

GUADALUPE FISCAL REFORM

SUMMARY

The 2017-18 Santa Barbara County Grand Jury (Jury) received a request to investigate the fiscal condition of the City of Guadalupe (City). In previous years, the Jury has found deficiencies in the City's fiscal management. In May 2003 the Jury found that the City had "...declining budgetary resources." In June 2006 the Jury noted that "...little if anything had changed." The 2014-15 Jury found many fiscal management problems in Guadalupe and recommended that it disincorporate. The present investigation provides an updated analysis of Guadalupe's fiscal performance over the past four years in response to the request.

The Jury found that Guadalupe's fiscal performance has improved modestly.

INTRODUCTION

The City of Guadalupe was founded in 1840 and incorporated in 1946 when the main north/south route in California was Highway 1, which runs through the City. The construction of US Highway 101, through the City of Santa Maria 10 miles to the east of Guadalupe, has isolated Guadalupe, stifling population growth and economic development.

The City is a general law city governed by an elected City Council, with a mayor and four council members. Guadalupe has 31 full and part-time employees, including a City Administrator, a Finance Director, and a Director of Public Safety (who serves as the Chief of Police and the Fire Chief).

The 2016 population of Guadalupe was estimated to be 7,252, based on the rate of growth of 0.40 percent following the 2010 census of 7,080. Household income in 2016 was estimated to be \$42,000 and 19 percent of households were living in poverty.

Guadalupe's 2016-17 public revenue was approximately \$545 per capita, which compares unfavorably to a County of Santa Barbara figure of \$2,042 and to a City of Santa Maria average of \$1,754 per capita for the same period. Over the period 2014-15 through 2017-18, the sources of public revenue for Guadalupe were property taxes (27 percent of General Fund [GF] revenue), sales taxes (20 percent), and other taxes (48 percent). There are few restaurants or retail stores in the City and thus, little sales tax revenue. There are no hotels in Guadalupe and therefore no Transient Occupancy Tax.

METHODOLOGY

The Jury interviewed elected officials and current City staff. The Jury also reviewed audited financial statements of 2013-14, 2014-15, 2015-16, and 2016-17 draft; City Council meeting

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minutes; the approved 2017-18 budget; reports from outside consultants; and additional information provided by staff of the City.

OBSERVATIONS

This report begins by examining the findings of the 2014-15 Santa Barbara County Grand Jury report titled “Guadalupe Shell Game Must End” and the responses to the report by the Guadalupe City Council (GCC), http://sbcgj.org/2015/Responses/Guadalupe_GCC.pdf and considers new data provided to the 2017-18 Jury. The sole recommendation of the 2014-15 Jury was that Guadalupe should disincorporate, which will be discussed below.

Table 1: GUADALUPE – Fiscal Table, 2012-13 to 2017-18

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	2012-2013	2013-14	2014-15	2015-16	2016-17	2017-18
	CAFR	CAFR	CAFR	CAFR	CAFR	approved budget
General Fund (GF)						
Revenue	4,091,605	4,025,400	3,615,752	3,888,271	4,348,009	4,973,468
of which tax	2,130,262	1,814,244	1,851,340	2,147,185	1,956,421	2,013,600
of which other	1,961,343	2,211,156	1,764,412	1,741,086	2,391,588	2,959,868
Expenditure /1	4,368,821	4,893,574	4,196,709	4,259,795	4,983,120	5,743,645
General Fund Balance						
in \$	(277,216)	(868,174)	(580,957)	(371,524)	(635,111)	(770,177)
in % GF revenue	-6.8%	-21.6%	-16.1%	-9.6%	-14.6%	-15.5%
Enterprise Funds (EF)						
Revenue	3,218,382	3,736,124	3,719,537	4,373,458	4,313,426	5,002,587
Expenditure	3,411,735	3,802,718	3,611,774	3,658,339	3,283,493	4,652,882
Transfers to General Fund from Special and Enterprise Funds						
total, in \$	438,333	22,774	428,293	436,304	491,867	707,850
in % GF revenue	10.7%	0.6%	11.8%	11.2%	11.3%	14.2%
as allowed by cost allocation study, in \$	#N/A	#N/A	619,321	640,220	681,900	707,850
in % GF revenue	#N/A	#N/A	17.1%	16.5%	15.7%	14.2%
Total Primary Government						
Revenue	7,309,987	7,761,524	7,335,289	8,261,729	8,661,435	9,976,055
Expenditure	7,780,556	8,696,292	7,808,483	7,918,134	8,266,613	10,396,527
Balance of GF + EF						
in \$	(470,569)	(934,768)	(473,194)	343,595	394,822	(420,472)
in % of GR + EF revenue	-6.4%	-12.0%	-6.5%	4.2%	4.6%	-4.2%
Population	7,165	7,194	7,223	7,252	7,281	7,310
Note: The General Fund balance is revenue minus expenditure, excluding interest expenditure						
Dollar values are current; they are not adjusted for inflation.						
Data for 2018-19 are not yet available.						
/1 Expenditures = Total GF expenditures - interest						
Source: Guadalupe Comprehensive Annual Financial Reports (CAFR), 2012-13; CAFR 2013-14; CAFR 2014-15; CAFR 2015-16; Guadalupe Fiscal Year 2016-17 Draft City Audit (Guadalupe City Council agenda, March 13, 2018); and Resolution No. 2017-28 "A Resolution of the City Council of the City of Guadalupe, California, Adopting the 2017-18 Budget"						

Table 1 presents revenue and expenditure data for the City’s General Fund and for its Enterprise Funds from 2012-13 through 2017-18. What is called the General Fund balance is revenue to the General Fund minus expenditures by the General Fund. The Jury observes a small improvement in the City’s General Fund balance from an earlier three year- period 2012-13 through 2014-15 to the most recent three-year period of 2015-16 through 2017-18.

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Table 2: GUADALUPE – Assets and Liabilities Table, 2012-13 to 2016-17

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	2012-2013	2013-14	2014-15	2015-16	2016-17
	CAFR	CAFR	CAFR	CAFR	CAFR
General Fund					
Current Assets	2,454,704	2,472,525	2,751,271	2,905,171	2,887,660
Non-current assets	10,121,348	9,749,943	9,362,214	8,725,056	8,675,689
Total Assets	12,576,052	12,222,468	12,113,485	11,630,227	11,563,349
Current Liabilities	1,045,839	1,409,586	1,570,391	929,322	746,737
Non-current Liabilities	1,455,042	405,792	2,286,089	2,142,869	3,046,822
Total Liabilities	2,500,881	1,815,378	3,856,480	3,072,191	3,793,559
Current ratio ^{/1}	2.35	1.75	1.75	3.13	3.87
Current liabilities / general revenue	0.26	0.35	0.43	0.24	0.17
Enterprise Funds					
Current Assets	620,396	1,324,785	2,300,283	2,117,994	2,553,660
Non-current assets	10,234,355	9,666,217	9,294,723	9,529,956	9,033,811
Total Assets	10,854,751	10,991,002	11,595,006	11,647,950	11,587,471
Current Liabilities	437,929	1,048,606	1,500,958	1,219,813	619,843
Non-current Liabilities	1,729,940	2,573,448	2,469,644	2,400,951	2,507,996
Total Liabilities	2,167,869	3,622,054	3,970,602	3,620,764	3,127,839
Current ratio ^{/1}	1.42	1.26	1.53	1.74	4.12
Current liabilities / enterprise revenue	0.14	0.28	0.40	0.28	0.14
Total Primary Government					
Current Assets	3,075,100	3,797,310	5,051,554	5,023,165	5,441,320
Non-current assets	20,355,703	19,416,160	18,656,937	18,255,012	17,709,500
Total Assets	23,430,803	23,213,470	23,708,491	23,278,177	23,150,820
Current Liabilities	1,483,768	2,458,192	3,071,349	2,149,135	1,366,580
Non-current Liabilities	3,184,982	2,979,240	4,755,733	4,543,820	5,554,818
Total Liabilities	4,668,750	5,437,432	7,827,082	6,692,955	6,921,398
Current ratio ^{/1}	2.07	1.54	1.64	2.34	3.98
Non-current liabilities / total assets	0.14	0.13	0.20	0.20	0.24
Population	7,165	7,194	7,223	7,252	7,281
Note: Dollar values are current; they are not adjusted for inflation.					
Assets and liabilities data for 2017-18 are not yet available.					
/1 The current ratio is current assets / current liabilities.					
Source: Financial data from Guadalupe Comprehensive Annual Financial Reports (CAFR), 2012-13; CAFR 2013-14; CAFR 2014-15; CAFR 20 Guadalupe Fiscal Year 2016-17 draft audit (Guadalupe City Council agenda, March 13, 2018); and					
Resolution No. 2017-28 "A Resolution of the City Council of the City of Guadalupe, California, Adopting the 2017-18 Budget"					
Population data from US census.					

Table 2 presents the City’s assets and liabilities from 2012-13 through 2016-17. The Jury notes a modest improvement in the City’s General Fund current ratio, a commonly used indicator of debt service capacity, over the period 2012-13 through 2016-17. The Jury further notes an improvement in the consolidated current ratio of the City’s General Fund and Enterprise Funds over the period 2012-13 through 2016-17.

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Current Status of Issues Raised in Report of 2014-15 Santa Barbara County Grand Jury

The Jury reviewed and analyzed each finding and response by the Guadalupe City Council (dated May 26, 2015) as follows:

2014-15 Finding 1

Finding

“Guadalupe does not generate enough General Fund revenue (sales taxes, fees, property taxes) to pay for General Fund expenses, such as police and fire operations.”

GCC Response

In part, the GCC responded, “Disagree. Although General Fund expenses exceeded General Fund revenue in 2013/14 and 2014/15, City Council expects the General Fund to be balanced in 2015/16.”

Jury Observation

The 2017-18 Jury notes, from a review of the 2014-15, 2015-16, Comprehensive Annual Financial Report (CAFR)s, the Draft Audit of the 2016-17 Financial Statements, and the 2017-18 budget of the City of Guadalupe, that GF and special fund revenue¹ pay only 85 percent on average of GF and special fund expenses. The GF was never balanced between 2014-15, 2015-16, or 2016-17 and is not projected to balance in 2017-18.²

2014-15 Finding 2

Finding

“Guadalupe's current debt payment obligations will increase annually until 2024...with insufficient corresponding increases in revenue.”

GCC Response

The GCC argued that the debt stock and debt service would fall as old loans were amortized and as new revenue reduced the need for additional loans and cut debt service from the General Fund.

Jury Observation

The 2017-18 Jury found that the City's total GF liabilities rose from fiscal year 2012-13 through 2016-17. However, the ratio of current assets to current liabilities in the General Fund rose from 2.35 in 2012-13 to 3.87 in 2016-17, indicating an improvement in the City's current debt position. The ratio of current liabilities to general revenue fell from 0.26 in 2012-13 to 0.17 in 2016-17, further indicating an improvement in the City's current debt position as a share of general revenue.

2014-15 Finding 3

Finding

“The recent passage of Measures V, W, and X will not provide a long-term solution to Guadalupe's financial issues.”

¹ “Special Funds” in the Guadalupe 2017-18 budget include Public Safety Funds (estimated revenue of \$31,295) and Streets & Roads Funds (estimated revenue of \$679,914); the 2017-18 GF estimated revenue is \$4,124,210.

² Budget Execution of the General Fund was about 70 percent to the end of March 2018.

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GCC Response

“Disagree. See Response to Finding 1 concerning new General Fund revenue.”

Jury Observation

In November 2014, the voters of the City passed three ballot measures (Measures V, W, and X) that were projected to produce \$300,000 annually in new revenue. This new revenue was projected to reduce transfers from the enterprise funds to the City’s GF.

The 2017-18 Jury found that Measures V, W, and X did have a positive impact on revenue in Guadalupe; they were part of an increase in per capita revenue from \$457 in 2014-15, to \$480 in 2015-16, to \$525 in 2016-17, and to a projected value of \$573 in 2017-18.

2014-15 Finding 4

Finding

“There is no revenue to restore salary or benefits to employees who have agreed to furloughs and salary cuts, or to add staff.”

GCC Response

“The anticipated new General Fund revenue should be adequate to remove wage and benefit concessions.”

Jury Observation

Guadalupe has had no furloughs since April 2016. Previous pay cuts have been restored.

2014-15 Finding 5

Finding

“There is no revenue to build up a reserve fund for emergencies or pay for needed infrastructure repair.”

GCC Response

“Agree in part...[t]here is not adequate revenue at this time to build up a General Fund reserve,” but argued that additional revenue from the Pasadera development would add to the GF reserve and that additional Water and Wastewater revenue would permit new infrastructure investments in the enterprises.

Jury Observation

The 2017-18 Jury notes new property tax revenue after 2014-15 grew in year 2015-16 by 9.8 percent and in 2016-17 increased by 2 percent. In 2017-18, it is projected to increase by 7.6 percent.

The Jury notes that there will be a projected improvement in the GF balance of about 77 percent between June 30, 2017 and June 30, 2018.

The City has implemented rate increases for water and wastewater services. Increases in water and wastewater enterprise revenue have allowed modest new investments, as shown by the positive changes in the net position of capital and other noncurrent assets from 2014-15 to 2016-17.

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2014-15 Finding 6

Finding

“There is no revenue to eliminate the need for the City of Guadalupe to borrow an additional \$330,000 per year to meet General Fund obligations.”

GCC Response

Disagree. “See Response to Finding 1. The City expects the 2015/16 General Fund budget to be balanced. Given that, no additional borrowing will be needed.”

Jury Observation

The 2017-18 Jury found that the 2015-16 and 2016-17 GF budgets were not balanced. The approved 2017-18 GF budget was not balanced. In all three years, the GF had to borrow from Enterprise Funds.

2014-15 Finding 7

Finding

“Guadalupe is losing \$4,000 per month in the Solid Waste Fund, due to faulty accounting practices, resulting in a \$240,100 fund deficit as of August 18, 2014.”

GCC Response

“Agree in part, disagree in part...” saying that the deficit of the Solid Waste Fund would be retired over time due to more efficient billing.

Jury Observation

The 2017-18 Jury found that the City transferred solid waste collection and billing to a private company, which made billing more efficient and which improved the financial position of the Solid Waste Enterprise Fund since the 2014-15 Grand Jury Report.

2014-15 Finding 8

Finding

“Guadalupe has, for over 12 years, charged up to 193 percent of overhead expenses through inappropriate Interfund transfers from its special funds and enterprise funds to the General Fund.”

GCC Response

Agreed in part, disagreed in part, saying that a financial assessment, including a cost allocation plan was done,³ to reduce, justify and fully document interfund transfers in the 2014-15 budget and going forward.

Jury Observation

The 2017-18 Jury notes that the cost allocation plans have contributed to transparency in the transfers from the Enterprise Funds to the GF. The Jury also notes, however, that interfund transfers were not eliminated in the years following 2014-15, though they were reduced in real terms and made according to the cost allocation plan developed by the consultant. In 2015-16 the Cost Allocation Plan allowed transfers of \$622,610, but the actual transfer was \$436,304. In 2016-17 the Plan allowed transfers of \$681,900, but the actual transfer was \$491,867.

³ William Statler Financial Assessment Memorandum, August 18, 2014.

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In 2017-18 the City budget proposed transfers of \$707,850 to the GF which is above the amount allowed by the cost allocation study for that year.

2014-15 Finding 9

Finding

“Guadalupe's inappropriate transfers included money taken from the State Gas Tax Fund, which was used for purposes expressly forbidden in the Gas Tax regulations.”⁴

GCC Response

The GCC agreed and committed to “Strict use of the cost allocation methodology study going forward will make sure that all transfers are fully justified.”

Jury Observation

The 2017-18 Jury notes that transfers from the State Gas Tax Fund to the General Fund were reduced but not eliminated. During the March 13, 2018 City Council meeting, the independent auditor questioned whether Gas Tax funds were being used inappropriately. City staff answered that they are reconciling transfers in and out of the Gas Tax fund.

2014-15 Finding 10

Finding

“Guadalupe did not, until recently, follow rules that allow loans of funds from special funds to help finance General Fund activities which must be approved by the City Council, be documented, and include a repayment schedule.”

GCC Response

Agreed, committing to “documenting loans between funds and creating repayment schedules.”

Jury Observation

The 2017-18 Jury notes that the GCC commitment to justify such transfers was honored via Resolution No. 2015-20 dated August 11, 2015.

2014-15 Finding 11

Finding

“Guadalupe has a large tax liability to the IRS, which started in 2006 as a relatively minor dollar figure, but over the past eight years, with penalties and interest, has grown to over \$486,000.”

GCC Response

Disagreed, saying that it was “highly unlikely” that the liability was as large as \$486,000. It further stated that any potential liability was under review between the City and the IRS.

Jury Observation

The 2017-18 Jury was informed by City staff that Guadalupe no longer has a liability to the IRS.

⁴ Section 330, page 3, Table 1 of the “Guidelines Relating to Gas Tax Expenditures for Cities and Counties,” published by the California State Controller's Office in 2004

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2014-15 Finding 12

Finding

“Guadalupe's decades' long hope and expectation that future housing and commercial development will improve its financial situation have not been realized.”

GCC Response

Disagreed, stating that it anticipated new revenue from: the 800-home Pasadera development and associated retail development; new Apio production line, fall 2013; relocation of Hayward truss manufacturing facility from Santa Maria to Guadalupe, fall 2013; Simplot expansion, spring 2015; new Subway restaurant, spring 2015; new Rain 4 Rent facility, spring 2015; relocation of Clay's Septic from Nipomo to Guadalupe, summer/fall 2015; new pharmacy, fall 2015; new Beachside Produce cooling facility; new 34-unit apartment complex; and a 39-unit low-income housing project.

Jury Observation

The 2017-18 Jury notes that these new revenue sources are as indicated in the Draft City Audit of 2016-17, and the Approved Budget of 2017-18.

2014-15 Finding 13

Finding

“Disincorporation will freeze the existing debt of the City of Guadalupe at the current level.”

GCC Response

Disagreed.

Jury Observation

The 2017-18 Jury notes this is moot because the City did not disincorporate.

ADDITIONAL ISSUES

City of Guadalupe Draft City Audit of 2016-17

The annual financial report of the City, among other findings, listed Finding 2017-002, which states in part, “Cause: The City have overspend [sic] in the funds listed above [General Fund - \$307,156; Library Fund - \$2,467; Wastewater Treatment Fund - \$280,308; Solid Waste Fund - \$76,092] and covered that overspending by using funds that are legally restricted and not intended to be used to subsidize the General Fund, the Wastewater Treatment Fund and the Solid Waste Fund.” The auditor also stated, “...by analyzing the various capital City funds, it appears that the funds with the most cash balances where most likely the loans came from are the Measure A and Gas Tax funds.”

The auditor recommended, “... that the City analyze its funds to determine which funds loaned the above-mentioned funds the amounts listed above. We recommend that the City Council approve a repayment plan to insure all restricted resources are paid back to the funds it belongs to.” The Jury concurs with this recommendation and adds that the payments must be within the timeframes and terms established by law.

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In the “Management Response” to Finding 2017-002 of the Draft City Audit of 2016-17, the City made no reference to the Measure A fund or the Gas Tax fund as the auditor recommended.

Financial Planning

For the purpose of financial planning, the City is in the process of developing revenue and expenditure projections, for the period of FYs 2018-19 through 2022-23.

Initial indications are that the 2014 tax measures have improved the City’s fiscal balance but not enough to keep it from being negative. The Jury notes potential further improvements in the City’s finances could come from:

- A review of land that it owns for the purpose of renting it, if appropriate, to the Water and Wastewater Departments.
- A review of employees’ CalPERS contributions, which if raised, could add about \$50,000 (1 percent) annually to GF revenue.

The Grand Jury was informed that a consultant was hired by the City to recommend improvements of the City’s financial condition through additional revenue measures.

Financial Training

The 2014-15 Grand Jury Report stated that financial training for City management was inadequate. This year’s Jury was informed that two public budget forums and one closed session for budget training for the City Council were conducted.

CONCLUSION

In previous years, the Santa Barbara County Grand Jury found deficiencies in the City of Guadalupe’s fiscal condition. The 2017-18 Grand Jury found a modest improvement in the General Fund Balance of the City, in the Consolidated Balance of the General Fund and the Enterprise Funds, and in the City’s ratio of current assets to current liabilities. The 2017-18 Santa Barbara County Grand Jury found that the City of Guadalupe’s fiscal condition has modestly improved since the Santa Barbara County Grand Jury report of 2014-15. This improvement was in part due to the passing of tax Measures V, W and X in the fall of 2014. In addition, the new homes constructed in the Pasadera community are contributing to increased property tax revenue.

FINDINGS AND RECOMMENDATIONS

Finding 1

The General Fund balance of the City of Guadalupe has improved slightly over the period 2015-16 to 2017-18 compared to the period 2012-13 to 2014-15 fiscal years.

Finding 2

The total primary government balance – the sum of the General Fund balance and the Enterprise Fund balance – has also improved because of better financial results from the City of Guadalupe’s enterprises.

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Finding 3

The ratio of current assets to current liabilities in the City of Guadalupe General Fund averaged 3.5 over the period 2015-16 to 2016-17, which is an improvement over the period 2012-13 to 2014-15.

Finding 4

Guadalupe does not generate enough General Fund revenue from the sources on which most cities rely (property, sales and transient occupancy taxes) to provide basic administrative and safety services while maintaining a positive General Fund balance.

Finding 5

Inadequate General Fund revenue necessitates continuous transfers from Guadalupe's Enterprise Funds. Given the slow growth of population and of per capita income in Guadalupe and the limited new investment in housing and business, it is unlikely that public revenue can eliminate the dependence of the General Fund on transfers from the Enterprise Funds.

Finding 6

Following the March 13, 2018 Guadalupe City Council meeting, at which the Draft City Audit of 2016-17 was discussed, the City may have used restricted monies from Measure A and Gas Tax funds to finance its General Fund and other fund deficits.

Recommendation 6a

That the City Council of Guadalupe analyze the Measure A, Gas Tax, and Enterprise Funds to determine if those fund(s) were used to loan monies outside the Cost Allocation plans for 2016-17 and 2017-18, to the General Fund, Library Fund, Wastewater Treatment Fund and Solid Waste fund.

Recommendation 6b

That once the amounts in Recommendation 6a are determined, the City Council of Guadalupe pass a resolution and a repayment plan to repay any questioned funds.

Finding 7

The City of Guadalupe is considering several recommendations to improve its financial condition, in light of material deficiencies found in previous audits.

Recommendation 7

That the Guadalupe City Council formally consider, in an open session of the City Council, all recommendations it has received to improve its financial condition and to issue a written statement to the public about its decisions on each recommendation.

REQUEST FOR RESPONSE

Pursuant to California Penal Code §933 and §933.05, the Grand Jury requests each entity or individual named below to respond to the enumerated Findings and Recommendations within the specified statutory time limit:

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Responses to Findings shall be either:

- Agree
- Disagree Wholly with an explanation
- Disagree Partially with an explanation

Responses to Recommendations shall be one of the following:

- Has been implemented, with a brief summary of the implemented actions
- Will be implemented, with an implementation schedule
- Requires Further Analysis, with an explanation of the scope and parameters of an analysis or study and a completion date of less than 6 months after the issuance of this report
- Will not be implemented because it is not warranted or reasonable, with an explanation of why

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Findings 1, 2, 3, 4, 5, 6, 7

Recommendations 6a, 6b, 7