re-petitioned. These costs are anticipated to take until December 2019 to be reviewed for payment. The remaining portion of these costs (\$6,880) are anticipated to be reviewed and reimbursed to the City by September 2019.

**City of Guadalupe**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2018**

**11. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDVELOPMENT AGENCY, Continued**

*E. Long-Term Liabilities, Continued*

**Pollution Remediation, Continued**

Tasks in 2017/18 included: 1) evaluation, preparation and submittal of an initial Project Execution Plan (PEP) for all future site corrective action activities anticipated, as required by the State; 2) assisting the City with preparation and submittal reimbursement request #10 to the State; and 3) implementation, permitting, management and system construction activities related to approved remedial actions (soil vapor extraction (SVE)) approved by the Santa Barbara County LUFT Program (LOP).

In January 2017, the LOC directed that soil vapor extraction (SVE) activities be employed at the site for a period of approximately 12 months. Between January 10, 2017 and June 30, 2018, DMI-EMK initiated these SVE activities, coordinating the field activities and obtaining the associated permits required before field activities can be implemented. While field work was anticipated to commence by September 2017 and finish around September 2018, due to difficulties with the utility companies (gas and electric), obtaining final permit approvals, and significant electrical issues at the site, the system is currently anticipated to run through March of 2020.

DMI-EMK estimates that, once closure is granted by the County, it will take approximately 6 more months before a final closure letter can be obtained for the site. As such, it is anticipated that the soonest a final closure letter can be obtained for this site is approximately November-December 2020.

Estimated future costs beyond June 30, 2018 are anticipated to be approximately \$600,000 through obtaining site closure - assuming the site is found to meet the low-threat closure criteria after 12 months of active remediation. Based on the above, the total current estimated costs for cleanup activities is approximately \$1,200,000-\$1,300,000, well below the \$1.5 Million budget allotted this site by the State.

**12. OPERATING LEASES**

The City leases equipment under operating leases with lease terms in excess of one year. The agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors but it is unlikely that the City will cancel the agreements prior to the expiration date. Rent expense under operating leases was \$11,294 for the year ended June 30, 2018.

At June 30, 2018, future minimum lease payments under these operating leases were as follows:

For the Year Ending June 30,	Payment
2019	\$ 11,294
2020	11,294
2021	5,906
Total	<u>\$ 28,494</u>

**City of Guadalupe**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2018**

**13. RESTATEMENT**

The City recorded a prior period adjustment to recognize total OPEB liability as of June 30, 2017 due to implementation of GASB Statement No. 75. The City also adjusted prior period fund balances to reverse street sweeping transfers made from the Measure A fund to the Solid Waste Fund prior periods.

	Net Position, as Previously Reported at June 30, 2017	Prior Period Adjustments		Net Position, as Restated at June 30, 2017
		Transfer in Error	Net OPEB Liability	
<b>Government-Wide Statements</b>				
Governmental Activities	\$ 8,139,760	\$ 97,998	\$ (143,023)	\$ 8,094,735
Business-Type Activities	\$ 8,548,804	\$ (97,998)	\$ -	\$ 8,450,806
<b>Fund Statements</b>				
Measure A	\$ 1,019,203	\$ 97,998	\$ -	\$ 1,117,201
Solid Waste	\$ (68,587)	\$ (97,998)	\$ -	\$ (166,585)

**14. DEFICIT FUND BALANCES/NET POSITION**

*Major Funds*

A deficit net position of \$167,872 exists for the General Fund. The balance is due to the past years of operating deficits.

A deficit net position of \$89,457 exists for the Solid Waste Fund. Over the years the difference is due to the City not always increasing customer rates to cover increases by the waste hauler, discrepancies between the waste hauler's customer data base and the City's customer data base and prior year loans to cover negative balances in the Solid Waste Fund.

**15. GOING CONCERN**

The City continues to suffer from a significant unassigned deficit fund balance in the General Fund. In order to continue operations, in prior years the General Fund borrowed from other funds. These borrowings still need to be repaid. There are doubts about the General Fund's ability to repay these interfund loans in their entirety. Below is how management intends to address those issues:

The City is experiencing an increase in Business Licenses. New business activity results in a positive economic boost to the General Fund. In addition, the City's major business customers remain intact and are showing no signs of leaving the City. The largest customer continues to improve and expand.

**City of Guadalupe**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2018**

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**15. GOING CONCERN, Continued**

The General Fund's priority is to eliminate future borrowing from other funds, payoff current inter-fund loans and be economically self-sufficient. Inter-fund loan Payment schedules will be reviewed annually and, if possible, revised in an effort to decrease balances at a faster rate.

The 2018-19 month-end cash balances have been positive. Staff will submit a monthly cash balance report to Council to ensure pooled cash does not result in usage of other funds' cash by the General Fund. If a negative balance exists in the General Fund, the Council and staff will review and apply available methods to reverse the deficit within one month.

**16. SUBSEQUENT EVENTS**

For the fiscal year beginning July 1, 2017, the former City Administrator froze City employee salary step increases in order to limit the City's expenses due to the going concern. The decision was based on legal advice, which was based on language in Memorandums of Understanding stating that step increases were granted based on merit and, in addition, were "subject to the approval of the City Administrator." The Service Employees International Union (SEIU) filed an unfair labor practices claim against the City. On May 24, 2019, an Administrative Law Judge ruled against the City and ordered the City to pay all eligible SEIU employees the retroactive step increases plus 7% interest. The wages and interest total was \$39,500.

In addition, the City determined that it would pay all eligible employees their retroactive step increases for the period July 1, 2017 through May 1, 2019. This amount totaled \$59,008 in addition to the \$39,500 owed to SEIU employees.

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**REQUIRED  
SUPPLEMENTARY INFORMATION**

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**City of Guadalupe**  
**Required Supplementary Information**  
**For the year ended June 30, 2018**

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**1. BUDGETS AND BUDGETARY ACCOUNTING**

***A. Budgetary Control and Budgetary Accounting***

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. After adoption of the final budget, transfers of appropriations within a General Fund department, or within other funds, can be made by the City Administrator. Budget modifications between funds and increases or decreases to a fund's overall budget, must be approved by the City Council. No amendments were made during the fiscal year.

Budgetary control is enhanced by integrating the budget into the general ledger accounts. Encumbrance accounting is employed (e.g., purchase orders) to avoid expenditures over budget. Encumbrances outstanding at fiscal year-end are automatically re-budgeted in the following fiscal year.

The following are the budget comparison schedules for all major Governmental Funds.

**City of Guadalupe**  
**Budgetary Comparison Schedule - General Fund**  
**For the year ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 2,191,500	\$ 2,191,500	\$ 2,118,556	\$ (72,944)
Licenses and permits	763,200	763,200	943,370	180,170
Fines and penalties	22,900	22,900	22,485	(415)
Revenues from other agencies	245,510	245,510	370,296	124,786
Charges for current services	58,250	58,250	171,123	112,873
Interest	73,600	73,600	100,441	26,841
Other revenues	151,400	151,400	208,771	57,371
<b>Total revenues</b>	<b>3,506,360</b>	<b>3,506,360</b>	<b>3,935,042</b>	<b>428,682</b>
<b>EXPENDITURES:</b>				
Current:				
General Government	1,076,934	1,076,934	1,015,496	61,438
Public Safety	2,418,566	2,418,566	2,308,767	109,799
Leisure, cultural and social services	129,003	129,003	142,616	(13,613)
Community development	365,075	365,075	366,343	(1,268)
Capital outlay	38,200	38,200	36,500	1,700
Debt service:				
Principal	59,400	59,400	50,058	9,342
Interest and fiscal charges	-	-	9,470	(9,470)
<b>Total expenditures</b>	<b>4,087,178</b>	<b>4,087,178</b>	<b>3,929,250</b>	<b>157,928</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(580,818)</b>	<b>(580,818)</b>	<b>5,792</b>	<b>586,610</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	617,850	617,850	510,960	(106,890)
Proceeds from capital leases	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>617,850</b>	<b>617,850</b>	<b>510,960</b>	<b>(106,890)</b>
<b>Net change in fund balances</b>	<b>37,032</b>	<b>37,032</b>	<b>516,752</b>	<b>479,720</b>
<b>FUND BALANCES:</b>				
Beginning of year	(684,624)	(684,624)	(684,624)	-
End of year	\$ (647,592)	\$ (647,592)	\$ (167,872)	\$ 479,720

**City of Guadalupe**  
**Budgetary Comparison Schedule - Measure A Fund**  
**For the year ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 453,117	\$ 453,117	\$ 480,581	\$ 27,464
Revenues from other agencies	-	-	5,907	5,907
Interest	4,000	4,000	10,771	6,771
<b>Total revenues</b>	<b>457,117</b>	<b>457,117</b>	<b>497,445</b>	<b>40,328</b>
<b>EXPENDITURES:</b>				
Current:				
Transportation	622,727	622,727	404,384	218,343
<b>Total expenditures</b>	<b>622,727</b>	<b>622,727</b>	<b>404,384</b>	<b>218,343</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(165,610)</b>	<b>(165,610)</b>	<b>93,061</b>	<b>258,671</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(104,400)	(104,400)	-	104,400
<b>Total other financing sources (uses)</b>	<b>(104,400)</b>	<b>(104,400)</b>	<b>-</b>	<b>104,400</b>
<b>Net change in fund balances</b>	<b>(270,010)</b>	<b>(270,010)</b>	<b>93,061</b>	<b>363,071</b>
<b>FUND BALANCES:</b>				
Beginning of year	1,117,201	1,117,201	1,117,201	-
End of year	\$ 847,191	\$ 847,191	\$ 1,210,262	\$ 363,071

**City of Guadalupe**  
**Budgetary Comparison Schedule - Gas Tax Fund**  
**For the year ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes	\$ 174,280	\$ 174,280	\$ 149,131	\$ (25,149)
Interest	1,000	1,000	2,825	1,825
<b>Total revenues</b>	<b>175,280</b>	<b>175,280</b>	<b>151,956</b>	<b>(23,324)</b>
<b>EXPENDITURES:</b>				
Current:				
Transportation	606,700	606,700	733,790	(127,090)
Capital outlay	-	-	-	-
Debt service:				
Principal	22,000	22,000	20,808	1,192
<b>Total expenditures</b>	<b>628,700</b>	<b>628,700</b>	<b>754,598</b>	<b>(125,898)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(453,420)</b>	<b>(453,420)</b>	<b>(602,642)</b>	<b>(149,222)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	(19,200)	(19,200)	-	(19,200)
<b>Total other financing sources (uses)</b>	<b>(19,200)</b>	<b>(19,200)</b>	<b>-</b>	<b>(19,200)</b>
<b>Net change in fund balances</b>	<b>(472,620)</b>	<b>(472,620)</b>	<b>(602,642)</b>	<b>(168,422)</b>
<b>FUND BALANCES:</b>				
Beginning of year	699,678	699,678	699,678	-
End of year	\$ 227,058	\$ 227,058	\$ 97,036	\$ (168,422)

**City of Guadalupe**  
**Required Supplementary Information**  
**For the year ended June 30, 2018**

**2. DEFINED BENEFIT PENSION PLANS**

**A. Schedule of the City's Proportionate Share of the Net Pension Liability - Last 10 Years\***

Fiscal year	2018	2017	2016	2015
Measurement date	6/30/2017	6/30/2016	6/30/2015	6/30/2014
Proportion of the net pension liability	0.03091%	0.02989%	0.02666%	0.0312%
Proportionate share of the net pension liability	\$ 3,065,323	\$ 2,586,229	\$ 1,830,129	\$ 1,939,137
Covered payroll	\$ 1,925,534	\$ 1,572,208	\$ 1,479,094	\$ 1,548,925
Proportionate Share of the net pension liability as percentage of covered payroll	159.19%	164.50%	123.73%	125.19%
Plan fiduciary net position as a percentage of the total pension liability	73.31%	74.06%	78.40%	79.82%

\* Historical information is required only for measurement period for which GASB 68 is applicable

**B. Schedule of Plan Contributions - Last 10 Years\***

Fiscal Year	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 329,839	\$ 305,064	\$ 251,172	\$ 211,025
Contribution in relation to the actuarially determined contributions	(329,839)	(305,064)	(251,172)	(211,025)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 2,153,332	\$ 1,925,534	\$ 1,572,208	\$ 1,479,094
Contributions as a percentage of covered payroll	15.32%	15.84%	15.98%	14.27%

\* Historical information is required only for measurement periods for which GASB 68 is applicable

**City of Guadalupe**  
**Required Supplementary Information**  
**For the year ended June 30, 2018**

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**3. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

*Schedule of Changes in Total OPEB Liability and Related Ratios*

<i>Measurement Period</i>	<u>2018</u>
<b>Total OPEB Liability</b>	
Service Cost	\$ 22,060
Interest	11,646
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefit payments <sup>1</sup>	<u>(206,667)</u>
Net change in total OPEB liability	(172,961)
Total OPEB liability - beginning (a)	424,124
Total OPEB liability - ending (b)	<u>\$ 251,163</u>
Covered-employee payroll	\$ 1,208,361
Total OPEB liability as a percentage of covered-employee payroll	20.8%

<sup>1</sup>Amount includes implicit subsidy associated with benefits paid.

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# SUPPLEMENTARY INFORMATION

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**City of Guadalupe**  
**Combining Balance Sheet**  
**Other Governmental Funds**  
**June 30, 2018**

	Special Revenue					
	Local Transportation	Library	Public Facilities	Park Development	Guadalupe Lighting and Assessment	Public Safety
<b>ASSETS</b>						
Cash and investments	\$ 202,493	\$ 9,538	\$ 5,756	\$ 2,649	\$ 128,796	\$ 103,285
Accounts receivable	1,609	24	21	8	720	43,118
Prepaid items	-	-	-	-	1,650	13,074
Interfund loans receivable	-	-	-	-	352,500	-
Loans receivable	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 204,102</b>	<b>\$ 9,562</b>	<b>\$ 5,777</b>	<b>\$ 2,657</b>	<b>\$ 483,666</b>	<b>\$ 159,477</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	-	-	-	-	5,191	2,437
Cash overdraft	-	-	-	-	-	-
Accrued wages and benefits	-	-	-	-	-	-
Interfund loans payable	-	68,333	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>68,333</b>	<b>-</b>	<b>-</b>	<b>5,191</b>	<b>2,437</b>
<b>Fund Balances:</b>						
Nonspendable:						
Prepaid items	-	-	-	-	1,650	13,074
Restricted for:						
Street maintenance	204,102	-	-	-	-	-
Other capital projects	-	-	-	2,657	-	-
Community development	-	-	-	-	-	-
Public safety	-	-	-	-	-	143,966
Utility infrastructure	-	-	5,777	-	-	-
Debt service	-	-	-	-	-	-
Committed to:						
Lighting and landscape	-	-	-	-	476,825	-
Assigned to:						
Capital projects	-	-	-	-	-	-
Unassigned	-	(58,771)	-	-	-	-
<b>Total fund balances</b>	<b>204,102</b>	<b>(58,771)</b>	<b>5,777</b>	<b>2,657</b>	<b>478,475</b>	<b>157,040</b>
<b>Total liabilities and fund balances</b>	<b>\$ 204,102</b>	<b>\$ 9,562</b>	<b>\$ 5,777</b>	<b>\$ 2,657</b>	<b>\$ 483,666</b>	<b>\$ 159,477</b>

Special Revenue		Capital Projects			Total Other	
Community Development	Capital Facilities	City Hall	Traffic Mitigation	Sewer Bond Debt Service	Governmental Funds	
\$ 153,085	\$ 243,416	\$ 10,529	\$ 49,622	\$ 27,139		936,308
596	771	36	142	87		47,132
-	-	-	-	-		14,724
-	68,333	-	-	-		420,833
16,612	-	-	-	-		16,612
<u>\$ 170,293</u>	<u>\$ 312,520</u>	<u>\$ 10,565</u>	<u>\$ 49,764</u>	<u>\$ 27,226</u>		<u>\$ 1,435,609</u>
-	-	-	-	-		7,628
-	-	-	-	-		-
-	-	-	-	-		-
-	-	-	-	-		68,333
-	-	-	-	-		75,961
-	-	-	-	-		14,724
-	-	-	-	-		204,102
-	312,520	10,565	-	-		325,742
170,293	-	-	-	-		170,293
-	-	-	-	-		143,966
-	-	-	-	-		5,777
-	-	-	-	27,226		27,226
-	-	-	-	-		476,825
-	-	-	49,764	-		49,764
-	-	-	-	-		(58,771)
<u>170,293</u>	<u>312,520</u>	<u>10,565</u>	<u>49,764</u>	<u>27,226</u>		<u>1,359,648</u>
<u>\$ 170,293</u>	<u>\$ 312,520</u>	<u>\$ 10,565</u>	<u>\$ 49,764</u>	<u>\$ 27,226</u>		<u>\$ 1,435,609</u>

**City of Guadalupe**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Other Governmental Funds**  
**For the year ended June 30, 2018**

	Special Revenue					
	Local Transportation	Library	Public Facilities	Park Development	Guadalupe Lighting and Assessment	Public Safety
<b>REVENUES:</b>						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 109,217	\$ -
Licenses and permits	-	5,200	-	-	-	-
Revenues from other agencies	40,055	-	-	-	-	240,058
Charges for current services	-	-	1,110	1,380	-	30
Interest	2,042	29	57	19	5,545	1,893
Other revenues	-	-	-	-	2,610	2,750
<b>Total revenues</b>	<b>42,097</b>	<b>5,229</b>	<b>1,167</b>	<b>1,399</b>	<b>117,372</b>	<b>244,731</b>
<b>EXPENDITURES:</b>						
Current:						
Public Safety	-	-	-	-	-	268,047
Transportation	3,433	-	-	-	-	-
Leisure, cultural and social services	-	5,000	-	-	-	-
Community development	6,849	-	-	-	71,570	-
General government	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	84,541
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
<b>Total expenditures</b>	<b>10,282</b>	<b>5,000</b>	<b>-</b>	<b>-</b>	<b>71,570</b>	<b>352,588</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>31,815</b>	<b>229</b>	<b>1,167</b>	<b>1,399</b>	<b>45,802</b>	<b>(107,857)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	6,800	-	-	-	-
Transfers out	-	-	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>6,800</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>31,815</b>	<b>7,029</b>	<b>1,167</b>	<b>1,399</b>	<b>45,802</b>	<b>(107,857)</b>
<b>FUND BALANCES:</b>						
Beginning of year	172,287	(65,800)	4,610	1,258	432,673	264,897
End of year	\$ 204,102	\$ (58,771)	\$ 5,777	\$ 2,657	\$ 478,475	\$ 157,040

Special Revenue		Capital Projects			Total Other Governmental Funds	
Community Development	Capital Facilities	City Hall	Traffic Mitigation	Sewer Bond Debt Service		
\$ -	\$ -	\$ -	\$ -	\$ 21,824	\$ 131,041	
-	89,438	7,440	37,537	-	139,615	
-	-	-	-	-	280,113	
-	-	-	-	-	2,520	
1,756	1,989	76	298	389	14,093	
-	-	-	-	-	5,360	
1,756	91,427	7,516	37,835	22,213	572,742	
-	-	-	-	-	268,047	
-	-	-	-	-	3,433	
-	-	-	-	-	5,000	
3	-	-	-	-	78,422	
-	-	-	-	-	-	
-	-	-	-	-	84,541	
-	-	-	-	16,000	16,000	
-	-	-	-	1,600	1,600	
3	-	-	-	17,600	457,043	
1,753	91,427	7,516	37,835	4,613	115,699	
-	-	-	-	-	6,800	
(876)	(6,800)	-	-	-	(7,676)	
(876)	(6,800)	-	-	-	(876)	
877	84,627	7,516	37,835	4,613	114,823	
169,416	227,893	3,049	11,929	22,613	1,244,825	
\$ 170,293	\$ 312,520	\$ 10,565	\$ 49,764	\$ 27,226	\$ 1,359,648	



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Guadalupe, California (City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 26, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as item 2018-001 in the accompanying schedule of findings and responses to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described as items 2018-002 to 2018-005 in the accompanying schedule of findings and responses to be significant deficiencies.

To the Honorable Mayor and Members of the City Council  
of the City of Guadalupe  
Guadalupe, California  
Page 2

### **Compliance and Other Matters**

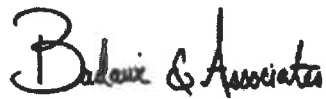
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Badawi & Associates, CPAs  
Oakland, California  
July 26, 2018

**City of Guadalupe**  
**Schedule of Findings and Responses**  
**For the year ended June 30, 2018**

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**FINDINGS - FINANCIAL STATEMENTS AUDIT**

**2018-001 - Deficit Fund Balance In The General Fund and The Solid Waste Fund and The Ability of The City To Continue As A Going Concern (Material Weakness)**

**Criteria:**

General purpose local governments, regardless of size, at a minimum should maintain a fund balance in the general fund of either 1) no less than 5 to 15 percent of regular general fund operating revenues, or 2) no less than 1 to 2 months of regular general fund operating expenditures.

**Condition:**

The General Fund had a negative fund balance as of June 30, 2018. The General Fund finished the year with a deficit of \$(167,872) compared to a negative fund balance of \$(684,624) in the prior fiscal year. Overall, the funds liabilities exceeded assets. As of June 30, 2018 the General Fund owed internally to the Lighting and Assessment Fund, the Gas Tax Fund, and the Water Fund the amounts of \$352,500, \$62,732, and \$543,499, respectively. These interfund loans were made so that the General Fund could sustain its basic operations.

The Solid Waste Fund had a negative fund balance of \$(89,457) as of June 30, 2018. In addition, the fund had cash overdraft of \$99,818 as of June 30, 2018. The amount of cash overdraft represents borrowings from other funds that will need to be repaid eventually.

The aforementioned conditions have raised doubt about the City's ability to continue as a going concern, as described further in Note 15.

**Cause:**

The City has either overspent its budget in the past or the budget was not balanced which led to the overspending and the deficit fund balance situation.

**Effect:**

Deficiency in fund balances and decrease in revenues in the past have created a budget shortfall that will require continued cost cutting measures to reach a budget that will recoup the negative fund balance as well as provide the necessary revenues and financing for continued operations of the City. In addition, a negative General Fund balance puts the City in a vulnerable position in times of economic stress.

**Recommendation:**

We recommend the City continue to analyze all potential cost cutting measures and revenue sources, and review options to establish a budget plan for the General Fund and other funds to recoup the deficit fund balance, as well as provide continued financing for City operations.

**Management Response:**

General Fund: The General fund recouped a 75 percent prior year negative fund balance, ending the year at \$-167,872. The City anticipates continued improvement by the end of fiscal year 2019 and a positive fund balance by the end of fiscal year 2020. The City's goal is to maintain a positive fund

**City of Guadalupe**  
**Schedule of Findings and Responses**  
**For the year ended June 30, 2018**

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balance and the preservation of future reserves. The City adopted Financial Policies with its 2019-2021 Budget that target the establishment of reserve funds at optimum levels. Building Permit and related construction fee revenues as well as increases in Sales Tax, Business License, Utility Users Tax and Franchise Fees will help achieve this goal. In addition, Property taxes are expected to rise over time as a positive outcome of the new Pasadera development.

**Solid Waste Fund:** The Solid Waste fund deficit will net zero in 2020. This is due to the collection of surcharges set up for the specific purpose of eliminating the negative fund balance. The solid waste service provider contracted with the City to take over future billings. The fund will no longer be used after fiscal year 2020.

**2018-002 - Recordkeeping of Capital Assets (Significant Deficiency)**

**Criteria:**

A good internal control system over capital assets requires that City maintain detailed records of all its capital assets to be able to support amounts reported on the financial statements and to ensuring safeguarding of assets and timely payment on long-term debt.

**Condition:**

We noted during the audit that the City did not maintain adequate records for capital assets to enable it to exercise control over that activity. Instead, the City is relying on a loosely maintained spreadsheets that were originally developed by the previous audit firm used by the City. The spreadsheets were outdated and it did not match amounts reported in the City's accounting records or the previously audited financial statements.

**Cause:**

The City did not keep accurate and complete records of its capital assets.

**Effect:**

Capital assets may be misstated and/or not properly or timely accounted for.

**Recommendation:**

We recommend that the City implement a tracking system and to conduct an inventory of its capital assets.

**Management Response:**

The City approved a new financial accounting software system to be implemented in fiscal year 2020. As part of this system, a fixed asset module will be included. The goal will be to include all assets of the City by cost, category, governmental unit and other detailed identification. The total assets will tie to the General Ledger and to the CAFR.



**City of Guadalupe**  
**Schedule of Findings and Responses**  
**For the year ended June 30, 2018**

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**2018-003 – Control Over Expenditures and Accounts Payable (Significant Deficiency)**

**Criteria:**

A good internal control system over expenditures and accounts payable requires that certain tasks such as creating new vendors, inputting invoices, and processing checks be segregated and not performed by the same individual. In addition, changes to the master file should be reviewed and reconciled by a qualified individual independent from the accounts payable process.

**Condition:**

During our audit we noted that the Accounts Payable Clerk is responsible for setting up new vendors in the system. There is no independent review of changes made to the vendor master files. In addition, we noted that the reviewer of the accounts payable does not keep track of the sequence numbers of the checks reviewed.

**Cause:**

Duties in the accounts payable system are not properly segregated to ensure that good checks and balances are in place.

**Effect:**

Errors in accounts payable may not be detected timely. In addition, unauthorized payments to vendors or payments to unauthorized vendors may not be detected timely.

**Recommendation:**

We recommend that the City improve and strengthen its procedures for review and reconciliation to ensure that changes to the vendor master files are properly reviewed and reconciled by an independent person and there is adequate segregation of duties in place.

**Management Response:**

The City will continue to set up controls that provide independent review and approval of changes to vendor master files. A review of segregation of duties to improve internal control over accounts payable will also be completed.

**2018-004 – Control Over Payroll and Related Liabilities (Significant Deficiency)**

**Criteria:**

A good internal control system over payroll requires that certain tasks such as creating new employees, inputting payrates, and processing payroll be segregated and not performed by the same individual. In addition, payroll should be reviewed and reconciled by a qualified individual independent from the payroll process.

**Condition:**

During our audit we noted that there was one person who was responsible for setting up new employees, making and updating all changes in the payroll system as well as processing payroll.

**City of Guadalupe**  
**Schedule of Findings and Responses**  
**For the year ended June 30, 2018**

---

**Cause:**

Duties in the payroll system are not properly segregated to ensure that good checks and balances are in place.

**Effect:**

Payroll amounts may be misstated due to errors not detected during the review process . In addition, incorrect or unauthorized pay rates may be used and not detected timely.

**Recommendation:**

We recommend that the City improve and strengthen its procedures for review and reconciliation to ensure that payroll is properly reviewed and reconciled by an independent person and there is adequate segregation of duties in place.

**Management Response:**

The City will continue to set up controls that provide independent review and reconciliation of payroll. A review of segregation of duties to improve internal control over payroll will also be completed.

**2018-005 - Control Over Journal Entries and Financial Reporting (Significant Deficiency)**

**Criteria:**

A good internal control system over financial reporting requires that certain tasks such as creating journal entries and reviewing journal entries be segregated and not performed by the same individual.

**Condition:**

During our audit we noted that there was mainly one person who was responsible for creating journal entries with no independent review of those entries by an independent person

**Cause:**

Duties in the financial reporting system are not properly segregated to ensure good checks and balances are in place.

**Effect:**

Journal entries amounts may be misstated due to errors not detected during the review process. In addition, unauthorized entries may be posted and not detected timely.

**Recommendation:**

We recommend that the City improve and strengthen its procedures for review and reconciliation to ensure that journal entries are properly reviewed and reconciled by an independent person and there is adequate segregation of duties in place.

**Management Response:**

The City will review and set up controls to ensure approval controls of journal entries takes place for all changes to the accounting records.

REPORT TO THE GUADALUPE CITY COUNCIL  
Council Agenda of August 27, 2019



Prepared by:  
Carolyn Galloway-Cooper  
Finance – Special Projects



Approved by:  
Robert Perrault, Interim City Administrator

**SUBJECT** 2019-20 Cost Allocation Plan

**RECOMMENDATION** Approve the Fiscal Year 2019-20 Cost Allocation Plan and Adopt Resolution 2019-52.

**DISCUSSION**

The purpose of the City's Cost Allocation Plan is to identify the total cost of providing specific City services. The total costs includes direct and indirect costs.

The goal of the Cost Allocation Plan is provide a reasonable allocation of indirect costs in an equitable and consistent manner. Having a Cost Allocation Plan assists in identifying the total costs for the delivery of services both internally and externally. The plan is used for a number of purposes including:

- Grant Administration- Under federal cost accounting policies (circular A-87), it is permissible to include indirect costs in accounting for grant programs. By establishing indirect cost rates, the cost allocation plan can be used in recovering the total costs (direct and indirect) associated with implementing grant programs.
- Reimbursement Transfers- the Cost Allocation Plan identified the costs incurred by the General Fund in providing administrative support services to the City's other funds such as enterprise operations and special revenue funds.
- General Fund User Charges- Similar to ensuring that enterprise fund revenues fully recover costs, the Cost Allocation Plan can be used in determining appropriate user fees for General Fund Services , such as planning application, building permits and recreational activities, in ensuring that full cost of services are considered in setting rates.
- Labor Rates- In preparing the Budget, the City has developed full compensation costs for each of its regular employees. Along with accounting for paid leave (such as vacation,

sick and holidays), “full cost” hourly rates can be developed that appropriately include indirect costs.

- Contracting- Out for Services- By identifying total costs, the cost allocation plan can also be helpful in analyzing the costs of contracting for services versus performing services in-house.

It should be noted that the City has used the same methodology for developing the Cost Allocation Plan every fiscal year dating back to FY2014-15 when the plan was originally developed for the City by a fiscal consultant. The Plan’s methodology is based on the adopted budget and must therefore be updated with the approval of a new budget.

The Cost Allocation Plan is used for General Fund Reimbursement Transfers in the City’s annual budget document. Staff will perform a review of the allocations approved in the 2019-20 Biennial Budget to ensure they agree to the 2019-20 Cost Allocation Plan. Staff will provide a summary of any increases/decreases at the mid-year budget review in January. A budget amendment and Resolution will be presented at that time, if changes are required.

#### **FISCAL IMPACT**

The overall indirect cost rate decreased from 21.4 percent in the prior year to 20.9 percent in 2019-20.

#### **ATTACHMENTS**

2019-20 Cost Allocation Plan  
Resolution 2019-52

**RESOLUTION NO. 2019-52**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GUADALUPE, CALIFORNIA, ADOPTING  
THE 2019-20 COST ALLOCATION PLAN**

**WHEREAS**, City Staff has prepared a Cost Allocation Plan for FY 2019-20; and

**WHEREAS**, the purpose of the City's Cost Allocation Plan is to identify the total cost of providing specific City services, which includes direct and indirect costs; and

**WHEREAS**, the goal of the Cost Allocation Plan is to reasonably allocate indirect costs by determining an indirect cost rate; and

**WHEREAS**, the indirect cost rate has been determined in a fair, convenient and consistent manner under this Cost Allocation Plan for FY 2019-20.

**NOW, THEREFORE, BE IT RESOLVED**, by the City Council of the City of Guadalupe as follows:

**SECTION 1.** City Council adopts the attached FY 2019-20 Cost Allocation Plan

**PASSED AND ADOPTED** at a regular meeting on the 27<sup>th</sup> of August 2019 by the following vote:

**Motion:**

**AYES:**

**NOES:**

**ABSENT:**

**ABSTAIN**

I, **Joice Raguz**, City Clerk of the City of Guadalupe, **DO HEREBY CERTIFY** that the foregoing Resolution, being **Resolution No. 2019-52** has been duly signed by the Mayor and attested by the City Clerk, all at a regular meeting of the City Council, held August 27, 2019 and that same was approved and adopted.

**ATTEST:**

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Joice Earleen Raguz, City Clerk

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Ariston Julian, Mayor

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# **COST ALLOCATION PLAN**

**Fiscal Year 2019-20**



# **City of Guadalupe**

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## INTRODUCTION

### OVERVIEW

#### Purpose of the Plan

The purpose of the City's Cost Allocation Plan is to identify the total costs of providing specific City services. Why is a separate cost accounting analysis required to do this? Because in almost all organizations—whether in the private or the public sector—the cost of producing goods or delivering services can be classified into two basic categories: direct and indirect costs.

“Direct costs” by their nature are usually easy to identify and relate to a specific service. However, this is not the case for “indirect costs.” As such, if we want to know the “total cost” of providing a specific service, then we need to develop an approach—a plan—for reasonably allocating indirect costs to direct cost programs.

#### What Are Direct and Indirect Costs?

Direct costs are those that can be specifically identified with a particular cost objective, such as street maintenance, police protection and water service. Indirect costs are not readily identifiable with a direct operating program, but rather, are incurred for a joint purpose that benefits more than one cost objective.

Common examples of indirect costs include accounting, legal services, human resources and building maintenance. Although indirect costs are generally not readily identifiable with direct cost programs, their cost should be included if we want to know the total cost of delivering specific services.

#### Budgeting and Accounting for Indirect Costs

Theoretically, all indirect costs could be directly charged to specific cost objectives; however, practical difficulties generally preclude such an

approach for organizational and accounting reasons. As such, almost all organizations in both the private and public sector separately budget and account for direct and indirect costs at some level depending on their financial reporting needs and the level of sophistication and complexity of their operations.

#### Distributing Indirect Costs

However, in order to determine the total cost of delivering specific services, some methodology for determining and distributing indirect costs must be developed, and that is the purpose of cost allocation plans: to identify indirect costs and to allocate them to benefiting direct cost programs in a logical, consistent and reasonable manner.

**Plan Goal: Reasonable Allocation of Costs.** It is important to stress that the goal of the Cost Allocation Plan is a reasonable allocation of indirect costs, not a “perfect” one. By their very nature, indirect costs are difficult to link with direct costs. As such, in developing an allocation approach, it is important to keep this goal in mind balancing the cost and of effort of complicated allocation methods with the likely benefits from the end results.

### DETERMINING DIRECT AND INDIRECT COSTS

The first step in preparing the City's Cost Allocation Plan is determining direct and indirect costs. Program costs that primarily provide service to the public are identified as direct costs, whereas the cost of programs that primarily provide services to the organization are identified as indirect costs.

Additionally, use allowance costs for City Hall have also been developed. In accordance with generally accepted accounting principles, only operating costs are considered in preparing the cost allocation plan. As such, capital outlay, debt service, interfund transfers and “pass-through” costs (such as



## INTRODUCTION

solid waste billing for the Valley Refuse and Garbage Company) are excluded from the calculations.

### ALLOCATING INDIRECT COSTS

For general purposes, the City-wide indirect cost rate can be used as the basis for allocating indirect costs. The indirect cost rate is simply the ratio between indirect and direct costs, which can be easily computed for the City as a whole once the direct and indirect cost base has been determined.

#### Citywide Indirect Cost Rate

Provided in Table 1 (page 4) is a summary of direct and indirect costs for the City of Guadalupe based on the approved 2018-19 Budget, along with the resulting citywide indirect cost rate. By applying the overall indirect cost rate to any specific direct cost program, the total cost of the program can be determined. For example, with an overall indirect cost rate of 20.9%, the total cost for a direct program of \$100,000 in Guadalupe would be \$120,900 with this approach.

#### Bases of Allocation

This method of cost allocation assumes that all indirect costs are incurred proportionately to the direct cost of the program. However, this may not be a reasonable assumption in all cases, as the benefit received from certain types of support service programs may be more closely related to another indicator of activity than cost.

For example, if a program service is primarily delivered through contract and does not have any City staffing directly associated with it, distributing payroll preparation and Human Resources costs to it may result in an inequitable allocation of costs. Because of this, the City's Cost Allocation Plan establishes separate *bases of allocation* for each major indirect cost category. With this approach, indirect costs can be allocated to each direct cost program in a fair, convenient, and most importantly, consistent

manner. Provided in Table 3 (page 6) is a summary of the primary methods of allocation used in distributing indirect costs to direct cost programs.

Some of these costs lend themselves to an easily justified, rational approach of distribution. For example, payroll and human resources costs are related to the number of employees serviced. Other costs may appear to be arbitrarily distributed; however, the allocation bases are consistent with generally accepted accounting principles, and recognize the concept that the cost of developing the information necessary to perform the cost allocations should not exceed the benefits likely to be gained.

#### Summary of Indirect Cost Allocations

A summary of the indirect cost allocations is provided in Tables 5.1 through 5.4 (pages 9 through 12), followed by the detailed allocations for each specific indirect cost program (Tables 6.1 through 6.6, pages 13 to 23).

#### Simple Method of Allocating Costs

In performing the cost allocations, all indirect costs have been allocated only to direct cost programs rather than using a more complex sequential allocation system. Although there are some conceptual difficulties with this approach, since all indirect costs are ultimately allocated to direct programs, the difference in the end result is insignificant. However, the cost of preparation, review and audit is significantly reduced; and how indirect costs are allocated is much more transparent.

For example, the cost of general administration by the City Administrator's office is allocated solely to direct cost programs based on their operating budget. However, as the general administration program also benefits the other indirect cost programs such as human resources, finance and building maintenance, the cost allocations could appear to be distorted since no allocations are made to them. Similarly, payroll preparation also benefits the general administration program (in fact, it also benefits itself).

Under a more sophisticated, two-step system, the cost of the general administration program would be allocated to the other indirect costs

## **INTRODUCTION**

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programs, and iterative allocations then made to direct cost programs until all indirect costs are distributed. However, this process is extremely time consuming (and places far more reliance on the underlying significance of the allocation bases than may be appropriate) and results in the same basic cost allocations as the simpler method since all indirect costs are allocated in the final product. Again, as noted above, the plan's goal is a reasonable allocation of costs, not a "perfect" one.

## INTRODUCTION

### USES OF THE COST ALLOCATION PLAN

By identifying total program costs, the Cost Allocation Plan can be used as an analytical tool in many financial decision-making situations, including:

- **Grant Administration.** Under federal cost accounting policies (Circular A-87), it is permissible to include indirect costs in accounting for grant programs. By establishing indirect cost rates, the cost allocation plan can be used in recovering the total costs (direct and indirect) associated with implementing grant programs.
- **Reimbursement Transfers.** The Cost Allocation Plan identifies the costs incurred by the General Fund in providing administrative support services to the City's other funds such as enterprise operations and special revenue funds.

- For example, although the City's administrative, legal services, finance, human resources and building maintenance programs are budgeted and accounted for in the General Fund, these programs provide support services to other City funds. The Cost Allocation Plan provides a clear methodology for determining this level of support in for the reimbursement of these costs. Recommended reimbursement transfers based on the Cost Allocation Plan compared with budget estimates are provided in Table 7 (page 24).

- **General Fund User Charges.** Similar to ensuring that enterprise fund revenues fully recover their costs, the Cost Allocation Plan can also be used in determining appropriate user fees for General Fund services, such as planning applications, building permits and recreation activities, in ensuring that full cost of services are considered in setting rates.

- **Labor Rates.** In preparing the Budget, the City has developed full compensation costs for each of its regular employees. Along with accounting for paid leave (such as vacation, sick and holidays), "full

cost" hourly labor rates can be developed that appropriately include indirect costs.

- **Contracting-Out for Services.** By identifying total costs, the cost allocation plan can also be helpful in analyzing the costs of contracting for services versus performing services in-house.

### PLAN PREPARATION

In a true cost accounting system, indirect costs would be computed and allocated on an ongoing basis throughout the fiscal year based on actual costs. However, frequent updating in municipal finance would not serve any specific purpose—such as unit price control in a manufacturing company—but it would consume significant accounting resources. As such, the City's Cost Allocation Plan is prepared annually based on the budget adopted by the Council.

### SUMMARY

The Cost Allocation Plan makes determining total program costs possible by establishing a reasonable methodology for identifying and allocating indirect costs to direct cost programs. Because of this, the Cost Allocation Plan can be a valuable analytical tool in a number of situations, including allocating organizational resources, performing expense analyses, evaluating the costs of performing services in-house versus contract, establishing fees designed for full cost recovery, recovering indirect costs associated with grant programs and reimbursing support service costs provided by the General Fund to other funds.

**DIRECT AND INDIRECT COST SUMMARY**

**Table 1**

DIRECT COSTS		INDIRECT COSTS	
General Fund			
Police 01 4200	1,994,855	City Council	15,377
Fire 01 4220	719,072	City Administration	391,609
Parks & Recreation 01 4300	153,782	City Attorney	110,000
Permits 01 4405	286,060	Finance	463,310
General Street Improvements(01 4451)	-	Building Maintenance & Non Departmental	222,323
Special Revenue Funds		City Hall Use Allowance	183,400
Street & Roads Funds (20,22,71,83)	262,525		
Public Safety Funds (57,42,40,43)	-		
Lighting and Landscape Maintenance (60, 65, 63)	122,540		
Library Fund (28)	-		
Public Facilities Fund (36)	-		
Park Development Fund (38)	-		
CDBG Fund (67)	-		
Capital Facilities Fund (76)	104,000		
Enterprise Funds			
Water Fund Operating (10)	1,546,918		
Wastewater Fund Operating (12)	894,935		
Solid Waste Fund (15)	-		
Transit Fund (23)	544,483		
<b>TOTAL DIRECT COSTS</b>	<b>\$6,629,170</b>	<b>TOTAL INDIRECT COSTS</b>	<b>\$1,386,019</b>

<b>OVERALL INDIRECT COST RATE</b>	
Indirect Costs Divided by Direct Costs	20.9%

Under generally accepted accounting principles, capital outlay, debt service, interfund transfers and pass-through payments are usually excluded in calculating indirect cost rates; accordingly, only operating costs (less transfers) are considered in the City's cost allocation plan.

**SUMMARY OF EXCLUDED COSTS AND OTHER ADJUSTMENTS**

**Table 2**

**RECONCILIATION TO 2019-20 BUDGET**

Excluded Costs and Other Reconciling Adjustments		
<b>Less Non-Budget Costs:</b>		(183,400)
City Hall Use Allowance		
<b>Plus Excluded Costs:</b>		
<b>General Fund Reimbursement Transfers</b>		
Special Revenue Funds		95,600
Street & Roads Funds		
Public Safety Funds		
Enterprise Funds		
Water Fund Operating		280,600
Wastewater Fund Operating		194,500
Transit Fund		35,000
Lighting/Landscape Districts		9,900
CDBG Misc		8,000
<b>Other Transfers</b>		
Measure A to Solid Waste		-
<b>Capital Outlay - Transfers to CIP fund 89</b>		
General Fund (Parks)		30,000
General Fund (Financial Actg Software)		15,000
General Fund (Street Improvements)		36,200
Special Revenue Funds		
Street & Roads Funds		1,090,000
Park Development Fund		200,000
Capital Facilities Fund		270,000
CDBG Funds (Leroy Park)		1,117,029
Enterprise Funds		
Water Operating Fund		-
Water Capital Fund		540,000
Wastewater Operating Fund		-
Wastewater Capital Fund		1,320,000
Sewer Bond Fund		-
Pasadena Lighting & Landscape		-
<b>Debt Service</b>		
Capital Facilities Fund		46,000
Police & Fire (moved to Capital Facilities Fund)		-
Parks & Rec		4,500
Non-Departmental		121,276
Streets (20)		19,200
Water Operating Fund		74,660
Wastewater Operating Fund		95,000
<b>Pass-Throughs</b>		
<b>Total</b>		<b>5,419,065</b>

Cost Allocation Plan	
Indirect	1,386,019
Direct	6,629,170
<b>Total</b>	<b>\$8,015,189</b>

Under generally accepted accounting principles, capital outlay, debt service, interfund transfers, and pass-through payments are usually excluded in calculating indirect cost rates; accordingly, only operating costs (less transfers and pass-throughs) are considered in the City's Cost Allocation Plan.

This schedule identifies these excluded costs, and along with other adjustments ("such as non-budgeted" use allowance costs), reconciles the direct and indirect costs used in the Cost Allocation Plan with the adopted budget.

2019-20	
<b>Total: All City Funds</b>	<b>\$13,434,254</b>

**BASIS OF INDIRECT COST ALLOCATIONS**

**Table 3**

INDIRECT COST PROGRAM	BASIS OF ALLOCATION
City Council	Operating Budget
City Administration	Operating Budget
General Administration	Assigned Program
Program Supervision	Full-Time Equivalent Staffing
Human Resources	Operating Budget
City Attorney	
Finance	Operating Budget
General Finance	Full-Time Equivalent Staffing
Payroll	Water and Wastewater Funds
Utility Billing	General Fund Operating Budget
Business License Tax	Assigned Space/Operating Budget
Building Maint/Non Dept	Assigned Space/Operating Budget
City Hall Use Allowance	

**CITY ADMINISTRATION PROGRAM COSTS**

**Table 4.1**

Staffing	General Administration	Program Supervision	Human Resources	Total
	Percent			
City Administrator	0.20	0.75	0.05	1.00
Administrative Assistant	0.40	0.55	0.05	1.00
Human Resources Coordinator			1.00	1.00
<b>Allocated Cost</b>				
City Administrator	30,300	113,626	7,575	151,501
Administrative Assistant	48,016	66,022	6,002	120,040
Human Resources Coordinator	-	-	78,075	78,075
<b>Total Staffing</b>	<b>78,316</b>	<b>179,648</b>	<b>91,652</b>	<b>349,616</b>
Percent	22.4%	51.4%	26.2%	100.0%
<b>Other Operating Costs</b>	<b>4,659</b>	<b>10,688</b>	<b>5,453</b>	<b>20,800</b>
<b>Total Allocated</b>	<b>82,976</b>	<b>190,336</b>	<b>97,105</b>	<b>370,416</b>
<b>Direct Allocations</b>				
Animal Regulation (Police)				59,233
<b>TOTAL</b>				<b>\$429,649</b>

**FINANCE PROGRAM COSTS**

**Table 4.2**

	General Finance	Payroll	Utility Billing Percent	Business License Tax	Total
<b>Staffing</b>					
Finance Director	75.0%	5.0%	15.0%	5.0%	100.0%
Business Manager	10.0%	62.5%	25.0%	2.5%	100.0%
Account Clerk-Britt	67.5%		30.0%	2.5%	100.0%
Account Clerk-Rivas	5.0%		85.0%	10.0%	100.0%
	<b>Allocated Cost</b>				
Finance Director	79,200	5,280	15,840	5,280	105,600
Business Manager	14,926	93,289	37,316	3,732	149,262
Account Clerk-Britt	70,186	-	31,194	2,599	103,979
Account Clerk-Rivas	4,269	-	72,570	8,538	85,376
<b>Total Staffing</b>	<b>168,600</b>	<b>98,600</b>	<b>156,900</b>	<b>20,100</b>	<b>444,200</b>
Percent	38.0%	22.2%	35.3%	4.5%	100.0%
Other Operating Costs	11,100	6,500	10,300	1,300	29,200
<b>TOTAL</b>	<b>\$179,700</b>	<b>\$105,100</b>	<b>\$167,200</b>	<b>\$21,400</b>	<b>\$473,297</b>



**SUMMARY OF INDIRECT COST ALLOCATIONS**

**Table 5.1**

	DIRECT COST PROGRAM SUMMARY				Total
	General Fund	Special Revenue Funds	Enterprise Funds		
City Council	7,432	907	7,038		15,377
City Administration					
General Administration	40,104	4,897	37,975		82,976
Program Supervision	37,976	38,067	95,168		191,211
Human Resources	74,487	6,333	16,285		97,105
City Attorney	53,166	6,491	50,343		110,000
Finance					
General Finance	86,853	10,605	82,063		179,521
Payroll	80,620	6,854	17,625		105,100
Utility Billing			167,200		167,200
Business License Tax	21,400				21,400
Building Maintenance/Non Dept	178,014	11,669	32,640		222,323
City Hall Use Allowance	146,849	9,626	26,925		183,400
<b>TOTAL INDIRECT COSTS</b>	<b>\$746,901</b>	<b>\$95,449</b>	<b>\$533,262</b>		<b>\$1,375,612</b>

Total Direct Costs	3,153,769	385,065	2,986,336	6,525,170
Total Costs	\$3,900,670	\$480,514	\$3,519,598	\$7,900,782
Indirect Cost Rate	23.7%	24.8%	17.9%	21.1%

**SUMMARY OF INDIRECT COST ALLOCATIONS**

**Table 5.2**

	GENERAL FUND					Total
	Police	Fire	Parks & Recreation	Permits		
City Council	4,701	1,695	362	674		7,432
City Administration						
General Administration	25,367	9,144	1,956	3,638		40,104
Program Supervision	72,556	5,710	9,517	28,550		116,334
Human Resources	48,251	21,713	2,111	2,413		74,487
City Attorney	33,629	12,122	2,592	4,822		53,166
Finance						
General Finance	54,937	19,803	4,235	7,878		86,853
Payroll	52,224	23,501	2,285	2,611		80,620
Utility Billing						
Business License Tax	13,536	4,879	1,043	1,941		21,400
Building Maintenance & Non Departmental	57,700	28,230	74,352	17,733		178,014
City Hall Use Allowance	47,598	23,287	61,335	14,628		146,849
<b>TOTAL INDIRECT COSTS</b>	<b>\$410,499</b>	<b>\$150,083</b>	<b>\$159,789</b>	<b>\$84,888</b>		<b>\$805,259</b>

Total Direct Costs	1,994,855	719,072	153,782	286,060		3,153,769
Total Costs	\$2,405,354	\$869,155	\$313,571	\$370,948		\$3,959,028
Indirect Cost Rate	20.6%	20.9%	103.9%	29.7%		25.5%

**SUMMARY OF INDIRECT COST ALLOCATIONS**

**Table 5.3**

	SPECIAL REVENUE FUNDS					Total
	Pub Fac, Library & Park Dev	Streets & Roads	Public Safety	Lighting & Landscape		
City Council		619		289		907
City Administration						
General Administration		3,338		1,558		4,897
Program Supervision		34,260		3,807		38,067
Human Resources		6,333				6,333
City Attorney		4,426		2,066		6,491
Finance						
General Finance		7,230		3,375		10,605
Payroll		6,854				6,854
Utility Billing						
Business License Tax						
Building Maintenance		10,681		988		11,669
City Hall Use Allowance		8,811		815		9,626
<b>TOTAL INDIRECT COSTS</b>		<b>\$82,552</b>		<b>\$12,897</b>		<b>\$95,449</b>

Total Direct Costs	-	262,525	-	122,540	385,065
Total Costs	-	\$345,077	-	\$135,437	\$480,514
Indirect Cost Rate		31.4%		10.5%	24.8%

**SUMMARY OF INDIRECT COST ALLOCATIONS**

**Table 5.4**

	ENTERPRISE FUNDS				Total
	Water	Wastewater	Transit	Total	
City Council	3,645	2,109	1,283	7,038	-
City Administration					
General Administration	19,671	11,380	6,924	37,975	
Program Supervision	38,067	38,067	19,034	95,168	
Human Resources	8,142	8,142		16,285	
City Attorney	26,078	15,087	9,179	50,343	
Finance					
General Finance	42,601	24,646	14,995	82,242	
Payroll	8,813	8,813		17,625	
Utility Billing	93,754	73,446		167,200	
Business License Tax					
Building Maintenance	21,035	7,215	4,390	32,640	
City Hall Use Allowance	17,353	5,952	3,621	26,925	
<b>TOTAL INDIRECT COSTS</b>	<b>\$279,160</b>	<b>\$194,857</b>	<b>\$59,425</b>	<b>\$533,441</b>	
Total Direct Costs	1,546,918	894,935	544,483	2,986,336	
Total Costs	\$1,826,078	\$1,089,792	\$603,908	\$3,519,777	
Indirect Cost Rate	18.0%	21.8%	10.9%	17.9%	

**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.1**

Indirect Cost Program	City Council
Budget	\$15,377
Base of Allocation	Operating Budget

Direct Cost Program	Base of Allocation	Percent of Total	Cost Allocation
General Fund			
Police	1,994,855	30.6%	4,701
Fire	719,072	11.0%	1,695
Parks & Recreation	153,782	2.4%	362
Permits	286,060	4.4%	674
Special Revenue Funds			
Street & Roads Funds	262,525	4.0%	619
Public Safety Funds			
Lighting and Landscape Maintenance	122,540	1.9%	289
Library Fund (28)			
Public Facilities Fund (36)			
Park Development Fund (38)			
Enterprise Funds			
Water Fund Operating	1,546,918	23.7%	3,645
Wastewater Fund Operating	894,935	13.7%	2,109
Transit Fund	544,483	8.3%	1,283
<b>Total Direct Cost Programs</b>	<b>6,525,170</b>	<b>100.0%</b>	<b>\$15,377</b>

**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.2(a)**

Indirect Cost Program  
 Budget  
 Base of Allocation

City Administration: General Administration  
 \$82,976  
 Operating Budget

<b>Direct Cost Program</b>	<b>Base of Allocation</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund			
Police	1,994,855	30.6%	25,367
Fire	719,072	11.0%	9,144
Parks & Recreation	153,782	2.4%	1,956
Permits	286,060	4.4%	3,638
Special Revenue Funds			
Street & Roads Funds	262,525	4.0%	3,338
Public Safety Funds			
Lighting and Landscape Maintenance	122,540	1.9%	1,558
Library Fund (28)			
Public Facilities Fund (36)			
Park Development Fund (38)			
Enterprise Funds			
Water Fund Operating	1,546,918	23.7%	19,671
Wastewater Fund Operating	894,935	13.7%	11,380
Transit Fund	544,483	8.3%	6,924
<b>Total Direct Cost Programs</b>	<b>6,525,170</b>	<b>100.0%</b>	<b>\$82,976</b>

**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.2(b)**

Indirect Cost Program  
 Budget 249,569  
 Base of Allocation Assigned Program

City Administration: Program Supervision

Direct Cost Program		Percent of Total	Cost Allocation	Animal Regulation	Staff Planner	Total
General Fund						
Police	7	7%	13,323	59,233		72,556
Fire	3	3%	5,710			5,710
Parks & Recreation	5	5%	9,517			9,517
Permits (includes Planning)	15	15%	28,550			28,550
Special Revenue Funds						
Street & Roads Funds	18	18%	34,260			34,260
Public Safety Funds						
Lighting and Landscape Maintenance	2	2%	3,807			3,807
Enterprise Funds						
Water Fund Operating	20	20%	38,067			38,067
Wastewater Fund Operating	20	20%	38,067			38,067
Transit Fund	10	10%	19,034			19,034
	100.0					
<b>Total Direct Cost Programs</b>		<b>100%</b>	<b>\$190,336</b>	<b>\$59,233</b>		<b>\$249,569</b>

**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.2(c)**

Indirect Cost Program  
Budget  
Base of Allocation

City Administration: Human Resources  
\$97,105  
Full-Time Equivalent Employees

Direct Cost Program	Base of Allocation	Percent of Total	Cost Allocation
General Fund			
Police	16.00	49.7%	48,251
Fire	7.20	22.4%	21,713
Parks & Recreation	0.70	2.2%	2,111
Permits	0.80	2.5%	2,413
Special Revenue Funds			
Street & Roads Funds	2.10	6.5%	6,333
Public Safety Funds	-	-	-
Lighting and Landscape Maintenance	-	-	-
Enterprise Funds			
Water Fund Operating	2.70	8.4%	8,142
Wastewater Fund Operating	2.70	8.4%	8,142
Transit Fund			
<b>Total Direct Cost Programs</b>	<b>32.20</b>	<b>100.0%</b>	<b>\$97,105</b>



**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.3**

Indirect Cost Program Budget	City Attorney
Base of Allocation	\$110,000
	Operating Budget

<b>Direct Cost Program</b>	<b>Base of Allocation</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund			
Police	1,994,855	30.6%	33,629
Fire	719,072	11.0%	12,122
Parks & Recreation	153,782	2.4%	2,592
Permits	286,060	4.4%	4,822
Special Revenue Funds			
Street & Roads Funds	262,525	4.0%	4,426
Public Safety Funds			
Lighting and Landscape Maintenance	122,540	1.9%	2,066
Library Fund (28)			
Public Facilities Fund (36)			
Park Development Fund (38)			
Enterprise Funds			
Water Fund Operating	1,546,918	23.7%	26,078
Wastewater Fund Operating	894,935	13.7%	15,087
Transit Fund	544,483	8.3%	9,179
<b>Total Direct Cost Programs</b>	<b>6,525,170</b>	<b>100.0%</b>	<b>\$110,000</b>

**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.4(a)**

Indirect Cost Program  
 Budget  
 Base of Allocation

Finance: General Finance  
 \$179,700  
 Operating Budget

Direct Cost Program	Base of Allocation	Percent of Total	Cost Allocation
General Fund			
Police	1,994,855	30.6%	54,937
Fire	719,072	11.0%	19,803
Parks & Recreation	153,782	2.4%	4,235
Permits	286,060	4.4%	7,878
Special Revenue Funds			
Street & Roads Funds	262,525	4.0%	7,230
Public Safety Funds			
Lighting and Landscape Maintenance	122,540	1.9%	3,375
Library Fund (28)			
Public Facilities Fund (36)			
Park Development Fund (38)			
Enterprise Funds			
Water Fund Operating	1,546,918	23.7%	42,601
Wastewater Fund Operating	894,935	13.7%	24,646
Transit Fund	544,483	8.3%	14,995
<b>Total Direct Cost Programs</b>	<b>6,525,170</b>	<b>100.0%</b>	<b>\$179,700</b>

**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.4(b)**

Indirect Cost Program Finance: Payroll  
 Budget \$105,100  
 Base of Allocation Full-Time Equivalent Staffing

Direct Cost Program	Base of Allocation	Percent of Total	Cost Allocation
General Fund			
Police	16.00	49.7%	52,224
Fire	7.20	22.4%	23,501
Parks & Recreation	0.70	2.2%	2,285
Permits	0.80	2.5%	2,611
Special Revenue Funds			
Street & Roads Funds	2.10	6.5%	6,854
Public Safety Funds			
Lighting and Landscape Maintenance			
Enterprise Funds			
Water Fund Operating	2.70	8.4%	8,813
Wastewater Fund Operating	2.70	8.4%	8,813
Transit Fund			
<b>Total Direct Cost Programs</b>	<b>32.20</b>	<b>100.0%</b>	<b>\$105,100</b>

**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.4(c)**

Indirect Cost Program  
 Budget  
 Base of Allocation

Finance: Utility Billing  
 \$167,200  
 Water and Wastewater

<b>Direct Cost Program</b>	<b>Percent of Total</b>	<b>Cost Allocation</b>
General Fund		
Police		
Fire		
Parks & Recreation		
Permits		
Special Revenue Funds		
Street & Roads Funds		
Public Safety Funds		
Lighting and Landscape Maintenance		
Enterprise Funds		
Water Fund Operating	56.1%	93,754
Wastewater Fund Operating	43.9%	73,446
Transit Fund		
<b>Total Direct Cost Programs</b>	<b>100.0%</b>	<b>\$167,200</b>

**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.4(d)**

Indirect Cost Program  
 Budget  
 Base of Allocation

Finance: Business License Tax  
 \$21,400  
 General Fund Operating Budget

Direct Cost Program	Base of Allocation	Percent of Total	Cost Allocation
General Fund			
Police	1,994,855	63.3%	13,536
Fire	719,072	22.8%	4,879
Parks & Recreation	153,782	4.9%	1,043
Permits	286,060	9.1%	1,941
Special Revenue Funds			
Street & Roads Funds			
Public Safety Funds			
Lighting and Landscape Maintenance			
Enterprise Funds			
Water Fund Operating			
Wastewater Fund Operating			
Transit Fund			
<b>Total Direct Cost Programs</b>	<b>3,153,769</b>	<b>100.0%</b>	<b>\$21,400</b>

**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.5**

Indirect Cost Program Budget	Building Maintenance & Non Departmental	Direct	Indirect	Total
222,323		\$169,718	\$52,605	\$222,323
Base of Allocation	Assigned Space/Operating Budget	12,960	4,017	16,977

Direct Cost Program	Direct Cost Programs		Indirect Cost Programs		Total Cost Allocation
	Base of Allocation	Percent of Total	Base of Allocation	Percent of Total	
General Fund					
Police	3,178	24.5%	1,994,855	30.6%	57,700
Fire	1,713	13.2%	719,072	11.0%	28,230
Parks & Recreation	5,583	43.1%	153,782	2.4%	74,352
Permits	1,178	9.1%	286,060	4.4%	17,733
Special Revenue Funds					
Street & Roads Funds	654	5.0%	262,525	4.0%	10,681
Public Safety Funds	-		-		
Lighting and Landscape Maintenance			122,540	1.9%	988
Library Fund (28)			-		
Public Facilities Fund (36)			-		
Park Development Fund (38)			-		
Enterprise Funds					
Water Fund Operating	654	5.0%	1,546,918	23.7%	21,035
Wastewater Fund Operating	-		894,935	13.7%	7,215
Transit Fund	-		544,483	8.3%	4,390
<b>Total Direct Cost Programs</b>	<b>12,960</b>	<b>100.0%</b>	<b>\$169,718</b>	<b>100.0%</b>	<b>\$222,323</b>
			<b>6,525,170</b>		<b>\$52,605</b>

**INDIRECT PROGRAM COST ALLOCATION**

**Table 6.6**

Indirect Cost Program Budget	City Hall Use Allowance	\$183,400	Direct	\$140,005	Indirect	\$43,395	Total	\$183,400
Base of Allocation	Assigned Space/Operating Budget			12,960		4,017		16,977

Direct Cost Program	Direct Cost Programs			Indirect Cost Programs			Total Cost Allocation
	Base of Allocation	Percent of Total	Cost Allocation	Base of Allocation	Percent of Total	Operating Allocation	
General Fund							
Police	3,178	24.5%	34,331	1,994,855	30.6%	13,267	47,598
Fire	1,713	13.2%	18,505	719,072	11.0%	4,782	23,287
Parks & Recreation	5,583	43.1%	60,312	153,782	2.4%	1,023	61,335
Permits	1,178	9.1%	12,726	286,060	4.4%	1,902	14,628
Special Revenue Funds							
Street & Roads Funds	654	5.0%	7,065	262,525	4.0%	1,746	8,811
Public Safety Funds							
Lighting and Landscape Maintenance				122,540	1.9%	815	815
Library Fund (28)				-			
Public Facilities Fund (36)				-			
Park Development Fund (38)				-			
Enterprise Funds							
Water Fund Operating	654	5.0%	7,065	1,546,918	23.7%	10,288	17,353
Wastewater Fund Operating				894,935	13.7%	5,952	5,952
Transit Fund				544,483	8.3%	3,621	3,621
<b>Total Direct Cost Programs</b>	<b>12,960</b>	<b>100.0%</b>	<b>\$140,005</b>	<b>6,525,170</b>	<b>100.0%</b>	<b>\$43,395</b>	<b>\$183,400</b>

Rental rates are conservatively based on a market rental rate of 87.5 cents per month per square feet based on three factors:

1. A recent appraisal for Successor Agency property shows market rents in the City ranging from 60 cents to \$1.20 per square foot per month for commercial uses. 87.5 cents is slightly below the middle of this range.
2. Commercial space is currently on the market for \$1.00 per square foot per month.
3. This market rate use allowance is made even more conservative based its application to "net" square footage (net of circulation, bathrooms, storage and other common areas), whereas commercial rates are typically based on "gross area."

**GENERAL FUND REIMBURSEMENT TRANSFERS**

**Table 7**

	Per Estimate Table 2	2019-20 Per Cost Allocation Plan	Imposed Limitation*	Variance	Use
Special Revenue Funds					
Street & Roads Funds	95,600	82,600		(13,000)	82,600
Lighting and Landscape Maintenance	9,900	12,900		3,000	12,900
CDBG - Microenterprise	8,000	8,000		-	8,000
Enterprise Funds					
Water Fund Operating	280,600	279,200		(1,400)	279,200
Wastewater Fund Operating	194,500	194,900		400	194,900
Transit Fund	35,000	59,400	(24,400)	-	35,000
Successor Agency per 18-19 ROPS	125,000	125,000		-	125,000
<b>Total</b>	<b>\$748,600</b>	<b>\$762,000</b>	<b>(\$24,400)</b>	<b>(\$11,000)</b>	<b>\$737,600</b>

\* Not currently allowed by funding sources need approval by the Department of Transportation



**ALLOCATION BASES: FULL-TIME STAFFING**

**Table 8.1**

DIRECT COST PROGRAMS		INDIRECT COST PROGRAMS	
General Fund			
Police	16.00	City Council	-
Fire	7.20	Administration	2.65
Parks & Recreation	0.70	City Attorney	-
Permits	0.80	Finance	4.00
Special Revenue Funds		Building Maintenance	0.30
Street & Roads Funds	2.10	City Hall Use Allowance	-
Public Safety Funds	-		
Lighting and Landscape Maintenance	-		
Enterprise Funds			
Water Fund Operating	2.70		
Wastewater Fund Operating	2.70		
Transit Fund	-		
<b>TOTAL DIRECT COST PROGRAMS</b>	<b>32.20</b>	<b>TOTAL INDIRECT COST PROGRAMS</b>	<b>6.95</b>

**TOTAL**

**39.15**

**ALLOCATION BASES: ASSIGNED SPACE**

**Table 8.2**

DIRECT COST PROGRAMS		INDIRECT COST PROGRAMS	
General Fund			
Police	3,178	City Council	1,523
Fire	1,713	Administration	1,377
Parks & Recreation	5,583	City Attorney	-
Permits	1,178	Finance	1,117
Special Revenue Funds		Building Maintenance	-
Street & Roads Funds	654		
Public Safety Funds			
Lighting and Landscape Maintenance			
Enterprise Funds			
Water Fund Operating	654		
Wastewater Fund Operating			
Transit Fund			
<b>TOTAL DIRECT COST PROGRAMS</b>	<b>12,960</b>	<b>TOTAL INDIRECT COST PROGRAMS</b>	<b>4,017</b>
Cost* @	\$0.90	Total Cost	\$183,400
	per square foot per month **	Total Sq Ft	\$43,400
			16,977

Percent of Total Square Feet	
Direct	76.3%
Indirect	23.7%

**GENERAL LIABILITY ALLOCATION OPTIONS**

Indirect Cost Program	General Liability
Budget	\$120,000
Base of Allocation	Operating Budget

General Liability Cost Allocation Options					
Direct Cost Program	Base of Allocation	Percent of Total	Cost Allocation	Budget	Variance
General Fund					
Police	1,994,855	33.4%	40,200	15,000	25,200
Fire	719,072	12.0%	14,400	5,000	9,400
Parks & Recreation	153,782	2.6%	3,100	5,000	(1,900)
Permits	286,060	4.8%	5,700	-	5,700
Administration				15,000	(15,000)
Total General Fund	3,153,769	52.7%	63,400	40,000	23,400
Special Revenue Funds					
Street & Roads Funds	262,525	4.4%	5,300	60,000	(54,700)
Public Safety Funds	0	0.0%	0	-	-
Lighting & Landscape Maintenance	122,540	2.0%	2,500	-	2,500
Enterprise Funds					
Water Fund Operating	1,546,918	25.9%	31,000	10,000	21,000
Wastewater Fund Operating	894,935	15.0%	18,000	10,000	8,000
Transit Fund*					
Total Special Funds	2,826,918	47.3%	56,800	80,000	(23,200)
<b>Total Direct Cost Programs</b>	<b>\$5,980,687</b>	<b>100.0%</b>	<b>\$120,200</b>	<b>\$120,000</b>	<b>\$200</b>

\* Assumes risk transferred to contractor via agreement, and as such, no allocation is made to the Transit Fund.

Indirect Cost Program	General Liability
Budget	\$120,000
Base of Allocation	Full-Time Staffing

General Liability Cost Allocation Options					
Direct Cost Program	Base of Allocation	Percent of Total	Cost Allocation	Budget	Variance
General Fund					
Police	9.75	43.8%	52,500	15,000	37,500
Fire	2.60	11.7%	14,000	5,000	9,000
Parks & Recreation	0.50	2.2%	2,700	5,000	(2,300)
Permits	0.90	4.0%	4,900	-	4,900
Administration				15,000	(15,000)
Total General Fund	13.75	61.8%	74,100	40,000	34,100
Special Revenue Funds					
Street & Roads Funds	1.80	8.1%	9,700	60,000	(50,300)
Public Safety Funds	3.00	13.5%	16,200	-	16,200
Lighting & Landscape Maintenance				-	-
Enterprise Funds					
Water Fund Operating	1.20	5.4%	6,500	10,000	(3,500)
Wastewater Fund Operating	2.50	11.2%	13,500	10,000	3,500
Transit Fund				-	-
Total Special Funds	8.50	38.2%	45,900	80,000	(34,100)
<b>Total Direct Cost Programs</b>	<b>22.25</b>	<b>100.0%</b>	<b>\$120,000</b>	<b>\$120,000</b>	<b>\$0</b>

<b>Reimbursement Transfers</b>				
	2014-15 Budget	Cost Allocation Plan	Police Grant Limitation*	Variance
Special Revenue Funds				
Street & Roads Funds	125,000	#REF!	0	#REF!
Public Safety Funds*	26,000	#REF!	0	#REF!
Lighting and Landscape Maintenance	0	#REF!	0	#REF!
CDBG - Microenterprise	15,000	#REF!	0	#REF!
Enterprise Funds				
Water Fund Operating	200,000	#REF!	0	#REF!
Wastewater Fund Operating	150,000	#REF!	0	#REF!
Transit Fund	35,000	#REF!	(24,400)	#REF!
<b>Total</b>	<b>\$551,000</b>	<b>#REF!</b>	<b>(\$24,400)</b>	<b>#REF!</b>

\*Assumes reimbursements are limited to the budget amount and reflects downward adjustment from the Preliminary Budget of \$60,000 due to discontinuing involvement in the countywide SBRNT program (drug task force).

REPORT TO THE GUADALUPE CITY COUNCIL  
City Council Agenda of August 27, 2019

151  
Prepared by:  
Philip F. Sinco, City Attorney

Robert Perrault  
Approved by:  
Robert Perrault, Interim City Administrator

**SUBJECT:** New Rule 3.5 of California’s Rules of Professional Conduct for Lawyers: Recommended Local Rule(s) for Communications with Members of the City Council Acting in an Adjudicative Capacity; and Recommended Local Rule Against Gifts Beyond the Limits of California’s Political Reform Act

**RECOMMENDATION:**

That the City Council adopt Resolution No. 2019-53 to:

1. Adopt as a local rule for communications with members of the City Council that the City Attorney may continue to provide confidential attorney-client legal advice on the merits of adjudicative matters, including planning, zoning and subdivision matters.
2. Adopt as a local rule that attorneys may communicate with members of the City Council when acting in an adjudicative capacity subject to required disclosures of such communications prior to the taking of any action in an adjudicated matter.
3. Adopt a local rule that any gifts from lawyers to members of the City Council, and/or members of all other City boards and commissions and/or to City employees, shall be regulated by the Political Reform Act.

**BACKGROUND:**

New Rule 3.5(b) of the California Rule of Professional Conduct generally prohibits *ex parte* communications between a lawyer and a “judge” -- which new Rule 3.5(c) now defines to include “members of an administrative body acting in an adjudicative capacity” -- on the merits of a pending contested matter, unless otherwise permitted to do so “by law” or by a rule of the tribunal or by some other stated exception. Generally speaking, legislative actions *make* rules (example: the Zoning Code), while adjudicative (“quasi-judicial”) actions *apply* rules to specific sets of facts (example: the appeal of a conditional use permit). The Rules of Professional Conduct in place prior to November 1, 2018, provided limitations on *ex parte* communications

with judges, but did not include in the definition of judges “members of an administrative body acting in an adjudicative capacity.” (Former Rules 5-300 and 5-320.)

New Rule 3.5(b) of California’s Rules of Professional Conduct for lawyers took effect on November 1, 2018, and generally prohibits “*ex parte*” communications between lawyers and “members of an administrative body acting in an adjudicative capacity,” unless permitted to do so “by law” or a rule of the tribunal or other stated exceptions. The City Council appears to be subject to new Rule 3.5’s general prohibition against *ex parte* contact by lawyers concerning “adjudicative” matters unless otherwise permitted to do so “by law” or by a rule of the City Council. (New Rule 3.5(b), new Rule 1.01(m) and Comment 1 to new Rule 3.5.)

It is unclear if Rule 3.5 applies to a city attorney, but the better legal argument is that it does not. The city attorney is the legal advisor to the City Council (Gov. Code §§ 48101, 48103). The California Supreme Court has held that City Council members properly received confidential written legal advice from their city attorney concerning a contested parcel map appeal. (*Roberts v. City of Palmdale* (2006) 5 Cal.4<sup>th</sup> 363, 380-381.) In addition, while the California Administrative Procedures Act (Act) does not generally apply to cities, the Act provides that communications between a judge or tribunal and their legal counsel are allowed and are excluded from the definition of *ex parte* contacts. (Gov. Code §§ 11400, 11410.30, 11430.30(a); *Dept. of Alcoholic Beverage Control v. Alcoholic Beverage Control Appeals Board* (2006) 40 Cal.4<sup>th</sup> 1, 10). Based on the foregoing, it is likely, but not certain, that city attorney communications with City Council members is permitted “by law,” and therefore, exempt from Rule 3.5.

Although it is not entirely clear if new Rule 3.5 already treats a city attorney as permitted “by law” to continue to engage in confidential attorney-client communications with members of the City Council concerning contested adjudicative matters, what is clear is that Comment 1 to Rule 3.5 expressly states that, “local agencies also may adopt their own regulations and rules governing communications with members or employees of a tribunal.”

Recommended Action no. 1 would adopt as a local rule that the City Attorney is the statutory legal advisor to the City Council and the City and may continue to provide confidential attorney-client legal advice to the City Council on the merits of adjudicative matters, including planning, zoning and subdivision matters. By adopting this local rule, the City Attorney will be able to continue to engage in confidential attorney-client communications with the City Council even if Rule 3.5 is eventually determined by a court to apply to city attorneys.

If the Board approves Recommended Action no. 1, the City Attorney will continue to avoid *ex parte* communications with the members of the City Council about the merits of adjudicative matters. In those rare cases where the City Attorney has served as an advocate for a particular position rather than as an impartial legal advisor, the City will retain other legal counsel to serve as the legal advisor to the City Council during an adjudicative matter. This practice is consistent with “due process” case law. (See, *Nightlife Partners, Ltd. v. City of Beverly Hills* (2003) 108 Cal.App.4<sup>th</sup> 81).

Prior to new Rule 3.5, private lawyers retained by parties (or parties that happened to also be lawyers) engaged in a pending adjudicative matter before a City Council were permitted to communicate *ex parte* with members of the City Council. Typically, all that was required to comply with due process and ethics laws would be to disclose these *ex parte* contacts or communications at the public hearing on the adjudicated matter prior to any action being taken. This was specifically permitted by former Rule 2-100(c), which provided that the general prohibition against a lawyer communicating with a represented party did not include “communications with a public official, board, committee, or body.” Former Rule 2-100(c) has been renumbered as new Rule 4.2(c), but otherwise carries forward the exception. For this reason, new Rule 3.5 is in tension with new Rule 4.2(c).

The City Council can continue to permit lawyers to contact and communicate with them individually by adopting a local rule that clarifies that these contacts and communications will be permitted and not subject to Rule 3.5.

New Rule 3.5(a) also prohibits lawyers from directly or indirectly giving or lending “anything of value to a judge, official, or employee of a tribunal” unless permitted by statute or standards governing employees of a tribunal. Read literally and without a local rule, this leaves confusion about whether the City Attorney could buy a cup of coffee for a City Council member (or City Administrator or contract Planning Director, etc.) if there was an adjudicative matter pending. Recommended Action no. 3 would avoid this by adopting as a local rule that the Political Reform Act’s rules on gifts apply to gifts from lawyers to members of the City Council or to City employees. The Political Reform Act extensively controls: what qualifies as a gift (Gov. Code § 82028, 2 CCR § 18940 *et seq.*); the maximum amount of gifts allowed from any single source (Gov. Code § 89503) during a calendar year; and gift reporting requirements (Gov. Code § 87200 *et seq.*).

#### **FISCAL IMPACT:**

There are no direct fiscal impacts on the County associated with new Rule 3.5.

#### **ATTACHMENTS**

1. New Rule 3.5, California Rules of Professional Conduct;
2. Resolution No. 2019-53 entitled “A Resolution of the City Council of the City of Guadalupe Adopting Local Rules Authorizing Attorneys to Have *Ex Parte* Communications with Members of the City Council as Permitted by California Rules of Professional Conduct, Rule 3.5, and Providing that Gifts from Lawyers shall be Subject to the Political Reform Act.”

**RESOLUTION NO. 2019-53**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GUADALUPE, CALIFORNIA  
AUTHORIZING ATTORNEYS TO HAVE EX PARTE COMMUNICATIONS WITH MEMBERS OF THE  
CITY COUNCIL AS PERMITTED BY CALIFORNIA RULES OF PROFESSIONAL CONDUCT, RULE 3.5  
AND PROVIDING THAT GIFTS FROM LAWYERS SHALL BE SUBJECT TO THE POLITICAL REFORM  
ACT**

**WHEREAS**, former Rule 2-100(c) of the California Rules of Professional Conduct for lawyers exempted “communications with a public official, board, committee, or body” from the general prohibition against a lawyer having communications with a represented party; and,

**WHEREAS**, former Rule 2-100(c) has been renumbered as Rule 4.2, effective as of November 1, 2018, but otherwise remains unchanged; and

**WHEREAS**, new Rule 3.5(b) of the California Rules of Professional Conduct, effective as of November 1, 2018, generally prohibits *ex parte* communications between a lawyer and a “judge” -- which is now defined to include “members of an administrative body acting in an adjudicative capacity” -- on the merits of a pending contested matter, unless otherwise permitted to do so “by law” or by a rule of the tribunal or by some other stated exception; and

**WHEREAS**, new Rule 3.5(a) also prohibits lawyers from directly or indirectly giving or lending “anything of value to a judge, official, or employee of a tribunal” unless permitted by statute or standards governing employees of a tribunal.

**NOW, THEREFORE, BE IT RESOLVED**, by the City Council of the City of Guadalupe as follows:

1. A local rule is hereby adopted for communications with members of the City Council that the City Attorney may continue to provide confidential attorney-client legal advice on the merits of adjudicative matters, including planning, zoning and subdivision matters subject to due process requirements;
2. A local rule is hereby adopted that attorneys may communicate with members of the City Council when acting in an adjudicative capacity subject to disclosures by the City Council members of such communications prior to the taking of any action in an adjudicated matter;
3. A local rule is hereby adopted that any gifts from lawyers to members of the City Council and/or City employees shall be regulated by the Political Reform Act;
4. The City Council finds that the proposed actions are not a “project” under California Environmental Quality Act Guidelines § 15378(b)(5) in that they are organizational or administrative activities of the government that will not result in direct or indirect physical changes to the environment.



**PASSED, APPROVED AND ADOPTED** at a regular meeting the 27<sup>th</sup> day of August, 2019, by the following vote:

**Motion:**

**AYES:**

**NOES:**

**ABSENT:**

**ABSTAIN:**

I, **Joice Earleen Raguz, City Clerk of the City of Guadalupe** DO HEREBY CERTIFY that the foregoing Resolution, being C.C. Resolution No. 2019-53, has been duly signed by the Mayor and attested by the City Clerk, all at a regular meeting of the City Council, held August 27, 2019, and that same was approved and adopted.

ATTEST:

\_\_\_\_\_  
Joice Earleen Raguz, City Clerk

\_\_\_\_\_  
Ariston Julian, Mayor

APPROVED AS TO FORM:

\_\_\_\_\_  
Philip F. Sinco, City Attorney

## RULES OF PROFESSIONAL CONDUCT

(effective on November 1, 2018)

### Rule 3.5 Contact with Judges, Officials, Employees, and Jurors

(a) Except as permitted by statute, an applicable code of judicial ethics or code of judicial conduct, or standards governing employees of a tribunal,\* a lawyer shall not directly or indirectly give or lend anything of value to a judge, official, or employee of a tribunal.\* This rule does not prohibit a lawyer from contributing to the campaign fund of a judge or judicial officer running for election or confirmation pursuant to applicable law pertaining to such contributions.

(b) Unless permitted to do so by law, an applicable code of judicial ethics or code of judicial conduct, a rule or ruling of a tribunal,\* or a court order, a lawyer shall not directly or indirectly communicate with or argue to a judge or judicial officer upon the merits of a contested matter pending before the judge or judicial officer, except:

- (1) in open court;
- (2) with the consent of all other counsel and any unrepresented parties in the matter;
- (3) in the presence of all other counsel and any unrepresented parties in the matter;
- (4) in writing\* with a copy thereof furnished to all other counsel and any unrepresented parties in the matter; or
- (5) in ex parte matters.

(c) As used in this rule, “judge” and “judicial officer” shall also include: (i) administrative law judges; (ii) neutral arbitrators; (iii) State Bar Court judges; (iv) members of an administrative body acting in an adjudicative capacity; and (v) law clerks, research attorneys, or other court personnel who participate in the decision-making process, including referees, special masters, or other persons\* to whom a court refers one or more issues and whose decision or recommendation can be binding on the parties if approved by the court.

(d) A lawyer connected with a case shall not communicate directly or indirectly with anyone the lawyer knows\* to be a member of the venire from which the jury will be selected for trial of that case.

(e) During trial, a lawyer connected with the case shall not communicate directly or indirectly with any juror.

(f) During trial, a lawyer who is not connected with the case shall not communicate directly or indirectly concerning the case with anyone the lawyer knows\* is a juror in the case.

(g) After discharge of the jury from further consideration of a case a lawyer shall not communicate directly or indirectly with a juror if:

- (1) the communication is prohibited by law or court order;
- (2) the juror has made known\* to the lawyer a desire not to communicate; or
- (3) the communication involves misrepresentation, coercion, or duress, or is intended to harass or embarrass the juror or to influence the juror’s actions in future jury service.

(h) A lawyer shall not directly or indirectly conduct an out of court investigation of a person\* who is either a member of a venire or a juror in a manner likely to influence the state of mind of such person\* in connection with present or future jury service.

(i) All restrictions imposed by this rule also apply to communications with, or investigations of, members of the family of a person\* who is either a member of a venire or a juror.

(j) A lawyer shall reveal promptly to the court improper conduct by a person\* who is either a member of a venire or a juror, or by another toward a person\* who is either a member of a venire or a juror or a member of his or her family, of which the lawyer has knowledge.

(k) This rule does not prohibit a lawyer from communicating with persons\* who are members of a venire or jurors as a part of the official proceedings.

(l) For purposes of this rule, “juror” means any empaneled, discharged, or excused juror.

### Comment

[1] An applicable code of judicial ethics or code of judicial conduct under this rule includes the California Code of Judicial Ethics and the Code of Conduct for United States Judges. Regarding employees of a tribunal\* not subject to judicial ethics or conduct codes, applicable standards include the Code of Ethics for the Court Employees of California and 5 United States Code section 7353 (Gifts to Federal employees). The statutes applicable to adjudicatory proceedings of state agencies generally are contained in the Administrative Procedure Act (Gov. Code, § 11340 et seq.; see Gov. Code, § 11370 [listing statutes with the act].) State and local agencies also may adopt their own regulations and rules governing communications with members or employees of a tribunal.\*

[2] For guidance on permissible communications with a juror in a criminal action after discharge of the jury, see Code of Civil Procedure section 206.

**RULES OF PROFESSIONAL CONDUCT**  
*(effective on November 1, 2018)*

[3] It is improper for a lawyer to communicate with a juror who has been removed, discharged, or excused from an empaneled jury, regardless of whether notice is given to other counsel, until such time as the entire jury has been discharged from further service or unless the communication is part of the official proceedings of the case.

**Rule 3.6 Trial Publicity**

(a) A lawyer who is participating or has participated in the investigation or litigation of a matter shall not make an extrajudicial statement that the lawyer knows\* or reasonably should know\* will (i) be disseminated by means of public communication and (ii) have a substantial\* likelihood of materially prejudicing an adjudicative proceeding in the matter.

(b) Notwithstanding paragraph (a), but only to the extent permitted by Business and Professions Code section 6068, subdivision (e) and rule 1.6, lawyer may state:

- (1) the claim, offense or defense involved and, except when prohibited by law, the identity of the persons\* involved;
- (2) information contained in a public record;
- (3) that an investigation of a matter is in progress;
- (4) the scheduling or result of any step in litigation;
- (5) a request for assistance in obtaining evidence and information necessary thereto;
- (6) a warning of danger concerning the behavior of a person\* involved, when there is reason to believe\* that there exists the likelihood of substantial\* harm to an individual or to the public but only to the extent that dissemination by public communication is reasonably\* necessary to protect the individual or the public; and
- (7) in a criminal case, in addition to paragraphs (1) through (6):
  - (i) the identity, general area of residence, and occupation of the accused;
  - (ii) if the accused has not been apprehended, the information necessary to aid in apprehension of that person;\*
  - (iii) the fact, time, and place of arrest; and
  - (iv) the identity of investigating and arresting officers or agencies and the length of the investigation.

(c) Notwithstanding paragraph (a), a lawyer may make a statement that a reasonable\* lawyer would believe\* is required to protect a client from the substantial\* undue prejudicial effect of recent publicity not initiated by the lawyer or the lawyer's client. A statement made pursuant to this paragraph shall be limited to such information as is necessary to mitigate the recent adverse publicity.

(d) No lawyer associated in a law firm\* or government agency with a lawyer subject to paragraph (a) shall make a statement prohibited by paragraph (a).

**Comment**

[1] Whether an extrajudicial statement violates this rule depends on many factors, including: (i) whether the extrajudicial statement presents information clearly inadmissible as evidence in the matter for the purpose of proving or disproving a material fact in issue; (ii) whether the extrajudicial statement presents information the lawyer knows\* is false, deceptive, or the use of which would violate Business and Professions Code section 6068, subdivision (d) or rule 3.3; (iii) whether the extrajudicial statement violates a lawful "gag" order, or protective order, statute, rule of court, or special rule of confidentiality, for example, in juvenile, domestic, mental disability, and certain criminal proceedings, (see Bus. & Prof. Code, § 6068, subd. (a) and rule 3.4(f), which require compliance with such obligations); and (iv) the timing of the statement.

[2] This rule applies to prosecutors and criminal defense counsel. See rule 3.8(c) for additional duties of prosecutors in connection with extrajudicial statements about criminal proceedings.

**Rule 3.7 Lawyer as Witness**

(a) A lawyer shall not act as an advocate in a trial in which the lawyer is likely to be a witness unless:

- (1) the lawyer's testimony relates to an uncontested issue or matter;
- (2) the lawyer's testimony relates to the nature and value of legal services rendered in the case; or
- (3) the lawyer has obtained informed written consent\* from the client. If the lawyer represents the People or a governmental entity, the consent shall be obtained from the head of the office or a designee of the head of the office by which the lawyer is employed.

(b) A lawyer may act as advocate in a trial in which another lawyer in the lawyer's firm\* is likely to be called as a witness unless precluded from doing so by rule 1.7 or rule 1.9.

**REPORT TO THE GUADALUPE CITY COUNCIL  
City Council Agenda of August 27, 2019**

  
Prepared by:  
Robert Perrault, Interim City Administrator

**SUBJECT: Discussion Regarding Proposed Changes to Chapter 15.08 as it Relates to Sprinkle Requirements for Occupancy Uses in Commercial Buildings**

**RECOMMENDATION:**

It is recommended the Council provide direction to staff to initiate the process to amend the code.

**BACKGROUND:**

Recently, it has been brought to staff's attention that current sprinkler requirements contained in the Municipal Code may be inhibiting the development or redevelopment of Business (B) or Mercantile (M) occupancies in the City. Staff is recommending the Council review these requirements and provide direction to staff to initiate amendments to the Code in order to provide parties with flexibility in developing or redeveloping buildings with these occupancies.

Automatic sprinkler systems requirements are contained in Section 903 of the Fire Code Chapter of the Municipal Code, subsection 15.08. Current language requires all Group B occupancies (professional offices) and Group M occupancies (general retail) to be equipped with an automatic sprinkler system throughout the building when the gross square footage is more than **2,500 sq. ft.** It also requires sprinkler systems for buildings with additions or alterations of 50% and in excess of **1500 sq. ft.** It appears that requiring sprinkler systems for the entire building for projects that are of this limited scope may be cost prohibitive. As outlined in the attachment which contains the recommended changes, staff is suggesting that the square footage limitations requiring sprinklers be increased for Group B and M occupancies from **2500 sq. ft. to 5,000 sq. ft.** Projects with alterations to Group B and M occupancies would increase from **1500 sq. ft. to 3,000 sq. ft.** It is hoped that these modifications will serve as an inducement for small projects with these occupancies.

The suggested changes are in line with sprinkler requirements for other communities including the City of Santa Maria. It should be noted the current requirements are much more restrictive than the current State Code. Communities are authorized to approve more restrictive requirements than the State Code when certain findings are made. The current requirements were put in place years ago in recognition that that in the event of a structure fire back up

response is at least 10 minutes away and sprinkler systems assist with fire containment. While fire assistance response times have not changed the City has recently added additional fire staff. There have also been recent improvement in fire resistant building materials. These factors have also contributed to a reconsideration of the current codes.

**Alternatives:**

The Council has the following Alternatives to consider:

1. The Council could direct staff to initiate the changes in the codes as outlined in the attachment;
2. The Council could direct staff to make changes to the code other than those recommend; or
3. The Council could choose to take no action.

**FISCAL IMPACT:**

There would be no or limited financial impact to the City. The changes in the code could induce project that would contribute financially to the City.

**ATTACHMENTS**

1. Section 903 of Chapter 15.08 Automatic Sprinkler Systems with recommended revisions.

## 903 AUTOMATIC SPRINKLER SYSTEMS

**903.2 Where Required.** Approved automatic fire sprinkler systems in new buildings and structures shall be provided in the locations described in this section, regardless of construction type, occupancy separation walls or area separation walls.

**903.2.1 Group A.** All Group A-1, A-2, A-3, and A-4 occupancies shall be equipped with an automatic fire sprinkler system throughout the building.

**903.2.2 Group B Ambulatory Health Care Facilities.** An automatic sprinkler system shall be installed throughout the building in all Group B ambulatory health care facility occupancies when either of the following conditions exist at any time:

1. Four or more care recipients are incapable of self-preservation.
2. One or more care recipients who are incapable of self-preservation are located at other than the level of exit discharge serving such an occupancy.

**903.2.2.1 Group B.** All Group B occupancies other than those described in Section 903.2.2 shall be equipped with an automatic fire sprinkler system throughout the building when the gross floor area is more than ~~2,500~~ 5,000 square feet (233 m<sup>2</sup>).

**903.2.3 Group E.** All Group E occupancies shall be equipped with an automatic fire sprinkler system throughout the building.

**903.2.4 Group F.** All Group F occupancies shall be equipped with an automatic fire sprinkler system throughout the building when the gross floor area is more than 2,500 square feet (233 m<sup>2</sup>).

**903.2.4.1 Woodworking Operations.** Refer to Section 903.2.4.

**903.2.6 Group I.** All Group I occupancies shall be equipped with an automatic fire sprinkler system throughout the building.

**903.2.7 Group M.** All Group M occupancies shall be equipped with an automatic fire sprinkler system throughout the building when the gross floor area is more than ~~2,500~~ 5,000 square feet (233 m<sup>2</sup>).

**903.2.9 Group S.** All Group S occupancies shall be equipped with an automatic fire sprinkler system throughout the building when the gross floor area is more than 2,500 square feet (233 m<sup>2</sup>).

**903.2.20 Speculative Building Defined.** Any F, M, or S occupancy required by this code to be equipped with automatic fire sprinklers throughout the building in which the tenant is not identified at the time of application for a building permit shall be considered a speculative building.

**903.2.20.1 Speculative Building, Sprinkler System Design.** Automatic fire sprinkler systems in speculative buildings as defined in Section 903.2.20 with an interior clear height of 12 feet or less shall have a minimum design of 0.20 gallons per minute over a 2,500 square foot design area (0.20/2500).

**903.2.20.2 Speculative Building, Sprinkler System Design.** Automatic fire sprinkler systems in speculative buildings as defined in Section 903.2.20 with an interior clear height of more than 12 feet shall be designed as set forth in Section 206.2.2 of this code (High-piled storage).

**903.2.21 Additions or Alterations.** Automatic fire sprinkler system throughout the building shall be provided when:

- a. Additions to existing buildings adds more than 50% of the existing square footage to the structure **AND OR** results in a total square footage in excess of 1,500 (one thousand five hundred) square feet;
- b. Alterations to Group A, B as described in section 903.2.2, E, F, and S encompass more than 50% of the existing square footage of the structure **AND OR** is in excess of 1,500 (one thousand five hundred) square feet **OR** where there is a change of occupancy to a more hazardous use as determined by the Building Official or Fire Chief;
- c. Alterations to Group B other than those described in Section 903.2.2 and M encompass more than 50% of the existing square footage of the structure **AND OR** is in excess of ~~1,500~~ 3,000 (one three thousand five hundred) square feet **OR** where there is a change of occupancy to a more hazardous use as determined by the Building Official or Fire Chief;
- d. Alterations to Group R encompass more than 50% of the existing square footage of the structure or is in excess of 2,000 (two thousand) square feet **OR** where there is a change of occupancy to a more hazardous use as determined by the Building Official or Fire Chief;
- e. These requirements will be applicable to the combined square footage of all building permits issued for the address or site within the last five years. Buildings or structures separated by less than ten (10) feet shall be considered as a single building or structure.