CITY OF COALINGA
The Sunny Side of the Valley

SPECIAL
CITY COUNCIL/SUCCESSOR AGENCY/PUBLIC FINANCE AUTHORITY MEETING AGENDA

June 25, 2014
6:00 PM

The Mission of the City of Coalinga is to provide for the preservation of the community character by delivering quality, responsive City services, in an efficient and cost-effective manner, and to develop, encourage, and promote a diversified economic base in order to ensure the future financial stability of the City for its citizens.

Notice is hereby given that the City Council will hold a Special Meeting, on June 25, 2014 in the City Council Chambers located at 155 West Durian, Coalinga, CA. Persons with disabilities who may need assistance should contact the Deputy City Clerk at least 24 hours prior to this meeting at 935-1533 x113. The Special Meeting will begin at 6:00 p.m. and the agenda will be as follows:

1. CALL TO ORDER

2. AWARDS, PRESENTATIONS, APPOINTMENTS AND PROCLAMATIONS (NONE)

3. CITIZEN COMMENTS

This section of the agenda allows members of the public to address the City Council on any item not otherwise on the agenda. Members of the public, when recognized by the Mayor, should come forward to the lectern, identify themselves and use the microphone. Comments are normally limited to three (3) minutes. In accordance with State Open Meeting Laws, no action will be taken by the City Council this evening and all items will be referred to staff for follow up and a report.

4. PUBLIC HEARINGS

1. Adoption of Resolution No. 3645 Setting New Water Rates to Address Drought Impacts to the Water Fund

   Rene A. Ramirez, City Manager

5. CONSENT CALENDAR

1. FY14/15 Continuing Budget Resolution No. 3646
2. FY14/15 Continuing Budget Resolution No. SA-315

3. FY14/15 Continuing Public Finance Authority Budget Resolution No. PFA 14-01

4. Rejection of Claim for Damages Presented by Rick Pyzer

6. ORDINANCE PRESENTATION, DISCUSSION AND POTENTIAL ACTION ITEMS

1. Council Action to Approve a Proposed Agreement by and between the City of Coalinga and NNG, a California Corporation, Concerning a Potential Oil and Gas Lease on City Property Identified as APN 073-06-06, and Approval of Related Oil, Gas and Mineral Lease

   Rene A. Ramirez, City Manager

2. Consideration of a General Utility User Tax to Support Public Safety Programs and Direct the City Manager and City Attorney to Proceed with Work Efforts for a November 2014 Ballot Initiative

   Rene A. Ramirez, City Manager

7. ANNOUNCEMENTS

8. FUTURE AGENDA ITEMS

9. CLOSED SESSION (NONE)

10. ADJOURNMENT

Closed Session: A "Closed" or "Executive" Session of the City Council, Successor Agency, or Public Finance Authority may be held as required for items as follows: personnel matters; labor negotiations; security matters; providing instructions to real property negotiators; legal counsel regarding pending litigation; and protection of records exempt from public disclosure. Closed session will be held in the Administration Building at 155 W. Durian Avenue and any announcements or discussion will be held at the same location following Closed Session.

STAFF REPORT - CITY COUNCIL/SUCCESSOR AGENCY/PUBLIC FINANCE AUTHORITY

Subject:	Adoption of Resolution No. 3645 Setting New Water Rates to Address Drought Impacts to the Water Fund
Meeting Date:	June 25, 2014
From:	Rene A. Ramirez, City Manager
Prepared by:	Rene A. Ramirez, City Manager

I. RECOMMENDATION:

Staff recommends the Council adopt Resolution No. 3645, which establishes new water rates effective July 1, 2014 in order to address the ongoing drought impacts to the financial stability of the Water Fund.

II. BACKGROUND:

Earlier this year and due to the drought, the City's water supplier, the USBR, announced it would be supplying 50% of historical water deliveries to its municipal contractors. For the City, it meant its water supply was being reduced to 3,258 acre-feet. This announcement would have an impact to Water Fund revenue, as it would for any water purveyor, as water rates and revenue are predicated on certain volumes of water being delivered to customers. The City's current water rate model, adopted in January 2012, could not have anticipated such a substantial reduction in water supply. If it had, water rates would have been much higher.

With the reduced water supply, staff informed the Council that in order to meet the Water Fund's financial obligations, i.e. operations and debt coverage ratios, a new rate study would be necessary to account for a reduction is water sold to customers due to the drought and the City's conservation efforts in effect. Mr. Dan Bergmann with IGServices, who has prepared other City rate studies, was hired to prepare a new water rate model. At their May 1, 2014 regular meeting, the City Council listened to the findings in the water study from Mr. Bergmann and staff, and the Council directed the City Manager to initiate a Proposition 218 process (218 Process), which provides each property owner receiving water with a notice of the proposed water rates and a future public hearing. The 218 Process provides for a 45-day waiting period before an elected body can take action on a proposed rate adjustment. At the public hearing, the Council must accept only those written protest votes up and through the public hearing. Once the public hearing is closed, the Council can only take action to approve rates if the number of written protest votes from property owners is less than a simple majority.

III. DISCUSSION:

The recommended rate adjustment envisions a one-time nine-percent (9%) rate adjustment to all customer classes effective July 1, 2014. This rate adjustment would replace the current water rates, which still had three-percent (3%) water rate increases each March 1 through 2017. Exhibit "A" on the last page of Resolution No. 3645 shows the proposed water rate change to the volumetric component of water rates for all customer classes on the right-side. The fixed monthly charge based on water meter size remains unchanged from existing charges.

At the writing of this staff report, there has been no protest votes from property owners received at City Hall.

IV. ALTERNATIVES:

There are no realistic alternatives without substantial reductions in spending, staffing that are not realistic. Ongoing drought conditions and availability of water to customers during the drought have left no choices other than to increase fees.

V. FISCAL IMPACT:

With the adoption of this Resolution, new water rates will go into effect on July 1, 2014 and customers will not see the financial affects until they receive their City utility bill in early September. It is anticipated the rate adjustment will generate sufficient revenue based on water supply availability to financially support Water Fund operations and debt coverage requirements.

ATTACHMENTS:

	File Name	Description
🗋	Resolution__No._3645_Adjusting_Water_Rates.docx	Rate Resolution No. 3645
🗋	Coalinga_Drought_Water_Rate_Report_as_of_May_1_2014.pdf	Rate Study

RESOLUTION NO. 3645

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COALINGA APPROVING NEW WATER RATES EFFECTIVE JULY 1, 2014 TO ADDRESS DROUGHT IMPACTS TO THE WATER FUND

WHEREAS, Coalinga Municipal Code Section 6-4.20 provides for the establishment of water service rates by Resolution of the City Council; and

WHEREAS, the City Council of the City of Coalinga discussed Water Fund revenue impacts as a result of a 50% reduction in the Water Year 14-15 delivery schedule from the City's water supplier the U. S. Department of Interior Bureau of Reclamation to a historic and the lowest water delivery recorded at 3,258 acre-feet; and

WHEREAS, the City Council of the City of Coalinga enacted Stage 2 of 3 of its Water Conservation Ordinance in an attempt to curtail water use by water customers; and

WHEREAS, the most current water rate model prepared in 2011, the basis for current water rates, could not have contemplated such a low and historic water supply during Water Year 14-15, and therefore the current water rate model combined with ongoing drought conditions and conservation efforts will not generate sufficient revenue to cover Water Fund operating costs and debt coverage requirements without a water rate adjustment; and

WHEREAS, IGService, Inc. was employed to prepare a new Water Rate Study (Study) for the City, which analyzed the impacts of the drought and conservation, proposed a solution to City water rates to yield a revenue, based on anticipated water deliveries, sufficient to cover Water Fund operating costs and debt coverage requirements, and replace the existing water rate schedule adopted on January 19, 2012; and

WHEREAS, the City Council of the City of Coalinga discussed the Study alternatives on May 1, 2014, during which the rate alternatives presented in the Study were presented, debated, and comments were received from the public on the water rate alternatives; and

WHEREAS, the City Council of the City of Coalinga directed the City Manager to notify, via mail, the record owners of each parcel in accordance with the requirements of Proposition 218 and Government Code section 53750 et seq. of the proposed water rate adjustment; and

WHEREAS, a public hearing to consider the proposed new water rates and any protests to such rates was held at a public meeting on June 25, 2014 before the City Council of the City of Coalinga, which meeting and hearing was more than 45 days after the notice to property owners was mailed; and

WHEREAS, written protests to the proposed new water rates were not presented by a majority of the owners of the identified parcels in the City of Coalinga; and

WHEREAS, the proposed water rates set forth in Exhibit "A" attached hereto are nondiscriminatory and do not exceed the cost of providing water service and improvements to the water system (all as defined in section 6-4.01 of the Coalinga Municipal Code) for which the rates and charges are imposed; and

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

1. The schedule of new water rates in Exhibit "A" attached hereto is hereby adopted, and the new water rates shall be effective on July 1, 2014.

The foregoing resolution was approved and adopted at a regular meeting of the City Council of the City of Coalinga held on the _25th_ day of June, 2014, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

APPROVED:

____

Mayor

ATTEST:

____

City Clerk/Deputy City Clerk

Exhibit A

City of Coalinga Water Rates and Charges Effective and Proposed Rates	Historical	Historical (3%)	Existing (3%)	Proposed (9%)
Volumetric Rates ($/TG)	**3/1/2012**	**3/1/2013**	**3/1/2014**	**7/1/2014**
Urban Residential				
Tier 1: Up to 10,000 gals/mo.	$1.35	$1.39	$1.43	$1.56
Tier 2: 10,001 to 30,000 gals/mo.	$1.65	$1.70	$1.75	$1.91
Tier 3: Above 30,000 gals/mo.	$2.00	$2.06	$2.12	$2.32
Urban Commercial	$1.45	$1.49	$1.53	$1.67
Rural	$1.41	$1.45	$1.49	$1.63
PVSP and CSH	$1.76	$1.81	$1.86	$2.03
Fixed Monthly Charge: ($/Mo.)				
Urban Residential and Commercial				
1" Meter Size	$19.64	$20.22	$20.83	Fixed Monthly Charges Unchanged
1.5"	$78.50	$80.86	$83.29	
2"	$297.22	$306.14	$315.32	
3"	$667.38	$687.40	$708.02	
4"	$1,186.68	$1,222.28	$1,258.95	
6"	$2,671.68	$2,751.83	$2,834.38	
8"	$4,750.02	$4,892.52	$5,039.30	
10"	$5,276.96	$5,435.27	$5,598.33	
Rural				
1" Meter Size	$27.14	$27.96	$28.80	
1.5"	$108.66	$111.92	$115.28	
2"	$488.92	$503.58	$518.69	
3"	$1,099.76	$1,132.75	$1,166.73	
4"	$1,954.48	$2,013.12	$2,073.51	
6"	$4,400.26	$4,532.26	$4,668.23	
8"	$7,822.68	$8,057.36	$8,299.08	
10"	$8,691.74	$8,952.49	$9,221.06	
Pleasant Valley State Prison (PVSP)	$9,200.00	$9,476.00	$9,760.28	
Coalinga State Hospital (CSH)	$2,600.00	$2,678.00	$2,758.34	

May 1, 2014

Rene Ramirez, City Manager
City of Coalinga
155 Durian Street
Coalinga, CA

Re: Proposed July 1, 2014, Coalinga Water Rate Increase

Dear Mr Ramirez,

This report provides explanations and data support for the recommended July 1, 2014, water rate increase in Coalinga. In summary, the rate increase is necessary because of reduced water sales from the current drought situation in California. Overall revenue levels must be maintained in order to cover the mostly fixed cost expenses to operate the system. Thus lower volumetric sales require higher rates in order to collect the necessary revenue. The contents of this report follow the presentation to city council on May 1, 2014.

The first step of the rate adjustment process was to estimate a realistic volume of water that will be sold in during July 1, 2014 through June 30, 2015, which is Coalinga's fiscal year (FY15). The assumptions made are that the residential section will conserve 25 percent below the FY13 baseline year, and that all other customers, including the prison and state hospital, will conserve 10 percent. The results are the sales volumes shown in the table below for each customer class. At this point, the Bureau of Reclamation has requested that Coalinga use even less water, but because calculating rates on lower volumes would charge customers excessive amounts, we have elected to estimate volumes we think are realistic, short of a water emergency.

FY15 Water Volume Projections

	TG Billed FY13	Volume Reduced	New TG	New AF
Residential	536,000	75.0%	402,000	1,234
Commercial	408,000	90.0%	367,200	1,127
Oil Companies and Rural	152,000	90.0%	136,800	420
Pleasant Valley State Prison	270,000	90.0%	243,000	746
Coalinga State Hospital	83,000	90.0%	74,700	229
FY15 Totals	**1,449,000**		**1,223,700**	**3,756**
Increase by Unaccounted-for:			9.2%	382
Total Treated Water Supply Wholesale Purchase:				4,138

The second step was to look at historical, present, and anticipated revenue based on the above reduced volumes for FY15, before any adjustments are made to rates. The results, shown in the table below, reveal inadequate revenue for both FY14 ($3,800,000) and FY15 ($3,850,000). The minimum criteria for acceptable revenue are to achieve a Debt Service Coverage Ratio (DSC) of 1.25 or better, which is a requirement Coalinga has agreed to with its bond holders. Adequate DSC is not anticipated to be achieved for FY14 because of conservation happening before the end of the fiscal year, and even lower volumetric water sales in FY15 reduce DSC more to 1.04. However, in FY16, revenues are shown to recover based on the assumption that volumetric sales levels recover to the FY13 level. Nonetheless, revenue is inadequate in FY15, and the bond holder covenant requires that the minimum 1.25 DSC be achieved.

COALINGA WATER ENTERPRISE FUND

HISTORICAL AND PROJECTED REVENUE AND EXPENDITURES

		UNAUDITED	PROJECTED		
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Wholesale Volume in AF	***4,600***	***4,900***	***4,800***	***4,138***	***4,900***
Operating Revenues:					
Rate-Based Revenues	$3,432,443	$3,917,582	$3,800,000	$3,850,000	$4,350,000
Untreated Water sales	202,103	140,125	30,000	0	0
Late Fees, Svc Charges, Collections	25,870	23,198	24,000	25,000	26,000
Installation Charges	3,844	3,242	3,000	3,100	3,200
Total Operating Revenues	$3,664,260	$4,084,147	$3,857,000	$3,878,100	$4,379,200
Total Non-Operating Revenues	16,014	14,246	14,349	14,349	14,349
Total Revenues	3,680,274	4,098,393	3,871,349	3,892,449	4,393,549
Operation & Maintenance Expenses:					
Contractual Services and Utilities	[illegible]	[illegible]	[illegible]0,000	$762,000	$785,000
Personnel	[illegible]	[illegible]	[illegible]0,000	824,000	849,000
Supplies and Material	[illegible]	[illegible]	[illegible]0,000	680,000	700,000
Cost of Sales - Wholesale Water	724,883	732,266	720,000	703,000	882,000
General Administrative		202,048	210,000	216,000	222,000
Total Adjusted Expenses	$3,184,927	$3,120,135	$3,130,000	$3,185,000	$3,438,000
Net Revenue From Water Operations	$495,347	$978,258	$741,349	$707,449	$955,549
Annual Debt Service	$607,360	$638,167	$658,439	$677,130	$713,349
Debt Service Coverage Ratio	0.82	1.53	1.13	1.04	1.34
Net Revenues after Debt Service	($112,013)	$340,091	$82,910	$30,319	$242,200

If no rate change

$180 wholesale water in 2016

Volumes recover in 2016

Needed revenue for FY15 was then increased to $4,031,000 to reach a DSC margin of 1.31, safely above the 1.25 minimum. This is a 4.6 percent increase in revenue. The resultant revenue in the following year is significantly larger at $4,394,000, assuming the same rates and recovered, post-drought sales volumes. These results are shown in the table below.

COALINGA WATER ENTERPRISE FUND

HISTORICAL AND PROJECTED REVENUE AND EXPENDITURES

		UNAUDITED		PROJECTED	
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Wholesale Volume in AF	***4,600***	***4,900***	***4,800***	***4,138***	***4,900***
Operating Revenues:					
Rate-Based Revenues	$3,432,443	$3,917,582	$3,800,000	$4,031,000	$4,394,000
Untreated Water sales	202,103	140,125	30,000	0	0
Late Fees, Svc Charges, Collections	25,870	23,198	24,000	25,000	26,000
Installation Charges	3,844	3,242	3,000	3,100	3,200
Total Operating Revenues	$3,664,260	$4,084,147	$3,857,000	$4,059,100	$4,423,200
Total Non-Operating Revenues	16,014	14,246	14,349	14,349	14,349
Total Revenues	[illegible]	[illegible]	[illegible]871,349	4,073,449	4,437,549
Operation & Maintenance Expenses:					
Contractual Services and Utilities	[illegible]	[illegible]	740,000	$762,000	$785,000
Personnel	[illegible]	[illegible]	800,000	824,000	849,000
Supplies and Material	$501,868	651,834	660,000	680,000	700,000
Cost of Sales - Wholesale Water	724,883	732,266	720,000	703,000	882,000
General Administrative		202,048	210,000	216,000	222,000
Total Adjusted Expenses	$3,184,927	$3,120,135	$3,130,000	$3,185,000	$3,438,000
Net Revenue From Water Operations	$495,347	$978,258	$741,349	$888,449	$999,549
Annual Debt Service	$607,360	$638,167	$658,439	$677,130	$713,349
Debt Service Coverage Ratio	0.82	1.53	1.13	1.31	1.40
Net Revenues after Debt Service	($112,013)	$340,091	$82,910	$211,319	$286,200

Effective July 1 is a 4.6% increase to revenue based on existing rates.

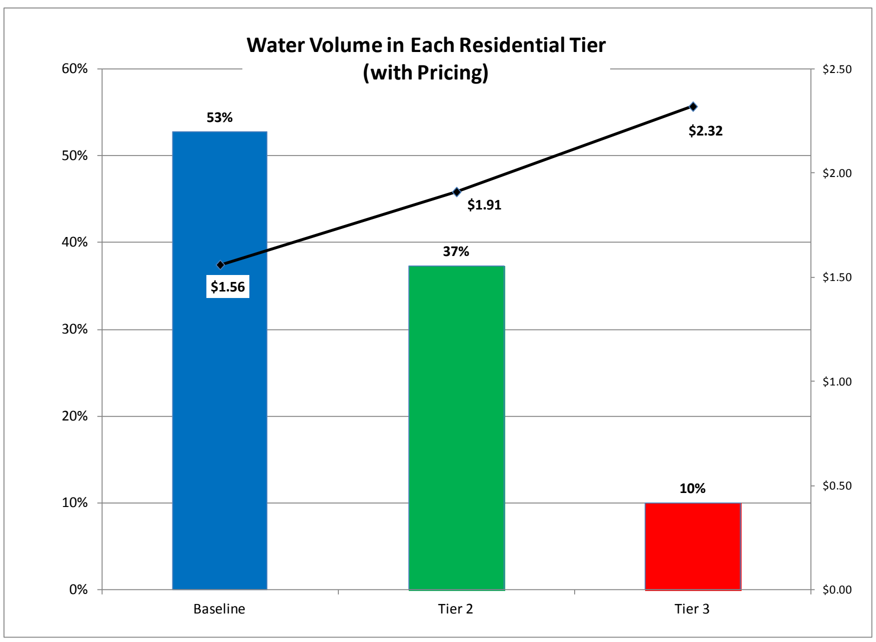
The next step after establishing the necessary revenue was to determine how to increase rates in order to achieve the revenue. Rates were increased based on the following criteria.

1. Allocate the revenue adjustment evenly across customer classes, even though expected conservation is different between residential and the other classes. This is to soften the rate impact on residential.
2. Because the nature of the needed adjustment is water conservation, make the adjustment only to the volumetric component of rates. This way, customers that conserve will be rewarded more than those that don't conserve.
3. Increase volumetric rates to a point that expected revenue is $4,031,000.

The needed increase to volumetric rates was nine percent. (A nine percent increase to volumetric rates, holding fixed monthly rates the same, yields a 4.6 percent increase in expected overall revenue.) This is shown in the table below.

Calculation of Rate Increase Due to Drought: CHANGING VOLUMETRIC ONLY								
	Total Revenue Needed	Fixed Monthly as of Mar 2014	Remaining Volumetric	Drought Volumes (TG)	Mar 2014 Effective Rate ($/TG)	Rate Increase set at:	Resultant Rate	Resultant Volumetric Revenue
Residential	1,574,000	783,000	791,000	402,000	1.64	**9%**	1.79	$720,000
Commercial	1,302,000	729,000	573,000	367,200	1.53	**9%**	1.67	613,000
Rural	387,000	173,000	214,000	136,800	1.49	**9%**	1.63	223,000
Prison	589,000	117,000	472,000	243,000	1.86	**9%**	2.03	493,000
State Hospital	179,000	33,000	146,000	74,700	1.86	**9%**	2.03	152,000
Total	$4,031,000	$1,835,000	$2,196,000	1,223,700				$2,201,000
	100%	46%	54%					
			New Combined Total:		**$4,036,000**			

For residential rates, the nine percent increase must be allocated between the three pricing tiers. Each tier was increased nine percent. It was considered to increase the third tier to be disproportionally higher, but was not done because the third tier cost is already significantly higher than the lower tiers. Additionally, most of the volume is in the first and second tiers such that most of the revenue is collected in these tiers. The volume and proposed tiered rate relationship is illustrated below.



Finally, for residential customers, because of the combined impact of tiered rates and the increase in volumetric rates, in an effort to inform customers proactively, the City has sent letters to 163 customers that used more than 60 thousand gallons during a monthly billing cycle (twice the cutoff into tier three), alerting them of the high usage, the potential cost, and the need to conserve.

The proposed updated rate table follows, as included in the Proposition 218 rate increase notification.

City of Coalinga Water Rates and Charges

Effective and Proposed Rates

Increases	(Historical)	3% (Historical)	3% (Existing)	9% (Proposed)
Volumetric Rates ($/TG)	**03/01/12**	**03/01/13**	**03/01/14**	**07/01/14**
Urban Residential				
Tier 1: Up to 10,000 g/mo	$1.35	$1.39	$1.43	$1.56
Tier 2: 10,001 to 30,000 g/mo	$1.65	$1.70	$1.75	$1.91
Tier 3: Above 30,000 g/mo	$2.00	$2.06	$2.12	$2.32
Urban Commercial	$1.45	$1.49	$1.53	$1.67
Rural	$1.41	$1.45	$1.49	$1.63
PVSP and CSH	$1.76	$1.81	$1.86	$2.03
Fixed Monthly Charges ($/Mo)				
Urban Res and Commercial				Fixed Monthly Charges Unchanged
1" Meter Size	$19.64	$20.22	$20.83	
1.5"	$78.50	$80.86	$83.29	
2"	$297.22	$306.14	$315.32	
3"	$667.38	$687.40	$708.02	
4"	$1,186.68	$1,222.28	$1,258.95	
6"	$2,671.68	$2,751.83	$2,834.38	
8"	$4,750.02	$4,892.52	$5,039.30	
10"	$5,276.96	$5,435.27	$5,598.33	
Rural				
1" Meter Size	$27.14	$27.96	$28.80	
1.5"	$108.66	$111.92	$115.28	
2"	$488.92	$503.58	$518.69	
3"	$1,099.76	$1,132.75	$1,166.73	
4"	$1,954.48	$2,013.12	$2,073.51	
6"	$4,400.26	$4,532.26	$4,668.23	
8"	$7,822.68	$8,057.36	$8,299.08	
10"	$8,691.74	$8,952.49	$9,221.06	
PVSP	$9,200.00	$9,476.00	$9,760.28	
CSH	$2,600.00	$2,678.00	$2,758.34	

This concludes the written report. Any questions may be directed to me at dan@igservice.com.

Sincerely,

Submitted electronically

Dan Bergmann
Principal

STAFF REPORT - CITY COUNCIL/SUCCESSOR AGENCY/PUBLIC FINANCE AUTHORITY

Subject:	FY14/15 Continuing Budget Resolution No. 3646
Meeting Date:	June 25, 2014
From:	Rene A. Ramirez, City Manager
Prepared by:	Rene A. Ramirez, City Manager

I. RECOMMENDATION:

Staff recommends the Council adopt Resolution No. 3646 providing authorization for a continuation of usual and customary City spending through Friday, September 5, 2014 and until a budget plan for FY15 is adopted.

II. BACKGROUND:

The City's budget process has not completed, and for the City to continue to pay its bills and make payroll, this Resolution needs to be adopted.

III. DISCUSSION:

None.

IV. ALTERNATIVES:

None.

V. FISCAL IMPACT:

With the adoption of this Resolution, the City will be able to pay its usual and customary bills and make payroll until September 5, 2014.

ATTACHMENTS:

File Name	Description
Budget_Resolution_3646_061714.doc	Continuing Budget Resolution No. 3646

RESOLUTION NO. 3646

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF COALINGA AUTHORIZING A CONTINUING BUDGET RESOLUTION TO COMMENCE ON JULY 1, 2014 AND TO END ON SEPTEMBER 5, 2014, PENDING THE ADOPTION OF A 2014-2015 FISCAL YEAR CITY BUDGET

WHEREAS, the fiscal year for the City of Coalinga ends on June 30, 2014; and

WHEREAS, the City Council has not yet adopted a new budget for the fiscal year commencing July 1, 2014; and

WHEREAS, the City Council anticipates adopting a new budget for the City of Coalinga prior to September 5, 2014; and

WHEREAS, the City Council desires to authorize a continuation of usual and customary expenditures until such time as a new budget for the fiscal year 2014-2015 is adopted.

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

1. The City Manager is authorized to continue to expend the funds of the City, in a manner consistent with the expenses shown in the 2013-2014 budget, during the period of time between July 1, 2014 and September 5, 2014, of the new fiscal year, or until the Council adopts a budget for the fiscal year commencing July 1, 2014, whichever first occurs.

2. The City Manager shall not make any capital expenditures during this time period which have not been previously authorized by the City Council, except in the event of a health or safety emergency.

The foregoing Resolution was adopted at a regular meeting of the City Council of the City of Coalinga on the _25th_ day of _June_, 2014, by the following roll call vote.

AYES:

NOES:

ABSENT:

ABSTAIN:

____
Tony Garcia, Mayor

____
Shannon Jensen, Deputy City Clerk

STAFF REPORT - CITY COUNCIL/SUCCESSOR AGENCY/PUBLIC FINANCE AUTHORITY

Subject:	FY14/15 Continuing Budget Resolution No. SA-315
Meeting Date:	June 25, 2014
From:	Rene A. Ramirez, City Manager
Prepared by:	Rene A. Ramirez, City Manager

I. RECOMMENDATION:

Staff recommends the Successor Agency adopt Resolution No. SFA-315 providing authorization for a continuation of usual and customary Successor Agency spending through Friday, September 5, 2014 and until a Successor Agency budget plan for FY15 is adopted.

II. BACKGROUND:

The Successor Agency's budget process has not completed, and for the Successor Agency to continue to pay its bills and make payroll, this Resolution needs to be adopted.

III. DISCUSSION:

None.

IV. ALTERNATIVES:

None.

V. FISCAL IMPACT:

With the adoption of this Resolution, the Successor Agency will be able to pay its usual and customary bills and make payroll until September 5, 2014.

ATTACHMENTS:

File Name	Description
Budget_Resolution_SA-315_061714.doc	Resolution SA-315

RESOLUTION NO. SA-315

A RESOLUTION OF THE BOARD OF DIRECTORS FOR THE SUCCESSOR AGENCY OF THE FORMER REDEVELOPMENT AGENCY OF THE CITY OF COALINGA AUTHORIZING A CONTINUING BUDGET RESOLUTION TO COMMENCE ON JULY 1, 2014, AND TO END ON SEPTEMBER 5, 2014, PENDING THE ADOPTION OF A 2014-2015 FISCAL YEAR BUDGET

WHEREAS, the fiscal year for the City of Coalinga ends on June 30, 2014; and

WHEREAS, the Board of Directors has not yet adopted a new budget for the fiscal year commencing July 1, 2014; and

WHEREAS, the Board of Directors anticipates adopting a new budget for the Successor Agency of the former Redevelopment Agency of the City of Coalinga prior to September 5, 2014; and

WHEREAS, the Board of Directors desires to authorize a continuation of usual and customary Agency expenditures until such time as a new budget for the fiscal year 2014-2015 is adopted.

NOW THEREFORE, BE IT RESOLVED, by the Board of Directors for the Successor Agency of the former Redevelopment Agency of the City of Coalinga as follows:

1. The Executive Director is authorized to continue to expend the funds of the Agency, in a manner consistent with the expenses shown in the 2013-2014 budget, during the period of time between July 1, 2014 and September 5, 2014, of the new fiscal year, or until the Board adopts a budget for the fiscal year commencing July 1, 2014, whichever first occurs.

2. The Executive Director shall not make any capital expenditures during this time period which have not been previously authorized by the Board of Directors, except in the event of a health or safety emergency.

The foregoing Resolution was adopted at a regular meeting of the Board of Directors for the Successor Agency of the former Redevelopment Agency of the City of Coalinga on the _25th_ day of _June_, 2014, by the following roll call vote.

AYES:

NOES:

ABSENT:

ABSTAIN:

____
Tony Garcia, Mayor/Chairman

____
Shannon Jensen, Deputy City Clerk

STAFF REPORT - CITY COUNCIL/SUCCESSOR AGENCY/PUBLIC FINANCE AUTHORITY

Subject:	FY14/15 Continuing Public Finance Authority Budget Resolution No. PFA 14-01
Meeting Date:	June 25, 2014
From:	Rene A. Ramirez, City Manager
Prepared by:	Rene A. Ramirez, City Manager

I. RECOMMENDATION:

Staff recommends the Public Finance Authority adopt Resolution No. PFA 14-01 providing authorization for a continuation of usual and customary Public Finance Authority spending through Friday, September 5, 2014 and until a Public Finance Authority budget plan for FY15 is adopted.

II. BACKGROUND:

The Public Finance Authority's budget process has not completed, and for the Public Finance Authority to continue to pay its bills and make payroll, this Resolution needs to be adopted.

III. DISCUSSION:

None.

IV. ALTERNATIVES:

None.

V. FISCAL IMPACT:

With the adoption of this Resolution, the Public Finance Authority will be able to pay its usual and customary bills and make payroll until September 5, 2014.

ATTACHMENTS:

File Name	Description
Budget_Resolution_PFA_14-01_061714.doc	PFA Budget Resolution 14-01

RESOLUTION NO. PFA 14-01

A RESOLUTION OF THE COALINGA PUBLIC FINANCING AUTHORITY BOARD OF DIRECTORS AUTHORIZING A CONTINUING BUDGET RESOLUTION TO COMMENCE ON JULY 1, 2014, AND TO END ON SEPTEMBER 5, 2014, PENDING THE ADOPTION OF A 2014-2015 FISCAL YEAR BUDGET

WHEREAS, the fiscal year for the Coalinga Public Financing Authority ends on June 30, 2014; and

WHEREAS, the Board of Directors has not yet adopted a new budget for the fiscal year commencing July 1, 2014; and

WHEREAS, the Board of Directors anticipates adopting a new budget for the Coalinga Public Financing Authority prior to September 5, 2014; and

WHEREAS, the Board of Directors desires to authorize a continuation of usual and customary Authority expenditures until such time as a new budget for the fiscal year 2014-2015 is adopted.

NOW THEREFORE, BE IT RESOLVED, by the Board of Directors of the Coalinga Public Financing Authority as follows:

1. The Executive Director is authorized to continue to expend the funds of the Authority, in a manner consistent with the expenses shown in the 2013-2014 budget, during the period of time between July 1, 2014 and September 5, 2014, of the new fiscal year, or until the Board adopts a budget for the fiscal year commencing July 1, 2014, whichever first occurs.

2. The Executive Director shall not make any capital expenditures during this time period which have not been previously authorized by the Board of Directors, except in the event of a health or safety emergency.

The foregoing Resolution was adopted at a regular meeting of the Board of Directors of the Coalinga Public Financing Authority on the _25th_ day of _June , 2014, by the following roll call vote.

AYES:

NOES:

ABSENT:

ABSTAIN:

____
Tony Garcia, Mayor/Chairman

____
Shannon Jensen, Deputy City Clerk

STAFF REPORT - CITY COUNCIL/SUCCESSOR AGENCY/PUBLIC FINANCE AUTHORITY

Subject:	Rejection of Claim for Damages Presented by Rick Pyzer
Meeting Date:	June 25, 2014
From:	Rene A. Ramirez, City Manager
Prepared by:	Mercedes Garcia, Senior Administrative Analyst

I. RECOMMENDATION:

It is recommended that the City Council reject the claim for damages presented by Rick Pyzer.

II. BACKGROUND:

Mr. Pyzer filed a claim with the City of Coalinga (see attached) on June 13, 2014. The claim was sent to George Hills Company for review. After review and investigation of the claim it was determined the City did not have notice of a dangerous condition of public property prior to the occurrence of this incident.

III. DISCUSSION:

George Hills Company recommends the claim be rejected due to Government Code section 835 which applies to this claim and states that a public entity is not liable for damage or injury arising out of a dangerous condition of public property unless the public entity creates the dangerous condition or they have notice of the dangerous condition for a sufficient time prior to the occurrence of the damage or injury to have taken measures that would have prevented the damage or injury.

Expect as provided by statute, a public entity is liable for injury caused by a dangerous condition of its property if the plaintiff establishes that the property was in a dangerous condition at the time of the injury, that the injury was proximately caused by the dangerous condition, that the dangerous condition created a reasonably foreseeable risk of the kind of injury which was incurred, and that either: (a) A negligent or wrongful act or omission of an employee of the public entity within the scope of his employment created the dangerous condition; or (b) The public entity had actual or constructive notice of the dangerous condition under Section 835.2 a sufficient time prior to the injury to have taken measures to protect against the dangerous condition.

IV. ALTERNATIVES:

Accept the claim for the requested dollar amount (Staff doe not recommend).

V. FISCAL IMPACT:

The fiscal impact will be determined by Council decision.

ATTACHMENTS:

File Name	Description
Pyxer_R_Claim_for_Damages_06-13-2014.pdf	Claim for Damages Rick Pyzer

CITY CLERKS DATE STAMP:

RECEIVED JUN 13 2014

CITY OF COALINGA

LIABILITY
CLAIM FOR DAMAGES
TO PERSON OR PROPERTY

RETURN TO:

CITY OF COALINGA
OFFICE OF THE CITY CLERK
155 WEST DURIAN
COALINGA, CA. 92870

DISTRIBUTION:
- ☐ CITY ADMINISTRATOR
- ☐ CITY ATTORNEY
- ☐ FINANCE DEPARTMENT (Original/1)
- ☐ INSURANCE ADJUSTER
- ☐ DEPARTMENT: ____________
- ☐ CITY CLERK'S LOG

1. Claims for death, injury to person, or to personal property must be filed not later than six (6) months after the occurrence (Gov. Code Sec. 911.2).
2. Claims for damages to real property must be filed not later than one (1) year after the occurrence (Gov. Code Sec. 911.2).
3. READ ENTIRE CLAIM FORM BEFORE FILING.
4. ATTACH SEPARATE SHEETS, IF NECESSARY, TO GIVE FULL DETAILS.

Rick Pyzer
NAME OF CLAIMANT

5/23/68
DATE OF BIRTH OF CLAIMANT

573 Crown Hill Arroyo Grande, CA
HOME ADDRESS OF CLAIMANT CITY/STATE/ZIP

805 266-2167
HOME TELEPHONE NO.

- Same -
BUSINESS ADDRESS OF CLAIMANT CITY/STATE/ZIP

559 246-2839
BUSINESS TELEPHONE NO.

ADDRESS TO WHICH CLAIMANT DESIRES NOTICES OR COMMUNICATIONS SENT REGARDING THIS CLAIM (If different from home address):

-Same-

WHEN DID DAMAGE OR INJURY OCCUR?
DATE: June 3 2014
TIME: 2:30 ☐ A.M. ☒ P.M.

PLACE OF ACCIDENT (OCCURRENCE) – **BE SPECIFIC** – Describe fully and (if applicable) locate on diagram on reverse side of this sheet. Where appropriate, give street names and addresses and measurements for landmarks.

Hackman & Hoover
on Hackman st, 1 block south of Hoover St.

HOW DID DAMAGE OR INJURY OCCUR?
Drove over a manhole where lid was not secured properly. Lid came off under truck and did severe damage to truck.

WERE POLICE AT SCENE? ☒ YES ☐ NO WERE PARAMEDICS AT SCENE? ☐ YES ☒ NO

WHAT PARTICULAR **ACT** OR **OMISSION** DO YOU CLAIM CAUSED THE INJURY OR DAMAGES? (Give name of City employee causing the injury or damage, if known.)
City / subcontractor of City - not securing manhole lid after they completed sewer repair - per neighbors information

GIVE TOTAL AMOUNT OF CLAIM: (Include estimate of amount of any prospective injury or damage) $____________

HOW WAS THE AMOUNT OF CLAIM COMPUTED? (Be specific, list doctor bills, repair estimates, etc.)
PLEASE ATTACH TWO (2) ESTIMATES.

DAMAGES INCURRED TO DATE:

ITEM/DATE 1/ 6/3/14 Hotel	AMOUNT: $ 152-
ITEM/DATE 2/ ~~Fuel~~	AMOUNT: $ ~~50~~ RV
ITEM/DATE 3/ 6/4/14 Hotel	AMOUNT: $ 152-
ITEM/DATE 6/3/14 Body shop	AMOUNT: $ 940.82
TOTAL AMOUNT CLAIMED AS OF PRESENTATION OF THIS CLAIM:	$____________

ESTIMATED PROSPECTIVE DAMAGES AS FAR AS KNOWN:

ITEM/DATE Loss work	AMOUNT: $ 880-
ITEM/DATE Paso Ford ?	AMOUNT: $ 7923.41
ITEM/DATE Truck Rental 50.00 day x 14	AMOUNT: $ ~~[illegible]~~
ITEM/DATE ~~[illegible]~~	AMOUNT: $____________
TOTAL ESTIMATED PROSPECTIVE DAMAGES:	$____________

Repairs

WITNESSES TO DAMAGE OR INJURY: (List all persons known to have information. (Use attachment if necessary.)

NAME:________________ NAME:________________
ADDRESS:________________ ADDRESS:________________
TELEPHONE: (____)________________ TELEPHONE: (____)________________

IF INJURY, GIVE NAME, ADDRESS, TELEPHONE, DATE & TIME OF DOCTOR(S) OR HOSPITAL(S) VISITED:

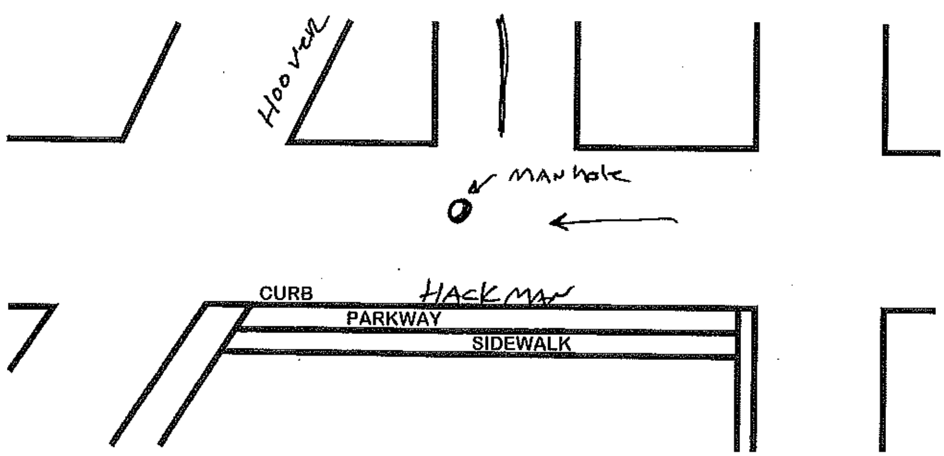
DOCTOR:________________ TELEPHONE:________________
ADDRESS:________________ DATE/TIME:________________
HOSPITAL:________________ TELEPHONE:________________
ADDRESS:________________ DATE/TIME:________________

PLEASE READ THE FOLLOWING CAREFULLY:

For all vehicle accident claims, place on following diagram, the names of streets, including NORTH, EAST, SOUTH AND WEST directions. Indicate place of accident by "X" and by showing house numbers or distances to street corners.

If a City vehicle was involved, designate by letter "A" location of the City vehicle when you first saw it, and by "B" location of yourself or your vehicle when you first saw City vehicle; location of City vehicle at time of accident by "A-1" and location of yourself or your vehicle at the time of the accident by "B-1" and the point of impact by "X".

NOTE: IF A DIAGRAM BELOW DOES NOT FIT THE SITUATION, ATTACH A PROPER DIAGRAM SIGNED BY CLAIMANT.



I HAVE READ THE FOREGOING CLAIM AND KNOW THE CONTENTS THEREOF; AND CERTIFY THAT THE SAME IS TRUE OF MY OWN KNOWLEDGE EXCEPT AS TO THOSE MATTERS WHICH ARE HEREIN STATED UPON MY INFORMATION AND BELIEF; AND AS TO THOSE MATTERS I BELIEVE THEM TO BE TRUE.

I CERTIFY (OR DECLARE) UNDER PENALTY OF PERJURY THAT THE FOREGOING IS TRUE AND CORRECT.

[signature] Rick Pyzer 6/7/14

SIGNATURE OF CLAIMANT OR AGENT ACTING ON BEHALF OF CLAIMANT | TYPE OR PRINT NAME | DATE

____
RELATIONSHIP TO CLAIMANT

NOTE: **PRESENTATION OF A FALSE CLAIM IS A FELONY (CALIFORNIA PENAL CODE 72)**

STAFF REPORT - CITY COUNCIL/SUCCESSOR AGENCY/PUBLIC FINANCE AUTHORITY

Subject:	Council Action to Approve a Proposed Agreement by and between the City of Coalinga and NNG, a California Corporation, Concerning a Potential Oil and Gas Lease on City Property Identified as APN 073-06-06, and Approval of Related Oil, Gas and Mineral Lease
Meeting Date:	June 25, 2014
From:	Rene A. Ramirez, City Manager
Prepared by:	Rene A. Ramirez, City Manager

I. RECOMMENDATION:

Staff recommends the Council approve an Oil, Gas and Mineral Lease and related "Agreement by and between the City of Coalinga and NNG, a California Corporation, concerning Section 28, Township 20 South, Range 16 East (APN 073-06-06).

II. BACKGROUND:

This matter was considered by the Council at their June 12 meeting. During the discussion, the Council was informed that NNG had asked the City pay for one-half of the legal fees necessary to obtain mineral rights, which was anticipated to cost the City $15,000. The Council directed staff to negotiate further with NNG and offset any upfront cost from the City.

III. DISCUSSION:

Staff spoke with NNG following the Council meeting and both sides agreed to the following, which meets the Council's direction:

1. NNG agrees to pay for all of the attorney fees and costs of an action to be brought on behalf of the City for the dormant mineral rights in the property (quiet title).

2. The City's share of the one-half of legal fees necessary to obtain quiet title on the property, excluding cost for title work performed by NNG, will be credited toward the rent and/or royalties to be paid under the Lease.

In essence, the revised agreement provides for the City's share of legal fees to be credited against the rent and then against royalties until the entire fee is paid, which meets the Council's desire to not have any money out of pocket. The Lease provides both the definition and calculation for the rent. Rental of the property is paid annually in advance as soon as the Lease is signed, which is anticipated following a positive court action regarding the quiet title for mineral rights. Rent is to be paid until drilling operations begin and rent stops when drilling operations commence and royalty payments begin. Rent is determined by the following calculation:

Rent = 170 acres X $75 per acre X 45.6% share = $5,814.00 per year

IV. ALTERNATIVES:

The Council could decide to not enter into the Oil, Gas and Mineral Rights Agreement and related Lease and allow the property to continue to be vacant and unused.

V. FISCAL IMPACT:

Under the proposed modification, there is no immediate fiscal impact, but in the future NNG would receive credits on their rent payment and potentially on royalties in an amount equivalent to the $15,000 in legal fees.

ATTACHMENTS:

File Name	Description
AGREEMENT_BY_AND_BETWEEN_THE_CITY_OF_COALINGA_AND_NNG_(Final_Rev_d_6_17_14).docx	Agreement Document
Final_Lease_w_City_of_Coalinga_Sec_28_T20S_R16E_(rev_d_5_28_14)_(3).doc	Property Lease

AGREEMENT BY AND BETWEEN THE CITY OF COALINGA AND NNG, A CALIFORNIA CORPORATION, CONCERNING SECTION 28, TOWNSHIP 20 SOUTH, RANGE 16 EAST, M.D.B.&M. (APN 073-06-6)

This agreement ("Agreement") is entered into by and between NNG, a California corporation and the City of Coalinga ("City"), with reference to the following,

WHEREAS NNG is current lessee under leases with various undivided interest owners in Section 28, Township 20 South, Range 16 East, M.D.B.&M. (APN 073-06-6) located in the County of Fresno, State of California ("the Property") and thereby holds approximately 54.4% of the undivided mineral rights in the Property under such leases;

WHEREAS NNG has performed title work and has attempted to contact the remaining approximately 45.6% of the owners of the undivided mineral rights in the Property from whom NNG has not yet obtained a lease and NNG has been unable to locate these owners; and

WHEREAS Under Division 2, Part 2, Title 5, Chapter 3, Article 2 of the California Civil Code, City, as the owner of real property subject to a mineral right, City is entitled to bring an action to terminate the dormant mineral rights;

NOW THEREFORE, without guaranty or warranty that City is so entitled or will be successful in such an action, NNG agrees to pay all of the attorney fees and costs of an action to be brought on behalf of City to quiet title in the name of City to the dormant mineral rights in the Property. NNG agrees to pay one hundred percent (100%) of the costs of any title work that has been or that may be performed to obtain a litigation guaranty.

At the successful conclusion of the litigation, and after NNG obtains the necessary and appropriate permits at NNG's sole cost and expense, the parties will enter into an oil and gas lease in substantial form as the oil and gas lease attached hereto as Exhibit "A," and by this reference is made a part of this Agreement, for the undivided mineral interests on the Property owned by the City ("Lease"). At that time, one half (1/2) of the costs of the litigation that were incurred and paid for by NNG, excluding the costs of any title work that was performed to obtain a litigation guaranty, will be credited toward the rents and royalties to be paid under the Lease.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on the date set forth below their respective signatures.

NNG	CITY OF COALINGA
602 "H" Street, Suite 150	155 West Durian
Bakersfield, CA 93304	Coalinga, CA 93210

By: ______________________________
Rodney Nahama
Its: President

By: ___________________________
Its: ___________________________

Lease No. ________

OIL, GAS, AND MINERAL LEASE

THIS LEASE AND AGREEMENT, made and entered as of______________________, by and between the **City of Coalinga** hereinafter called "Lessor," and **NNG, a California corporation**, hereinafter called "Lessee."

WITNESSETH: For and in consideration of a rental paid in advance upon execution hereof, receipt of which is hereby acknowledged, and the covenants and agreements hereinafter contained on the part of Lessee to be kept and performed, Lessor does hereby grant, demise and lease to Lessee all right, title and interest of Lessor in and to the land hereinafter described (herein sometimes called the "leased land") for the purpose and with the exclusive right of prospecting, exploring, mining, drilling and operating the leased land for oil, gas, other hydrocarbons, associated substances, sulfur, nitrogen, carbon dioxide, helium and other commercially valuable substances which may be produced through wells on the leased land, whether or not similar to the above-mentioned substances (hereinafter collectively called "substances") and producing, injecting, taking, treating, storing, removing and disposing of such substances from the leased land, together with the right to construct, erect, maintain operate, use, repair, replace and remove pipelines, telephone, telegraph and power lines, tanks, machinery, appliances, buildings and other structures, useful necessary or proper for carrying on its operations on the leased land, the right to drill thereon for water and the free use of water so obtained (but not water from Lessor's wells) in operations on the leased land, and rights-of-way for passage over, through, from, upon and across and ingress and egress to and from the leased land for any or all of the above mentioned purposes. Any pipelines, pole lines or roads so constructed by Lessee may also be used by it in its operations on lands in the vicinity of the leased land. Lessor shall have the right to occupy and use the leased land in any manner and to any extent not inconsistent with Lessee's rights or in interference with lessee's operations hereunder. The land hereby leased is situated in the County of Fresno, State of California, and is described as follows:

Township 20 South, Range 16 East, M.D.B.&M.

Section 28: South Half of the Northwest Quarter (S/2 NW); West Half of the Southwest Quarter (W/2 SW); and North Half of the North Half of the Northeast Quarter of the Southwest Quarter (N/2 N/2 NE SW).

APN: 073-060-06

together with such rights as Lessor may have in any roads, streets, alleys, waterways, canals, sloughs, levees, ditches, easements, rights and rights-of-way upon, within or adjoining the above-described property and containing **170** gross acres, more or less.

TO HAVE AND TO HOLD the same for a term of five (5) years from and after the date hereof and so long thereafter as Lessee shall conduct development (including, without limitation, drilling, redrilling, repairing and reworking) or producing operations on the leased land or lands pooled therewith without cessation for more than 180 consecutive days, or be excused therefrom as hereinafter provided.

In consideration of the premises, the parties hereby agree as follows:

1. **TERM**. On or before 5 years after the date hereof (the last day of said period being the "working date" and this five year period being the "Original Term"), Lessee shall either commence drilling operations on the leased land and thereafter continue its operations with reasonable diligence until oil or gas or another of said substances is found in paying quantities or a depth is reached at which further drilling would, in the judgment of Lessee, be unprofitable, or quitclaim and surrender this lease as hereinafter provided. Lessee shall have a one-time option to extend the term of this lease for an additional five (5) years from the expiration of the Original Term as to all or any portion of the lands covered by this lease. This option may be exercised by Lessee at any time during the last year of the Original Term by Lessee providing to Lessor written notice thereof, together with the annual rental payment for the following (6th) year for each acre so extended. Such notice and payment by Lessee to Lessor shall serve to extend the lease and the working date as to such Lessor's undivided net ownership in the leased land. All of the provisions of this lease relating to any payment based on acreage shall be made in accordance with the number of net acres then covered by the lease as extended. Should this option be exercised as herein provided, it shall be considered as though this lease originally provided for a term of ten (10) years for the acreage so extended, and all provisions hereof are to be harmonized accordingly.

2. **RENTAL**. Lessee has paid Lessor rental in full hereunder for the first twelve (12) months of the term hereof. If Lessee has not commenced drilling operations on the leased land or terminated this lease within that time, Lessee, commencing with the expiration thereof, shall pay or tender to Lessor annually in advance, as rental, the sum of **Seventy-Five Dollars ($75.00)** per net mineral acre for so much of the above-described land as may then still be held under this lease at the time of payment and shall continue such payment until drilling operations are commenced, production is found or this lease is terminated.

3. **DEPOSITORY**. The payments required to be made by Lessee hereunder may be made by its check issued and made payable as hereinafter provided. All persons entitled to participate or share in such payments shall, at the request of Lessee, unite in a written designation of one person, bank or corporation as Lessor's agent to receive such payments, to the end that Lessee shall not be required to make any payment otherwise than by one check, which check shall be payable to but one payee, such payee to assume the burden and responsibility of making a proper distribution without expense to Lessee among the persons entitled thereto. When such designation is made, said payments may be made by mailing such check to the payee at the address designated. Until such designation is made, such checks may be mailed to **City of Coalinga, 155 West Durian, Coalinga, CA 93210**. A waiver by Lessee of the provisions of this paragraph in the making of any payment or payments shall not be deemed a waiver thereof with respect to subsequent payments. If at any time there be no one person, bank or corporation authorized to receive payments hereunder, the time for making such payments shall be extended until Lessee has been notified of such designation.

4. **NOTICES**. Any notice to be given by either party to the other hereunder may be delivered in person or by registered or certified mail, postage prepaid, addressed to the party for whom intended as follows: to Lessor at 155 West Durian, Coalinga, CA 93210 Attention: City Manager, and to Lessee at 602 "H" Street, Suite 150, Bakersfield, CA 93304. Either party may from time to time, by written notice to the other, designate a different address which shall be substituted for the one above specified. If any notice from one party to the other is given by registered or certified mail, usual time for transmission of mail shall be computed and at the end of such time service of notice will be considered made.

5. **RESUMPTION OF RENTALS OR OPERATIONS**. If oil, gas or another of said substances is not obtained in paying quantities in any well drilled on the leased land, Lessee, within 6 months after its completion or abandonment, shall commence drilling operations for a subsequent well, and shall prosecute the same with reasonable diligence until oil, gas or another of said substances is found in paying quantities or until it is drilled to a depth at which further drilling would, in the judgment of Lessee, be unprofitable; and Lessee shall in like manner continue its operations until oil, gas or another of said substances is found in paying quantities or this lease terminated; provided, however, that nothing contained in this paragraph shall require the commencement of drilling operations for any subsequent well (other than an offset well) before said working date. If, however, before said working date, there shall be any period of more than one year between the completion or abandonment of any well and the next ensuing rental date (as provided for in Paragraph 2 hereof) for which rental has not been paid, Lessee may pay the pro-rata rental obligation for such period (except for time herein allowed between wells) at the rate (pro-rata) hereinabove set forth, in installments, either quarterly or annually in advance; provided Lessee has not commenced drilling operations for a subsequent well as provided hereinabove or terminated this lease. At said next ensuing rental date, Lessee shall have the option to continue pro-rata payments in installments, quarterly or annually in advance, or resume the pro-rata payment of rentals on an annual basis in accordance with Paragraph 2 hereof, or terminate this lease.

6. **DEVELOPMENT**. If oil is found in paying quantities in any well drilled by Lessee on the leased land, Lessee will continue to drill wells for oil with one string of tools, working with reasonable diligence, allowing not more than 6 months between the completion of one well and the commencement of operations for the next, until the leased land has been fully drilled. Provided, however, should Lessee at any time fail to find oil in paying quantities in any well drilled by Lessee on the leased land, Paragraph 5 hereof would become applicable. Lessee shall be given credit for so much of the time in each such 6 months drilling interval as is not utilized because of drilling by Lessee sooner than required, and such credit may be used to extend subsequent drilling intervals in such manner as Lessee may determine. The leased land shall be deemed to have been "fully drilled" within the meaning hereof when there shall have been drilled thereon a number of wells equal to the following. Each well shall be assigned a number of acres according to its total **vertical depth**, **or** in the case of a **horizontal well**, the length of the horizontal drilled component. For the purposes of this agreement, a horizontal completion means any well in which the horizontal component of the well is drilled laterally at least seventy (70) degrees from vertical, and the horizontal component penetrates at least one-hundred (100) feet into and through the formation to be produced.

Vertical well spacing - In the event oil is discovered on the leased land, each well drilled for oil to a total subsurface vertical depth less than 6,000 feet shall be assigned 40 acres; each well drilled for oil to a total subsurface vertical depth equal to or deeper than 6,000 feet but less than 12,000 feet shall be assigned 160 acres, and each well drilled for oil to a total subsurface vertical depth equal to or deeper than 12,000 feet shall be assigned 320 acres.

Horizontal well spacing - If Lessee drills one or more wells with a horizontal component, then each such well shall be assigned a number of acres [the shape of the assigned acreage (square or rectangular) to be determined by Lessee], according to the total length of the horizontal component in any such well. Each well drilled for oil having a total horizontally drilled component of less than 800 feet shall be assigned 160 acres; each well drilled for oil having a total horizontally drilled component equal to or more than 800 feet but less than 1,600 feet shall be assigned 240 acres; each well drilled for oil having a total horizontally drilled component equal to or more than 1,600 feet but less than 2,400 feet shall be assigned 360 acres; each well drilled for oil having a total horizontally drilled component equal to or more than 2,400 feet but less than 3,400 feet shall be assigned 480 acres and each well drilled for oil having a total horizontally drilled component equal to or more than 3,400 feet shall be assigned 640 acres.

If gas is discovered on the leased land, each well drilled, vertical or horizontal, for gas or gas condensate thereon shall be assigned 640 acres.

The amount of acreage assigned to a well according to its total depth or horizontal component is hereinafter referred to as a "drilling unit." Unless there remain a sufficient number of acres not previously assigned to a drilled well to constitute a drilling unit, the leased land shall be deemed to have been fully drilled. After the leased land has been fully drilled, Lessee may at any time drill additional wells if it shall so elect, but it shall not be required to do so. In the event gas or gas and condensate in paying quantities is discovered in any well drilled by Lessee on the leased land, then, if and so long as oil in paying quantities has not been discovered in any such well, the leased land shall be considered as gas land and not as oil land until at some later date oil in paying quantities is discovered. While the leased land is considered as gas land, drilling for oil shall not be required, except to comply with the provisions of this lease relative to offset wells. Lessee shall, however, drill additional wells for gas if there is an available market for gas at the well and if and to the extent that such drilling is requisite for the proper development of said land for gas; but it shall not be required to drill more wells than are necessary to supply such part of the market demand for gas from the field as may fairly and reasonably be apportioned to the leased land and shall not be required to drill additional wells after the leased land has been fully drilled.

7. **OFFSETS**. If, before the leased land has been fully drilled, a well producing oil in paying quantities (hereinafter called an "outside well") is drilled upon adjacent land not owned or controlled by Lessor within 330 feet or producing gas in paying quantities within 1320 feet (hereinafter called "offset distance") from a boundary of the leased land, Lessee shall offset such outside well by the commencement of drilling operations at a suitable offset location on the leased land within 6 months after it is ascertained that the production of oil or gas from such outside well is in paying quantities, except that (a) if a well is being drilled on the leased land, said time shall be extended until 6 months after the completion or abandonment of the well so being drilled, or (b) if there already exists or is being drilled on the leased land a well at a suitable offset location, it shall take the place of the required offset well. A suitable offset location within the meaning hereof shall be one which is within the offset distance from the boundary and not more than twice the offset distance from a line drawn from the outside well to the nearest point in said boundary and extended along said line through the leased land. Offset wells shall be counted in determining when the leased land has been fully drilled.

8. **SUSPENSION.** Except as herein otherwise provided, Lessee shall drill each well and operate each completed well in accordance with good oil field practice so long as such well shall produce oil or gas in paying quantities but in conformity with any reasonable conservation or curtailment program affecting the drilling of wells or the production of oil and gas or either thereof from said land to which Lessee may voluntarily subscribe or become a party, or with any conservation or curtailment program which may be imposed by law or by any appropriate governmental agency. After the completion of the first oil well, drilling or producing operations hereunder (except of offset wells when wells offset or to be offset are being operated) may be suspended while the price offered generally to producers in the same vicinity for oil of the quality produced from the leased land is $7.00 or less per barrel at the well, or when there is no available market for such oil at the well above said price, and in either case for a period of 90 days after the reason for suspension ceases to exist. Gas wells need not be operated when there is no market for gas at the well at a price and under conditions Lessee believes to be for the best interests of both parties hereto. Lessee shall comply with all state, federal and local laws and with the rules, regulations and orders of any federal, state or other governmental agency having jurisdiction in the premises with respect to the spacing, drilling or producing of wells, or other operations for oil or gas, and if there be any conflict between the same and provisions of this lease, such laws, rules, regulations and orders shall modify or supersede, as the case may be, the relevant provisions of this lease.

9. **ROYALTY SHARE.** The term "royalty share" as used herein means one-fifth (1/5).

10. **OIL ROYALTY.** Lessee shall pay Lessor as royalty on oil the value of the royalty share of all oil produced and removed from the leased land, after making the customary adjustments for temperature, water and basic sediment at the posted available market price at the well for oil of like gravity and quality on the day the oil is so removed or, at Lessor's option, in lieu of such payment Lessee shall deliver the royalty share of said oil, free of cost, into Lessor's tanks on the leased land or into pipeline thereon designated by Lessor. A change from payment in cash to delivery in kind, or vice versa, may not be made oftener than twice in any calendar year and then only on 60 days' prior written notice to Lessee. If royalty on oil is payable in cash, Lessee may deduct therefrom a reasonable charge for dehydration, cleaning and treating such oil and a reasonable charge for transportation to the treating plant. Nothing herein contained shall be construed as obligating Lessee to treat oil. If Lessor shall elect to receive the royalty on oil in kind, it shall be of the same quality as the oil removed from the leased land for Lessee's own account, and if Lessee's own oil shall be treated before such removal, Lessor's oil will be treated therewith before delivery to Lessor, and Lessor, in such event, shall pay a proportionate part of the cost of treatment. No royalty shall be due Lessor for or on account of oil lost through evaporation, leakage, fire or other casualty prior to the removal of the same or prior to delivery to Lessor if royalty shall be delivered in kind.

11. **GAS ROYALTY.** Lessee shall pay Lessor as royalty on natural gas the royalty share of a value which shall be the sum of the following:

a) The net proceeds received by Lessee from the sale of gas produced from wells on the leased land (whether such gas be sold by Lessee in its natural state or as residual dry gas after extracting gasoline and other content therefrom). Gas treated at a gasoline extraction plant not owned or operated by Lessee and for which Lessee received a royalty from the operator of such plant shall be deemed sold in its natural state for an amount equal to the market value of the royalty received by Lessee. Except as otherwise provided herein, gas used or consumed by Lessee in operations other than under this lease shall be deemed sold for the market value thereof. The value of gas and products extracted therefrom, used or consumed in the operation of a gasoline extraction plant (to the extent that it is so used for processing gas from the leased land), or in operations on the leased land, or in repressuring any oil bearing formation from which a well or wells on the leased land is producing, shall not be included. The cost of processing, treating, compressing, handling and transporting gas in connection with the sale thereof shall be deducted in determining net proceeds of sale.

b) The market value at the extraction plant of all gasoline and other liquid hydrocarbons, extracted and saved from natural gas from the leased land as a result of processing such gas at a plant owned or operated by Lessee, less the cost of such processing, which cost for the purposes hereof will be deemed to be sixty percent (60%) of said last-mentioned market value.

c) The market value, at the plant where extracted, of all gasoline and other liquid hydrocarbons received by Lessee as a result of the processing of natural gas from the leased land at a plant not owned or operated by Lessee (if such processing is not on a royalty basis) less the cost to Lessee of such processing.

d) During such times that a market at the well for the gas produced from said land does not exist, Lessee may suspend the operation of any such gas well or wells; provided however, that if at the expiration of any calendar year Lessor shall not have received as royalty from the proceeds of the sale of any such gas an amount equal to or in excess of One Dollar ($1.00) per acre for the total acreage then held subject to this lease, Lessee shall on or before the last day of January next succeeding pay Lessor an amount equal to the difference between the total amount of all such royalties paid to Lessor during such calendar year from the proceeds of the sale of such gas and the said amount of One Dollar ($1.00) per acre for such total acreage so held, provided that any and all sums so paid by Lessee to Lessor in excess of the actual amount of royalties paid by Lessee to Lessor from the proceeds of the sale of such gas shall be considered as advance royalties to be repaid to Lessee from any royalties which shall thereafter become payable to Lessor hereunder, and Lessee is authorized to deduct the same from royalties thereafter due and payable.

At Lessor's option, in lieu of such payment as set forth above Lessee shall deliver the royalty share of said gas, free of cost, into Lessor's pipeline on the leased land or into pipeline thereon designated by Lessor. A change from payment in cash to delivery in kind, or vice versa, may not be made oftener than twice in any calendar year and then only on 60 days' prior written notice to Lessee.

Nothing herein contained shall obligate Lessee to treat or process natural gas nor shall Lessee be obligated to save, sell or otherwise dispose of natural gas or residual dry gas, as the case may be, unless there is a market therefor at the well or processing plant at a price and under conditions which Lessee believes to be for the best interest of both parties hereto, or to pay royalty on any gas which is neither sold nor used.

12. **OTHER ROYALTY/COMMINGLING OF PRODUCTION.** Lessee shall pay Lessor as royalty the market value on the leased land, in the condition as produced, of the royalty share of any substances covered by this lease, other than oil and gas and the products thereof, which Lessee may elect to produce and save or market or utilize from the leased land.

Lessee, at its option, may commingle production from the leased land with production from other lands, into a central facility constructed by Lessee either on or off the leased land. For the purpose of calculating and paying royalties in accordance with the terms of this lease, Lessee shall have the option of either (a) installing an appropriate meter(s) that will measure total net production from the leased land, or (b) allocating total production measured at the central facility to the leased land based in monthly tests on individual wells. The production measurement to be used shall determine the production of the respective commingled properties for the purpose of proper payment of royalties. Adjustments will be made for oil commingled of a different gravity.

13. **PAYMENT DATE.** Settlement shall be made by Lessee on or before the last day of each calendar month for all royalties which accrued during the preceding month and Lessee shall furnish Lessor monthly, general information showing the computation of royalties. Lessor agrees to examine promptly the information provided and remittances forwarded by Lessee to it hereunder and promptly advise Lessee of any objection thereto. Lessee shall be entitled to the free use of any oil, gas and associated hydrocarbons for fuel and/or lifting purposes and/or for injection or in-situ combustion purposes or in Lessee's other primary pressure maintenance or secondary recovery or other operations under this lease, and Lessee shall not be required to account to Lessor for or be obligated to pay royalty on said oil, gas and associated hydrocarbons underlying or produced from the leased land and used, lost or consumed in the operations under this lease. In the event Lessee in any of the aforesaid operations under this lease shall substitute fuel, power or other substances for those obtainable from the leased land, Lessee shall be entitled to deduct from the amount of the increased royalty accruing to Lessor the royalty share of the cost of such fuel, power or other substances, provided that no deduction shall in any event exceed the amount of such increased royalty.

14. **LESSER INTEREST.** The rentals and royalties provided for in this leased are based on the whole of the oil and gas rights in the land described above. If Lessor owns less than the whole of the oil and gas rights in said land, the rentals and royalties accruing hereunder shall be proportionately reduced. If any claim is asserted or any action or proceeding instituted by Lessor, or by any third party claiming title to the leased land or any part thereof or any interest therein or in any production therefrom, adverse to Lessor or in hostility to rights claimed in good faith by Lessee under this lease, then during the pendency of controversy and until 90 days after final determination thereof, Lessee may defer or discontinue all operations on the leased land or, if Lessee operates wells, it may deposit royalties accruing hereunder in respect to the production therefrom in any bank in the state of California to abide the final determination of such controversy.

15. **TAXES.** Lessee shall pay all taxes levied upon or assessed against its improvements, fixtures and personal property on the leased land, including Lessee's oil stored thereon. Taxes levied upon or assessed against the minerals and mineral rights subject to this lease (or, if same shall not be separately assessed, such part of the taxes on the leased land as are due to the discovery of oil, gas or any of the above-mentioned other substances on the leased land or lands adjacent thereto) shall be paid as follows: The royalty share thereof by all of the persons entitled to share in the royalty hereunder, according to their several interests in said royalty, and the remainder thereof by Lessee. Any severance tax or other tax, assessment, or license now or hereafter levied or

imposed, measured by the quality or value of oil, natural gasoline, gas, or said other substances produced from the leased land, or any portion thereof, shall be borne by the parties in the same ratio as taxes on minerals and mineral rights. Lessee shall be only liable for its pro-rata share of any special assessment for local improvements or benefits relating to its oil and gas operations.

16. **LESSEE'S OBLIGATION.** Lessee, at its own cost and expense, shall pay for all labor performed and materials furnished in the operations of Lessee hereunder and Lessor shall not be chargeable with, or liable for, any part thereof. Lessee shall protect the leased land from liens of every character arising from its operations. Lessor may post and keep posted on the leased land notices to protect the same from liens.

17. **SAFEGUARDS.** Upon written request of Lessor, Lessee shall lay all pipelines which it constructs through cultivated portions of the leased land below plow depth and upon similar request shall fence all sump holes and other excavations to safeguard livestock.

18. **SURFACE PROTECTION.** If Lessor is the owner of the surface of the leased land, Lessee shall pay the amount of all damages to livestock, crops, fruit or nut trees, timber, fences, ditches, buildings and other improvements caused by Lessee's operations on the leased land, which payments shall be made to Lessor or Lessor's tenant, whichever shall sustain such damage. All disputes as to the amount thereof shall be determined by arbitration. If Lessor is not the owner of such surface, Lessee will hold Lessor harmless from all claims and demands arising out of Lessee's operations hereunder which may be asserted by the owner of the surface or by any tenant of such owner.

19. **STANDBACK.** Lessee shall not drill any well on said leased land within 100 feet of any then existing building thereon without written consent of the owner of such building.

20. **LESSOR INSPECTION.** Lessor's authorized personnel, at all reasonable times, may inspect the leased land and the work done and in progress thereon, and the production therefrom. Lessor's authorized personnel may also examine the books kept by Lessee in relation to the amount and character of the production from the leased land and disposition thereof.

21. **EQUIPMENT REMOVAL.** Lessee shall have the right at any time to remove from the leased land any machinery, rigs, piping, casing and other property and improvements belonging to or furnished by Lessee, including that installed in wells or otherwise affixed to the land; provided that, in the event of the termination of this lease in its entirety, such removal shall be completed with 6 months thereafter and, in the event of the termination of this lease as to a portion of the leased land, all such property not needed by Lessee for its operations on land retained under the lease shall be removed from the land as to which this lease is terminated within 6 months after such partial termination and the remainder shall be removed within 6 months after the termination of the lease in its entirety. Lessee, after termination of this lease, shall fill all sump holes and other excavations made by it on the leased land and in other respects restore the leased land as nearly to its original condition as is reasonably practical, but Lessee shall not be obliged to restore anything for which it may theretofore have made payment by way of damages. Lessee shall also comply with all state, federal and local regulations regarding the clean-up, remediation and transportation of any toxic or hazardous substances or wastes which have been stored, spilled or otherwise used on the leased premises by Lessee, its contractors, employees, agents, or heirs and assigns in connection with Lessee's enjoyment of the rights and privileges granted hereunder.

22. **SURRENDER.** Lessee, at its option, may at any time quitclaim and surrender all of the leased land, in which event this lease shall be at an end and Lessee shall be relieved of all obligations thereunder save and except the obligation to pay rents and royalties theretofore accrued, and any obligation hereby imposed for removal of equipment and restoration of the premises. Lessee, at its option, may at any time, or from time to time, quitclaim and surrender any part of the leased land not desired by it, and in such event the amount of any rental provided for in this lease shall thereafter accrue only on the basis of the land not so quitclaimed, and the number of wells to be drilled shall be determined by the acreage retained. Land so quitclaimed shall remain subject to the easements and rights-of-way herein provided for so long as operations are being carried on by Lessee on the retained part of the leased land and Lessor agrees that there shall not be drilled on the quitclaimed land any oil or gas well which is within 330 feet of any well retained by Lessee or being drilled by it.

23. **PARTIAL SURRENDER.** Lessee may at any time with respect to a designated part or all of the leased land, (a) surrender its right to produce oil, or (b) surrender its right to produce gas. A surrender of the right to produce oil shall include a surrender of the right to produce the gas which will necessarily be produced therewith. A surrender of oil rights in all the leased land will relieve Lessee of further obligation to drill oil wells. A surrender of oil rights in a part only of the leased land will reduce the number of required oil wells to a number determined by the acreage as to which oil rights are retained by Lessee. A surrender of oil rights shall have no effect on obligations to drill for gas and a surrender of gas rights shall have no effect on obligations to drill for oil.

24. **RELIEF FROM PERFORMANCE.** Performance of covenants and conditions imposed upon Lessee hereunder shall be suspended at the time or from time to time to the extent that Lessee is hindered in or prevented from complying therewith, in whole or in part, by war, riots, strikes, lockouts, action of the elements, accidents, inability to obtain adequate drilling rigs, equipment and materials on the open market, or to obtain transportation therefor, laws, rules and regulations of any federal, state municipal or other governmental agency, or executive orders asserted as official by or under any public authority claiming jurisdiction, or any other cause beyond the control of Lessee, including, by way of explanation and not limitation, the inability of Lessee to obtain a drilling permit because awaiting approval of a required Environmental Impact Report or any type of set-back or spacing regulation whether now in existence or hereafter enacted. The amount of time during which Lessee is prevented from conducting drilling or reworking operations

between the date of this lease and the working date by reason of the contingencies above stated, shall extend the working date of this lease for a period of time equal to the time necessary to suspend operations by reason of such contingencies. Lessee shall pay the annual rental in the manner and in the amount provided during such suspensions, and in the event such suspension shall extend the working date for a period of time of more than one year, Lessee shall pay annually the amount of rental in the manner and in the amount above provided.

25. **DEFAULT.** If Lessee shall fail to pay promptly any installment of royalty or rent, and if such default shall continue for a period of 60 days after written demand therefor, then at the option of Lessor, this lease shall forthwith terminate; provided, however, that if there be a bona fide dispute as to the amount due, and all undisputed amounts are paid, said 60-day period shall be extended until 5 days after such dispute is settled by final court decree, arbitration or mutual agreement. In case of default by Lessee with respect to any other condition or covenant hereof and continuance of such default for 60 days after written notice from Lessor to Lessee to perform such condition or covenant, then at the option of Lessor this lease shall forthwith cease and terminate, except that as to any producing well theretofore drilled on the leased land this lease shall continue in effect as to the drilling unit upon which same is located. In the event a well is then being drilled which results in production of oil and/or gas, this lease shall also continue in effect as to the drilling unit upon which such well is located. Each drilling unit shall be designated by Lessee within 60 days after such termination (or in the event a well is then being drilled, within 60 days after completion of such drilling operations) by Lessee executing and filing for record in the county where the leased land is located, a release or quitclaim of all the leased land except the designated drilling units. Lessee shall not, however, be deemed to be in default while work is in progress in good faith which when completed will constitute compliance with such condition or covenant. A termination of this lease as to a part only of the leased land or as to a part only of Lessee’s rights shall not affect such rights-of-way and easements as may be necessary in Lessee’s operations on the part of the leased land as to which no such termination shall have occurred.

26. **AFTER ACQUIRED INTEREST.** Should Lessor hereafter acquire any additional right, title or interest in or to the leased land, it shall be subject to the provisions hereof to the same extent as if owned by Lessor at the date hereof.

27. **ASSIGNMENT.** If this lease shall be assigned as to a particular part or parts of the leased land, such division of the leasehold estate shall constitute and create separate and distinct holdings under the lease of and according to the several portions of the leased land as thus divided, and the holder or owner of each such portion of the leased land shall be required to comply with and perform Lessee’s obligations under this lease for, and only to the extent of, his portion of the leased land, provided that nothing herein shall be construed to enlarge or multiply the drilling or rental obligations, and provided further that the commencement of the drilling operations and the prosecution thereof, as provided in paragraphs 1, 5, and 6 hereof, either by the Lessee or any assignee hereunder, shall protect the lease as a whole. No change in the ownership of land or minerals covered by this lease, and no assignment or transfer by operation of law or otherwise of rents or royalties shall be binding on Lessee until it has been furnished with a certified copy of the instrument of transfer, together with proper evidence that there has been compliance with the laws of the State of California with respect to the transfer or assignment of any royalty or mineral interest.

28. **POOLING.** Lessee shall have the right at its option, at any time and from time to time, either before or after this discovery of oil, gas or other substances on the leased land, to combine and pool all or any part of the leased land or interest therein and/or as to any one or more of the formations thereunder and the minerals produced therefrom into one or more operating units with any other land, formation or interest therein (whether held by Lessee or others and whether or not the surface of such other land may be used for oil or gas development purposes). Each operating unit may be of such size and shape as Lessee may desire. If any of the land to be pooled has not been divided into sections by the United States Government, then Lessee shall project sections thereon, following as nearly as practicable the usual Government system, and such projected sections shall be deemed “sections” for the purpose of this provision.

Each operating unit created hereunder shall be created by and shall become effective upon the execution by Lessee of a Declaration of Pooling setting forth the exterior boundaries of the unit so created and describing the lands, formations or interests pooled thereunder. An operating unit may be on a well-only or certain wells-only basis and may overlap with the boundaries of one or more other operating units. Any units which overlap with the boundaries of another unit shall be modified to apply only to a specific well(s) or to differing formations. Lessee may, at any time after creation of such unit, enlarge, reduce or otherwise modify such unit by executing a Supplemental Declaration of Pooling, but no retroactive adjustment of royalties shall be made. Promptly after execution of each Declaration of Pooling and each Supplemental Declaration of Pooling, Lessee shall give written notice thereof to Lessor.

Any operating unit may include land upon which a well has theretofore been completed or upon which operations for drilling have theretofore been commenced, and within the meaning of the requirements of this lease any such well or operations, if off the leased land, shall be considered as having been commenced immediately after the effective date of such pooling. Production, drilling or reworking operations anywhere on any operating unit created hereunder shall be treated as production, drilling or reworking operations on the leased land. There shall be allocated to the leased land the proportion of the pooled production from any such operating unit (whether or not such production is from the leased land) that the number of surface acres covered by this lease and included in such unit bears to the total number of surface acres in such unit; royalties shall be paid hereunder only upon that portion of such production so allocated, and as to pooled production from land in such unit such royalties shall be in lieu of any other royalties.

If taxes of any kind are levied or assessed which are based upon the quantity of pooled substances underlying or produced from any such operating unit, then the share of such taxes to be borne by Lessor as provided in this lease shall be in proportion to the share of production from such unit allocated to the leased land.

Lessee may at any time quitclaim to the persons entitled thereto all or any part of the land in any such operating unit, and no owner of land in such unit not owning any interest in quitclaimed land, except by virtue of such pooling, shall have any interest in such quitclaimed land after the quitclaim is delivered or recorded. Allocation of production as aforesaid from any such operating unit, whether to the leased land or in like manner to other lands therein, shall continue notwithstanding any quitclaim or other termination, either in whole or in part, of this or any other lease covering lands in such unit until such time as the owner of such land shall (or shall give others the right to) drill for or produce any of the pooled substances from any part of such lands, whereupon all such lands formerly included in such unit and as to which the lease covering the same shall have been terminated, shall be excluded in determining the production to be allocated to the respective lands in such unit and in prorating taxes; and in the event of the failure of Lessor's or any other owner's title as to any portion of the land included in any such operating unit, such portion of such land shall likewise be excluded from such unit; provided that Lessee shall not be held to account for any production allocated to any lands excluded from any such operating unit unless and until Lessee has actual knowledge of the aforesaid circumstances requiring such exclusion.

Lessee may, at any time either before or after the commencement of the drilling of a well on lands included in any such operating unit, wholly dissolve such unit by executing a Declaration of Dissolution. Promptly after execution of such Declaration of Dissolution, Lessee shall give written notice thereof to Lessor. Upon the dissolution of any such operating unit, whether or not this lease or any other lease involved herein remains in effect, all rights of Lessor hereunder to royalty on pooled substances produced from the lands which were so pooled (other than the leased land) shall cease and terminate; but such dissolution shall not otherwise affect or impair any of Lessee's right or obligations under this lease, including its right to create a new operating unit or units out of the lands previously pooled pursuant to this paragraph, or constitute a surrender of any part of or any interest in the leasehold estate created hereby. The sale, conveyance or other transfer of, or of any interest in, any portion or portions of the leased land which are at the time of such transfer, subject to an operating unit shall (unless the instrument effecting such transfer expressly provides otherwise) be deemed to include and shall operate as a transfer and assignment of all of the transferor's interest, rights and benefits under this lease (including the right to royalty on allocated production from the lands subject to any such unit) insofar as such interest, rights and benefits pertain to or are allocable hereunder to the portion or portions of the leased land or interest therein so transferred.

29. **WARRANTY OF TITLE.** Lessor hereby warrants and agrees to defend the title to the leased land and agrees that Lessee at its option may discharge any tax, mortgage or other lien thereon, either in whole or in part, and in event Lessee does so, it shall be subrogated to such lien with the right to enforce same and apply rentals and royalties accruing hereunder toward satisfying same.

30. **REQUIREMENT FOR NOTICE.** In the event that Lessor, before the working date of this lease, receives a bonafide offer which Lessor is willing to accept from any party offering to purchase from Lessor a lease covering any or all of the substances covered by this lease and covering all or a portion of the land leased, with the lease becoming effective upon expiration of this lease, lessor hereby agrees to notify Lessee in writing of said offer immediately, including in the notice the names and address of the offeror, the price offered and all other pertinent terms and conditions of the offer. Lessee, for a period of thirty (30) days after the receipt of the notice, shall have the prior and preferred right and option to purchase the lease or part thereof or interest therein, covered by the offer at the price and according to the terms and conditions specified in the offer. All offers made up to and including the last day of the primary term of this lease shall be subject to the terms and conditions of this section. Should Lessee elect to purchase the lease pursuant to the terms hereof, it shall so notify Lessor in writing by mail or telegram prior to expiration of said thirty (30) day period.

31. **DEFINITION.** The words "drilling operations" as used in this lease include, in addition to actual drilling, any work undertaken or commenced in good faith if followed diligently and in due course by the erection of a derrick or other necessary structures for the drilling of an oil or gas well, and by the actual operations of drilling in the ground. The words "paying quantities" as used in this Lease mean such production as in the reasonable judgment of Lessee will be sufficient to assure a profit over and above the cost of drilling and producing such well.

32. **WATERWELL.** In the event that Lessee drills a water well on the leased land for the production of water for its operations on the leased land, Lessee agrees that if said well is no longer desired by Lessee or upon the termination of this lease it will remove the pump, tubing and power plant from said water well and will cap the surface casing and otherwise leave same in such condition as may be required by any law or regulation, but otherwise will leave said well in such condition that Lessor may subsequently equip the well for the production of water for Lessor's own use.

33. **TERMINATION.** On the expiration or sooner termination of this lease Lessee shall quietly and peacefully surrender possession to Lessor and file or record a quitclaim deed, in the County Recorder's office of said County and State.

34. **EXECUTION.** If more than one person is named as Lessor herein and one or more of them fails to execute this lease, it shall, nevertheless (if accepted by Lessee) become effective as a lease from each such Lessor as may have executed the same. This lease may be executed in any number of counterparts and all such counterparts shall be deemed to constitute a single lease and the execution of one counterpart by any Lessor shall have the same force and effect as if he had signed all the other counterparts.

35. **SUCCESSORS AND ASSIGNS.** This lease and all its terms, conditions and stipulations shall extend to and be binding upon all the heirs, successors and assigns of said Lessor and Lessee.

36. **NO IMPLIED COVENANTS.** All obligations of Lessee under this lease are expressly set out and no other obligations shall be implied.

37. **SURFACE DRILLSITES AND DRILL-THROUGH RIGHTS.** In addition to other rights, privileges and easements hereby granted to Lessee, Lessors hereby grant to Lessee the exclusive right to use the surface of the leased land for the slant and/or horizontal drilling of wells for the production of oil, gas and other hydrocarbon substances, the producing intervals of which wells are to be outside the leased land and in and under neighboring lands not pooled herewith, together with the right to use such surface for purposes incidental thereto, including the taking, storing, removing and disposing of such substances. Lessor also grants Lessee the right to drill through the leased lands from other neighboring lands to reach other nearby mineral rights and operate and produce the same. All of the aforementioned rights, notwithstanding the prior termination of this lease, shall continue for so long as Lessee, its successors and assigns, retains its or their interest in such other neighboring lands.

Lessor shall own no part of the royalty or production from any such wells drilled to other neighboring lands or drilled through the leased lands. No part of the mineral rights taxes on said neighboring lands in which such well or wells are bottomed shall be chargeable to Lessor. Lessee agrees to pay all of the taxes on its improvements and personal property on the leased land installed for use in connection with operations in such neighboring lands and all taxes on its oil/gas on the leased land produced from such neighboring lands.

38. **GOVERNING LAW**. This lease, the obligations of the parties hereunder and all other matters arising out of or relating to this lease shall be governed by and construed in accordance with the laws of the State of California, without giving effect to any conflicts of law principles that would cause the laws of any other jurisdiction to apply.

39. **INDEMNIFICATION**. Lessee agrees to defend, protect, indemnify and save Lessor harmless from any and all claims, demands, liabilities, injuries, losses, damages, costs, causes of action and expenses arising out of, incident to or resulting directly or indirectly in connection with Lessee's operations under this Lease.

40. **INSURANCE.** Lessee shall secure and maintain adequate insurance protection against all risks occasioned by its operations under this Lease. Lessee shall commence no operations hereunder prior to Lessor's receipt from Lessee's insurer a certificate or other evidence of insurance which shall describe the type, policy, limits, deductibles, and period of coverage of and state the party insured by Lessee's insurance. All such insurance shall name Lessor as added insureds with respect to all activities conducted under or related to Lessee's operations under this Lease. Lessee agrees to require its insurer to insert a provision in any such policy to cover all of the obligations assumed by Lessee under this Lease. Lessee further agrees to require any and all of its contractors to provide sufficient insurance to cover its operations on the Lease and to adhere to the requirements of this provision concerning naming Lessor as an added insured on such contractors' insurance policies.

IN WITNESS WHEREOF, said parties have caused this lease to be duly executed as of the date first hereinabove written.

LESSEE	**LESSOR**
NNG, a California Corporation	**CITY OF COALINGA**
By: ______________________ RODNEY NAHAMA	By: ______________________
Its: President	Its: ______________________

STAFF REPORT - CITY COUNCIL/SUCCESSOR AGENCY/PUBLIC FINANCE AUTHORITY

Subject:	Consideration of a General Utility User Tax to Support Public Safety Programs and Direct the City Manager and City Attorney to Proceed with Work Efforts for a November 2014 Ballot Initiative
Meeting Date:	June 25, 2014
From:	Rene A. Ramirez, City Manager
Prepared by:	Rene A. Ramirez, City Manager

I. RECOMMENDATION:

Staff is recommending the City Council provide the City Manager and City Attorney with direction to proceed with the required process in order to meet deadlines such that a ballot initiative for a “General Utility User Tax” can be placed before voters at the November election.

II. BACKGROUND:

The economic recession, dissolution of the Redevelopment Agency and closure of the Claremont Custody Center (CCF) has left the General Fund with a revenue shortfall in excess of $1.0 million. The City’s public safety departments comprise more than 75% of the General Fund $7.7 million in expenditures. For many years now, the City’s General Fund budget has been cut to a point where there are little to no operational cost reductions to be made without affecting community services. Many City employees have not seen a cost of living adjustment in years; beginning on January 1, 2014 and through this calendar year the non-represented group of employees have had their pay reduced five-percent (5%) via a monthly furlough day; and the Coalinga Police Officer Association waived many of their labor contract terms as a way to relieve some of the expense pressure on the General Fund, but their giveaways end on June 30, 2014. Our local economy has picked up somewhat, but not enough to make up the revenue shortfall the City now faces. In the future, the CCF may re-open but on the State’s timetable.

At the Council’s meeting on June 12, Council member Ramsey asked for a future agenda item to consider different forms of taxes that could provide General Fund revenue to support Public Safety. Because of the time frame in order for a ballot initiative to be placed on the November ballot looms, it was felt that this future agenda item needed to come to the Council now for consideration. The City Attorney’s office prepared a memorandum (attached to this item) discussing the different forms of taxes available to the Council to consider and also a timeline of events should the Council decide it wants to pursue such a ballot measure.

III. DISCUSSION:

Under California law, there are several tax measures available to local government. The City Attorney has concisely laid out the different types of tax measures available and how they can be used, such as a Parcel Tax, Utility User Tax, Sales Tax or Business License Tax. In addition, the City Attorney described how taxes fall into a classification of “General” or “Special” under Proposition 218. Under law, a General Tax requires a simple majority vote whereas a Special Tax requires a two-thirds voter approval.

Should the Council decide to move forward with a tax measure for the November ballot, there is a short time frame left in which actions by the Council must take place so that a tax measure can be place on the

November ballot, which has an August 8 deadline.

Of the tax measures available to the City to consider, staff feels that a “General five-percent Utility User Tax” could generate the $1.0 million in revenue shortfall to the General Fund. Some 150 cities and counties throughout California have a Utility User Tax in place, many for a number of years to support General Fund activities. Under a Special Tax, which requires a two-thirds voter approval, such a Utility User Tax could be assessed specifically for Public Safety. On the flip side, under a General Tax, which requires a simple majority voter approval, such a Utility User Tax could not be specifically assessed for Public Safety and the sitting Council and City Manager would decide how best to use this tax revenue for General Fund purposes.

IV. ALTERNATIVES:

The Council has the following alternatives:

1. Decide to not pursue a tax measure; or

2. Direct staff to pursue another type of tax measure and classification than recommended by staff; or

3. With the recommended tax option from staff, direct staff to provide for a three-percent (3%) Utility User Tax for non-residential customers.

V. FISCAL IMPACT:

A five-percent Utility User Tax to a typical residence on their water, sewer, natural gas, sanitation, telephone/cell phone, electricity, and cable television bills could generate approximately $23 per month. (The actual revenue would be a function of the cost of an individual’s utility bills.) Multiply $23 by some 4,000 customers and 12 months and you arrive at slightly more than $1.0 million.

ATTACHMENTS:

File Name	Description
Memo_to_Council_re_Public_Safety_Tax_(00329856).doc	City Attorney Memo
City_of_Sierra_Madre_UUT_FAQs.pdf	UUT FAQs from City of Sierra Madre

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MEMORANDUM

DATE: June 20, 2014 **CLIENT/MATTER:** 1904-01

TO: Mayor & City Council; City Manager

FROM: Laurie Avedisian-Favini

RE: Coalinga Public Safety Tax

I. Introduction

At the June 12, 2014 meeting, Council asked me to review the options available to the Coalinga City Council to enact a tax measure to provide a source of local revenue to be used for public safety services.

II. Discussion

A. Types of Taxes Available

There are several different types of taxes that a general law city like Coalinga can enact under state law:

- **Parcel Tax**
    - A parcel tax is typically an annual tax which is based on a flat per-parcel rate or rate that varies based on other factors such as parcel size, use, or other physical attributes other than value. Parcel taxes can only be imposed as special taxes, meaning they need 2/3 voter approval, and cannot be *ad valorem* (based on the value of the parcel) because of Proposition 218. Only a majority vote of the Council would be required to adopt a parcel tax ordinance. Except for any limitations included in a voter-approved parcel tax measure, there are no limits on the rate of tax or the duration of a parcel tax. (Gov't Code § 50075 et seq.). Parcel taxes are typically collected on a city's behalf by the County as part of the regular County property tax bill. If this process is used, then a parcel tax approved at the November 4, 2014 State-wide general election would be billed with the property tax bills issued in August 2015

and the City would receive the first allocation of parcel tax proceeds in December 2015 or January 2016.

- **Utility Users Tax**
  - o These are taxes on the use of utilities within the City's jurisdiction including gas, electricity, water, telephone service, and cable television. A Utility Users' Tax ("UUT") can be enacted either as a general tax with only majority voter approval required, or as a special tax requiring 2/3 voter approval. Only a majority vote of the Council would be required to adopt a UUT ordinance. UUT are generally imposed at rates based on percentages of the costs billed to the customer, e.g., 5% per month on the cost of telephone base services. Except for any limitations included in a voter-approved UUT measure, there are no limits on the rate of tax or the duration of a UUT. (Gov't Code § 37100.5; *Eastern Mun. Water Dist. V. City of Moreno Valley* (1994) 31 CA4th 24; 36 CR2nd 823). As the provider of natural gas and water to City residents, the City would bill and collect the UUT applicable to gas and water usage itself. UUT on electricity would be collected on the City's behalf by PG&E, UUT on telephone service by AT&T, and UUT on cable television usage by Comcast, AT&T and any other providers active in the community. A UUT measure approved at the November 4, 2014 State-wide general election would become effective when the election results are certified by the County Clerk (around the end of November or early December 2014) and the City would receive the first allocation of UUT proceeds beginning about 60 days after that and then monthly in arrears.

- **Sales Tax**
  - o Sales and use taxes are added to all sales within the City's jurisdiction. A sales tax can be enacted either as a general tax with only majority voter approval required, or as a special tax requiring 2/3 voter approval. If enacted as special tax, the ordinance imposing the tax must include an "expenditure plan" describing the specific projects for which revenues from the tax may be expended. A 2/3 vote of all members of the Council would be required to adopt a sales tax ordinance, whether general or special. Except for any limitation included in a voter-approved sales tax measure, there is no limit on the duration of a sales tax, but the rate of the tax is capped at 2% by state law. (Rev & Tax Code § 7285.9; 7285.92). An add-on sales tax would be collected for and distributed by the State Board of Equalization ("SBE") under a contract with the City. Pursuant to Rev & Tax Code § 7265, a sales tax approved at the November 4, 2014 State-wide general election would become effective on April 1, 2015 and the City would receive the first allocation of sales tax proceeds in July or October 2015.

- **Business License Tax**
  - o These are taxes imposed on business licenses issued by the City which generate revenue in excess of the revenue required to support the licensing program. They are considered taxes under Proposition 218 and so may be enacted either as a general tax with only majority voter approval required, or as a special tax requiring 2/3 voter approval. Only a majority vote of the Council would be required to adopt a busi-

ness license tax ordinance. Except for any limitations included in a voter-approved business license tax measure, there are no limits on the rate of tax or the duration of a business license tax. (Gov't Code § 37101). A business license tax measure approved at the November 4, 2014 State-wide general election would become effective when the election results are certified by the County Clerk (around the end of November or early December 2014). The City would then have to bill and collect the new taxes or contract for those services. The business license taxes would be due and payable by local businesses according to a schedule set out in the ordinance.

For each of these taxes, the election required for enactment of the tax measure must be consolidated with a regularly scheduled general election for Council Members, except in cases of emergency declared by a unanimous vote of the Council.

B. General Tax or Special Tax

Proposition 218 classifies local taxes either as "general" or "special." A general tax is a tax that is imposed for general government purposes whereas a special tax is imposed for a specific purpose. The requirements for imposition of general and special taxes are distinct. A general tax only requires voter approval by a majority of voters, whereas a special tax requires voter approval by two-thirds of all voters.

A tax measure submitted to the voters that says its proceeds will specifically be allocated only to public safety will constitute a special tax under Proposition 218 and will require approval by two-thirds of all voters. On the other hand, if the tax measure itself doesn't say that it will only be allocated to public safety, and instead says it its proceeds will be allocated to the City's general governmental purposes, including public safety, then the measure will be considered to be a general tax under Proposition 218 and so will require approval by only by a majority of the voters voting on the measure.

C. Readings Required for Public Safety Tax Ordinance

Government Code section 36934 provides that ordinances shall not be passed within five days of their introduction, but that an "urgency" ordinance may be passed immediately upon introduction. An ordinance "relating to taxes for the usual and current expenses of the city" is considered an urgency ordinance. (*National Independent Business Alliance v. City of Beverly Hills* (1982) 128 Cal.Rptr. 13, 24; Gov. Code, § 36937.) Likewise, an ordinance relating to an election is an urgency ordinance. (Gov't Code § 36937(a)). Depending on the nature of the public safety tax ultimately imposed, the City can therefore enact the ordinance as an urgency ordinance if relates to taxes for the usual and current expenses of the City, or an election, or both.

D. Timeline for Enactment of Public Safety Tax

- **June 25, 2014**
    - Determination of Type of Tax and Draft Urgency Ordinance.

- **July 10, 2014**
    - Introduction and passage of Urgency Ordinance setting forth public safety tax to be submitted to an election.

- **August 8, 2014**
    - Deadline for submission of Resolution Ordering Election, Requesting Consolidation of Elections, and Requesting County to Conduct Election (88 days before election).
    - As a practical matter, the County Clerk typically requests it be submitted prior to this date.

- **Deadline to be set by Fresno County Clerk**
    - Arguments in Favor and Against and City Attorney's Impartial Analysis.

- **November 4, 2014**
    - Election.

- **December 18, 2014**
    - Resolution Canvassing and Declaring Election Results.
    - Certificate of County Clerk to Results of the Canvas.

II. Recommendation

According to City Manager, Rene Ramirez, the City needs to generate approximately one million dollars, annually, from the tax measure in order to fill the budget shortfall. The City is unlikely to generate this amount with a parcel tax or sales tax increase. The City Manager and I believe that a Utility Users Tax, if approved, has the potential to generate this amount. The four utilities controlled by the City (water, gas, sewer and sanitation) generate about $8.5 million in sales during a fiscal year. A 5% UUT would generate approximately $425,000 annually. The City Manager is researching the amount of revenues generated from TV, cell phone/phone, and power, but expects that these utilities generate at least as much as the four City utilities in sales, and probably a bit more.

One of the benefits of a UUT is that it applies to all residents of Coalinga (since all residents use utilities), as opposed to a parcel tax which affects only property owners. A UUT is applied as a percentage of utility usage, which many view as more equitable than a flat parcel tax.

A few months ago, staff recommended updating the City's business license tax provisions. While this update will not provide the necessary revenue to fill the budget shortfall, the rates are out of date. The upcoming State-wide general election is an opportunity to update these fees. This can be done in addition to a UUT, as a separate measure on the ballot.

Fact Sheet
Utility Users Tax – Measure "UUT"
Municipal Election April 8, 2014

Updated February 2014

This information is provided to answer questions that have been asked about the City's Utility Users Tax (UUT) measure on the April 8, 2014 municipal ballot. There is a significant amount of information on the following pages, but if your question isn't answered, please contact the City's Administrative Services Department at City Hall, (626) 355-7135. This fact sheet will be updated as necessary.

What is "Measure UUT"?

Measure UUT is an item on the April 8, 2014, municipal ballot, for residents to vote on. If approved by the voters, residents will continue to pay the 10% tax that they are already paying on certain utility bills. Revenues received from the UUT will provide funding to keep City services at the current level.

What is a Utility User Tax or UUT?

A Utility Users Tax (UUT) is a tax on certain utility bills. A UUT may be imposed by a city or county on the consumption of utility services.

Sierra Madre has had a UUT since 1993. Today, Sierra Madre residents and businesses pay a 10% UUT on electricity, gas, telephone (including cell phone and long distance), trash (sanitation/solid waste) and cable television; water and sewer are taxed at a 9% rate.

What is the current Utility User Tax rate?

The current voter approved law allows the UUT rate to be set at no greater than 12%. However, the tax is currently collected at a 10% rate (9% for water and sewer) because the City Council has taken action to impose a rate lower than the voter approved rate.

What does the current law (ordinance) provide?

In April 2008, the voters approved an increase in the UUT by approving ***Measure U.*** The Ordinance allowed for an increase from the base amount of 6% to 8% in July 2008, to 10% in July 2009 and to 12% in July 2010. However, the Ordinance permits the City Council to establish a lower than maximum rate – an action the City Council has taken since 2010. (The rate collected is currently 10%.)

The current Ordinance provides for a 12% UUT rate until June 30, 2014. On July 1, 2014 the UUT will decrease to 10%, then 8% on July 1, 2015 and 6% on July 1, 2016. This step-down or decrease is referred to as the "sunset" clause. (*Reference: Ordinance Section 3.36.180*) In 2008, ***Measure U*** also expanded the base (types) of taxable utilities by adding sewer, cable, and trash; and it modernized the communication utility. The utilities which are subject to the tax will not change under ***Measure UUT***.

What does the proposed Measure UUT provide?

If approved by the voters, ***Measure UUT*** will extend the current 10% rate of the City's Utility Users Tax on all utilities except water and sewer. The UUT for water and sewer would be lowered to 7% initially, then dropping to 6% on July 1, 2015.

Measure UUT has a sunset clause, meaning the UUT rate for all utilities except water and sewer will decrease to 8% on July 1, 2022 and to 6% on July 1, 2024, unless voters approve a future extension by ballot measure. The water and sewer tax proposed by **Measure UUT** would actually decrease to 6% several years earlier, on July 1, 2015. Like the existing Ordinance, ***Measure UUT*** permits the City Council to impose a lesser UUT rate, continues the low income exemption, and continues the Citizen Oversight Committee.

What does each percentage of the UUT amount to in dollars?

Each 1% UUT rate is equal to approximately $265,000, so a 4% reduction (10% down to 6%) equals approximately $1 million dollars in reduced funding to the City. If ***Measure UUT*** is not approved by the voters, the current 10% UUT sunsets to 6% on July 1, 2016, resulting in a loss of approximately $1 million to the City. This million dollar loss would be in addition to the $1.3 million in General Fund reductions that has already occurred over the past two years. This additional $1 million loss will result in further reductions to City services, or changes to City services, such as contracting for Police and Paramedic services, or eliminating other General Fund services such as Recreation and Library services - the entire General Fund budget for the Library and Recreation combined is approximately equal to $1 million. (The General Fund budget for the Library is $811,304, and the General Fund budget for Recreation is $256,561.)

How does the Utility User Tax support City services?

The UUT is a General Fund revenue source which funds general City services such as Police, Fire, Paramedics, Recreation and the Library. In FY 2012-2013, at the 10% tax rate, the UUT provided $2.5 million in revenue (31% of total General Fund Revenues). In this same year, the City spent $4.78 million on public safety services (Police, Fire, and Paramedics).

Because of the increased UUT in 2008, the Police Officers were provided salary increases of 9% in 2008; 8% in 2009; and 7% in 2010; no other city employees were given these salary increases. (Even with the increase in Police Officer salaries, our Police Officers are still one of the lowest paid in the San Gabriel Valley.) Without the continuation of the current 10% collected UUT rate, there will be insufficient funding to continue to pay the current salaries of the City's Police Officers and continue to provide all other current city services (such as recreation, senior services, paramedics and Library services.)

Additionally, because of the increased UUT, the City was able to continue to fund the $500,000 in unfunded Paramedic program costs. Prior to 2007, the City did not have advanced life support, i.e. a paramedic program. In 2007, a paramedic program was implemented, but there wasn't adequate funding identified to maintain the program after 2009. (The program was initially funded from the sale of an unused Fire Station in the Canyon area of Sierra Madre, but these were one-time proceeds of the sale, and the funds were exhausted in 2009.)

Measure UUT will continue the current amount of revenue the City receives from the Utility Users Tax, and without this continued revenue, the City will not be able to maintain all of the currently provided City services. Service level reductions and changes will need to be made so that the City's General Fund budget can remain "balanced." In total approximately $1 million in reductions will be necessary by July 2016. The actual service reductions and changes will ultimately be decided upon by the City Council. Possible options include contracting a portion, or all Public Safety services to an outside agency; eliminating or significantly reducing other non-Public Safety services; such as Library services, recreational, planning, or senior services.

How will a "yes" vote on Measure UUT affect Sierra Madre's Utility User Tax?

- The revenue from the approval of ***Measure UUT*** will allow for City services to remain at the current level.

- The taxes imposed by ***Measure UUT*** will extend the existing 10% UUT on all utilities (except for water and sewer, which will be reduced to 7% on July 1, 2014 and 6% on July 1, 2015).
- If ***Measure UUT*** passes, the maximum collection rate for all utilities except water and sewer will be 10% through June 30, 2022; decreasing to 8% on July 1, 2022, and to 6% on July 1, 2024, unless extended by a new measure approved by the voters;
- For water and sewer, the maximum UUT collection rate will be 7% on July 1, 2014, and 6% on July 1, 2015;
- The City Council may set a lesser rate on or before August 1st of any year.

How will a "no" vote on Measure UUT affect the current Utility User Tax?

If ***Measure UUT*** is not approved, the current, voter approved maximum collection rate of 12% will remain in place through June 30, 2014 (per previous Council action, the current collected UUT rate is 10%). After June 30, 2014 the maximum voter approved collection rate will begin to "sunset" by diminishing 2% each June 30th, until it reaches the base rate of 6% (2016). This means 12% rate approved by the voters will diminish to 10% on July 1, 2014, diminish to 8% on July 1, 2015 and finally to 6% on July 1, 2016. (*Reference: Ordinance Section 3.36.180)* Each 2% reduction is approximately equal to $530,000, which results in a total loss of approximately $1,000,000 in two years. After July 1, 2016, the UUT rate would remain at 6% unless altered by voter approval. The loss of $1,000,000 in UUT revenue will have significant impacts on the City's ability to meet its expenditures and will result in service reductions, in order to maintain a balanced budget.

What accountability do voters have?

Annually, the City Council appoints a five member citizen UUT Oversight Committee who, along with the Elected City Treasurer, reviews the use of the increased UUT revenues. Each of the Oversight Committees have all concurred that the voter's intent regarding the use of the increased UUT revenues was followed. The voter's intent was provided by the passage of ***Measure UA*** in 2008, an advisory measure which stated that the increased UUT revenues should be used for Public Safety services.

How much does the UUT cost the average household?

The amount actually paid by each household will vary depending upon the utilities used by the household. Based upon the sample residential utility usage shown below, a typical household will pay an average of $9.22 more per month, or .31 cents more each day, for each 2%.

The chart below provides a quick summary.

Utility	Sample Monthly Bill	6% UUT	8% UUT	10% UUT
Phone	$ 120	$ 7.20	$ 9.60	$ 12.00
Electricity	$ 125	$ 7.50	$ 10.00	$ 12.50
Natural Gas	$ 45	$ 2.70	$ 3.60	$ 4.50
Water	$ 61	$ 3.66	$ 4.88	$ 6.10
Sewer	$ 28	$ 1.68	$ 2.24	$ 2.80
CATV	$ 56	$ 3.36	$ 4.48	$ 5.60
Refuse	$ 26	$ 1.56	$ 2.08	$ 2.60
Total	*$ 461*	*$ 27.66*	*$ 36.88*	*$ 46.10*
Average change per household per 2% of UUT			**$ 9.22**	

What percentage of the UUT is paid to the City?

100% of the Utility Users Tax (UUT) collected on your utility bills is paid to the City; unlike property tax and sales tax where the City receives only a small portion of the total taxes paid.

Are Non-Profit and Religious Organizations exempt from paying the UUT?

No, they are required to pay the Utility User Tax on the taxed utility services they use.

Are low-income households exempt from the UUT? How do I apply for the exemption?

Yes, pursuant to the existing UUT Ordinance, households that qualify as very-low-income and low-income (using HUD income guidelines) are exempt from paying the Utility Users Tax (UUT). This section of the City Ordinance remains unchanged, regardless of a "Yes" or "No" vote on ***Measure UUT***. *(Reference: Section 3.36.200 Exemptions)* Residents can submit an application for an annual exemption for low and very-low-income households at any time during the year. The City requires supporting documentation including proof of income to qualify households for the exemption.

What is the income limit to qualify for the UUT tax exemption?

The City will use the income limits as established for state and federal programs, Department of Housing and Urban Development - Section 8 Housing Income Limits. The income limits vary depending upon the size of the household. For example a single person household is considered low-income if the person's income does not exceed $46,400, while the low-income limit for a family of four is $66,250 (*2013-Income Guidelines*; Los Angeles County Community Development Commission, December 2012).

This section discusses the City's Budget and other general questions that have been asked.

Why does the City need the 10% current funding continued, and why can't the City just "tighten its belt"?

In 2007, a citizens' Ad-Hoc Finance Committee investigated this very question and concluded that there was no feasible way to generate enough money to provide raises to the Police Officers and to continue providing Paramedic Services by reducing City expenses -- without drastic impacts in City services. The Ad-Hoc Finance Committee recommended that the City Council place a revenue measure on the April 2008 ballot. The revenue measure was the current UUT which included modernizing the telephony section to include cell and wireless technology; adding sewer, cable and trash to the existing taxable utilities; and finally, increasing the collection rate from 6% to 12% over a three year period. Since 2008, the City's budget has reflected an increase in Police, Fire and Paramedic program expenditures (primarily for Public Safety staff salary and benefits) that exceeds the increase generated by current Utility User Tax.

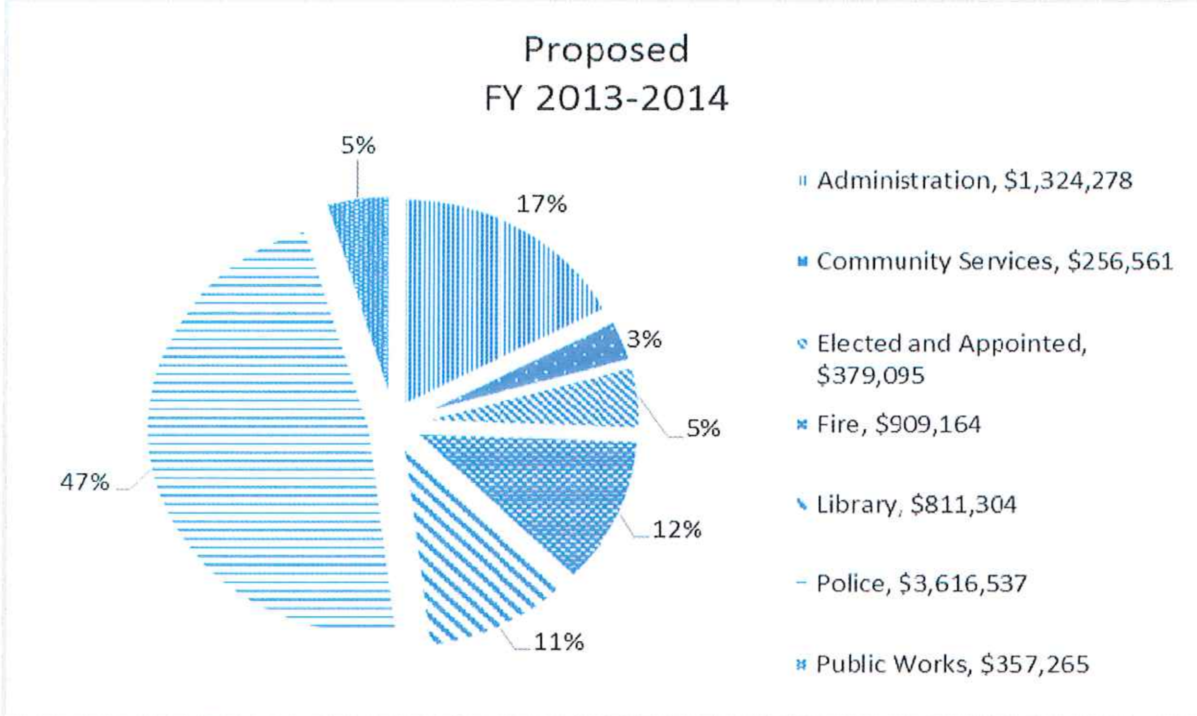
The City's Police employees were provided raises over a three year period (9% for sworn officers and 4% non-sworn officers in 2008; 8% for sworn officers and 3.5% for non-sworn officers in 2009; and 7% for sworn officers and 3% for non-sworn officers in 2010); these raises cannot "just be rescinded". Surveys show that Sierra Madre Police Officers continue to remain at the bottom of the pay scale for all San Gabriel Valley departments. These costs being incurred today are funded through the increase in the UUT. The current staffing costs of the Police Department will remain a City obligation, even if the UUT rate sunsets to 6%.

In the City's 2011-2012 General Fund budget, City Council maintained the UUT tax collection rate at 10% (the maximum rate permissible is 12%), even though the City originally had a projected shortfall of over $1,000,000. Staff recommended cuts in expenditures in excess of $900,000 which included more than $300,000 in Police department reductions and $250,000 in Fire expenses. The remaining budget reductions came from reducing Public Works budget by contracting out Park Maintenance, reductions in recreation and library programming and reductions in City cost allocations (overhead).

Additionally during the 2011-2013 biennial budget, in December 2011, the California Supreme Court upheld AB 1X26 which dissolved all Community Redevelopment Agencies, including the City of Sierra Madre's Community Redevelopment Agency (CRA). This resulted in a decrease of $1.3 million in incremental property tax income to the City that was used, partially, to staff positions that oversaw eligible projects funded with CRA monies within the former redevelopment project area, and for eligible public infrastructure and other projects. These type of projects ranged from replacement of broken playground equipment in Memorial Park (completed before the loss of the CRA) to repaving City parking lots (not completed) to installing a new water main at the east end of Sierra Madre Boulevard, and all associated overhead costs. When financial resources are reduced due to the economy and State take-aways, the City must respond by reducing services, which means reducing staff. At the start of Fiscal Year 2012-2013, the City experienced its first layoffs in a decade. Prior to Fiscal Year 2012-2013 staff attrition was used to reduce staffing. In total, since 2008, the City has reduced staffing by almost 10 full-time equivalent employees. (There are currently 63 full-time employees.) This was accomplished through eliminating some services (including reducing City Hall's open-to-the-public hours to 11 am to 5:30 pm and contracting with Pasadena Humane Society to provide Dog Licensing), and out-sourcing some services (grounds maintenance, Building & Safety Services, and the operation of the municipal swimming pool.) The charts below show the current allocation of General Fund expenditures. (*Note: Chart does not include the Paramedic Subsidy of $500,000.)*

General Fund Expenses by Department

dept	object	Proposed FY 2013-2014	Proposed FY 2014-2015
Administration	Personnel	118,616	124,379
	Nonpersonnel	1,205,662	1,228,928
Administration Total		***1,324,278***	***1,353,307***
Community Services	Personnel	237,106	252,383
	Nonpersonnel	19,455	19,455
Community Services Total		***256,561***	***271,838***
Development Services	Personnel	0	0
	Nonpersonnel	0	0
Development Services Total		***0***	***0***
Elected and Appointed	Personnel	42,969	44,124
	Nonpersonnel	336,126	291,126
Elected and Appointed Total		***379,095***	***335,250***
Fire	Personnel	583,615	610,789
	Nonpersonnel	233,549	234,982
	Debt	92,000	92,000
Fire Total		***909,164***	***937,771***
Library	Personnel	673,626	708,430
	Nonpersonnel	137,678	138,680
Library Total		***811,304***	***847,110***
Personnel	Nonpersonnel	0	0
Personnel Total		***0***	***0***
Police	Personnel	3,208,484	3,421,315
	Nonpersonnel	408,053	436,838
Police Total		***3,616,537***	***3,858,153***
Public Works	Personnel	186,365	201,366
	Nonpersonnel	170,900	174,970
Public Works Total		***357,265***	***376,336***
Grand Total		**$ 7,654,204**	**$ 7,979,765**



How does the increase in UUT compare to the increase in Public Safety?
The total UUT collected for Fiscal Year 2007-2008 serves as the "base year" for UUT revenues and Public Safety expenditures. In Fiscal Year 2007-2008, the City collected $1,167,061 in UUT revenues; in that same year the City spent $3,035,002 on Public Safety. In Fiscal Year 2012-2013 the City collected $2,522,994 in UUT revenues – an increase of $1,355,933 from Fiscal Year 2007-2008. The Public Safety expenditures for Fiscal Year 2012-2013 were $4,780,286 – an increase of $1,745,284. Therefore, the City spent all the increased UUT revenues on Public Safety, plus an additional $389,351 of General Fund revenues. Each year, the independent UUT Oversight Committee has verified that the increases in Public Safety were equal to or greater than the increase in UUT revenues.

How is the public assured that City funds are spent appropriately?
The City of Sierra Madre completes an annual audit of its financial records. The annual audit is conducted by an independent, professional CPA firm. Annually, the audit firm prepares an "Independent Auditor's Report". The City's audits are available on the City's website http://www.cityofsierramadre.com/financial-reports. Additionally, the audit is made available to the UUT Oversight Committee. Regarding the expenditure of UUT funds, each of the UUT Oversight Committees since 2008 have concurred that the voter's intent was adhered to with respect to the City's use of the UUT increase for public safety purposes. These reports are available at City Hall and online for public viewing.

What is the difference between Unrestricted and Restricted funds?
The UUT tax is General Fund revenue. Unrestricted funds (also called General Funds) are the only funds that the City Council has complete authority to allocate for any governmental service or program the City provides. Unrestricted funds are used to pay for general city services such as public safety services (including the salaries of Police Officers), library services, and recreational services. By contrast, restricted funds are designated to pay for specific city services or projects and cannot be used for any other purpose. For example Water enterprise funds must be used for the Water Department and

cannot be used to pay for Library staff salaries, and grant funds can only be used to pay for the specific projects approved by the granting agency.

A water and sewer rate increase was recently approved, won't that help the City General Fund?
No, because water and sewer funds can only be used for Water and Sewer related purposes, and cannot be used to fund general City services, such as police, paramedics, library or recreation services. Additionally, If Measure UUT is approved by the voters, the UUT rates for water and sewer will be lower (***Measure UUT*** allows for a maximum collection rate on water and sewer of 7% on July 1, 2014, and to 6% on July 1, 2015) so as maintain the same approximate level of revenue collection prior to the water and sewer rate increases.

Questions?
If you have any questions, or would like additional information, please contact the Administrative Services Department at (626) 355-7135, or visit the City's website at www.cityofsierramadre.com.