



City of Guadalupe
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P.O. Box 908
Guadalupe, CA 93434
805-356-3891

May 26, 2015

The Honorable Arthur Garcia
Santa Maria Juvenile Court
4263 California Blvd
Santa Maria, CA 93455

Re: Grand Jury Report titled "Guadalupe Shell Game Must End"

Dear Judge Garcia:

This letter is the response of the Guadalupe City Council and the City's Mayor to the Santa Barbara Grand Jury report titled "Guadalupe Shell Game Must End." This response is submitted in compliance with Penal Code Section 933. A copy of this response is being sent concurrently to the Grand Jury.

The Grand Jury report sets forth thirteen findings and one recommendation. The City Council of the City of Guadalupe is required to respond to all thirteen findings and the one recommendation.

Finding 1

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

Response to Finding 1

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. This is a function of the three tax measures passed by Guadalupe voters in November 2014. Combined, the three measures should generate \$325,000 in new revenue. In addition, property tax and sales tax growth plus increased permit fees due to building activity (800-home Pasadera development) should generate \$100,000 in new revenue. Finally, planned water, wastewater, and roll-off franchises should generate \$175,000 in new franchise fees. This is a combined \$600,000 in new revenue which should be enough to cover the in-going 2014/15 deficit (\$325,000), an end to wage and benefit concessions (\$200,000), and natural growth in other expense line items (\$75,000).

Finding 2

Guadalupe's current debt payment obligations will increase annually until 2024 (see Table 2) with insufficient corresponding increases in revenue.

Response to Finding 2

Disagree. The only new debt in Table 2 is planned borrowing from the Water Operating Fund and the Lighting District to cover the 06/30/15 negative General Fund balance of \$625,000. The expected 2015/16 payment on this loan (with interest) is \$18,750. The loan payments will grow by about \$10,000 per year thereafter. The loan will be paid off after ten years. There should be adequate General Fund revenue in 2015/16 to cover the first-year payment. The City is counting on new property tax revenue and sales tax revenue from the Pasadera subdivision and shopping center to cover future year increases. The Pasadera subdivision has broken ground. Construction of the first five homes begins this month.

The other loans listed in Table 2 (COP's, RDA, Sewer Bonds, and SERAF) are existing loans. Water rates are already sufficient to pay back the loans owed by the Water Operating Fund (for COP's). Sewer rates were recently increased by 30% to make sure there is adequate revenue in the Wastewater Operating Fund to pay back the loans it owes (for COP's, RDA Operating, and Sewer Bonds). Garbage rates were recently increased by 19% to make sure there is adequate revenue in the Solid Waste Fund to pay back the loan it owes (for RDA Operating). The Successor Agency already has sufficient revenue to pay back the SERAF loan to the former RDA Affordable Housing Fund.

Finding 3

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

Response to Finding 3

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

Finding 4

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

Response to Finding 4

Disagree. See Response to Finding 1. The anticipated new General Fund revenue should be adequate to remove wage and benefit concessions. There is not adequate revenue at this time to increase General Fund staff. The City is, however, undertaking a water and wastewater rate study. The end result of that study should be higher rates which will allow the City to increase water and wastewater staffing.

Finding 5

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

Response to Finding 5

Agree in part, disagree in part. There is not adequate revenue at this time to build up a General Fund reserve. Designated development fees from Pasadera, however, are allowing the City to undertake needed repairs to City Hall. In addition, sale of City-owned joint use property at Pasadera to the School District (funds coming from the State) will allow the City to create a fund to maintain and improve City parks. Finally, a key focus of the water and wastewater rate study mentioned above is to increase water and sewer rates sufficient to create reserves in the Water and Wastewater Funds and pay for identified capital improvement projects.

Finding 6

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.

Response to Finding 6

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.

Finding 7

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.

Response to Finding 7

Agree in part, disagree in part. Solid Waste rates were recently increased by 19% to cover the monthly Solid Waste deficit and retire the existing negative fund balance over time. The City is also in the process of negotiating with the Solid Waste contractor to have them do customer billing. It was the disconnect between the contractor's database and the City's database which led to the monthly deficit.

Finding 8

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.

Response to Finding 8

Agree in part, disagree in part. In the summer of 2014, the City hired an outside consultant to

perform a cost allocation study to ensure that Interfund transfers are fully documented and justified going forward. Prior to that, the City had already reduced Interfund transfers to \$600,000 in 2013/14 based on management's best estimate. The cost allocation study shows that \$614,000 in transfers are allowed in 2014/15. That amount is in the 2014/15 budget. The cost allocation study will be used to determine 2015/16 Interfund transfers as well.

Finding 9

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.

Response to Finding 9

Agree. Since the City was not using cost allocation studies in the past to justify Interfund transfers, there is the risk that State Gas Tax funds were used for non-transportation purposes. Strict use of the cost allocation methodology study going forward will make sure that all transfers are fully justified.

Finding 10

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.

Response to Finding 10

Agree. The City has not always been disciplined in documenting loans between funds and creating repayment schedules. The City plans to correct that going forward. City Council has already approved the loans and repayment schedule to cover the negative General Fund balance that will exist on 06/30/15.

Finding 11

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.

Response to Finding 11

Disagree. It is highly unlikely the City owes the IRS \$486,000. That's because the underlying issue is that the City filed its 2006 W-2's twice. Therefore the IRS concluded the City's payroll was twice the actual 2006 number. The City provided complete documentation to the IRS in October and paid the \$13,384 the City believes is actually owed. The City has been waiting since then for the IRS to close the matter. Understaffing at the IRS on a national level has prevented that from happening. Every two months since October, the City has received a form letter from the IRS stating, "We need additional time to provide you with a complete response to your inquiry."

Finding 12

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

Response to Finding 12

Disagree. The 800-home Pasadera development broke ground in March. Construction of the first five homes begins this month. Retail chains are already in contact with the Pasadera developer about locating in the future Pasadera shopping center.

Additional development elsewhere in the City includes: 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, in planning review; new 34-unit apartment complex, in planning review; new 39-unit low-income housing project, has received planning approval, awaiting state funding.

Finding 13

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

Response to Finding 13

Disagree. The Grand Jury concluded that the City's debts would be frozen with disincorporation because Government Code Section 57409 says the County can "cause to be levied ... from the territory formerly included with the city, taxes sufficient to pay the indebtedness as it becomes due." Government Code Section 57409 predates Proposition 13. In fact, no disincorporation has taken place since Proposition 13 was passed by California voters in 1978. It is unlikely Government Code Section 57409 is still constitutional. Therefore, the county would most likely have to accept Guadalupe's debts if Guadalupe were to disincorporate. If so, this would represent a hurdle to the County allowing Guadalupe to disincorporate.

Recommendation

That the City of Guadalupe disincorporate.

Response to Recommendation

The recommendation will not be implemented because it is not warranted, and it is not reasonable. In passing three tax measures last fall, Guadalupe voters made it clear they do not want to disincorporate. This is not just a matter of small town pride. It also has to do with public safety. Guadalupe residents want to make sure that police and fire protection are provided from within City limits. During the run up to the fall election, the City sought proposals from the County Sheriff's Department and the County Fire Department to provide police and fire

protection to the City. Both departments recommended the provision of service from Orcutt, 12 miles away. Moving from 5-minute response (current situation) to 20-minute response (service out of Orcutt) would place Guadalupe citizens at risk. Guadalupe residents are particularly mindful of the negative law enforcement situation which exists in Tanglewood, an unincorporated community not far away.

Finally and most importantly, thanks to the three tax measures passed in November and the additional new revenue identified in the Response to Finding 1, City Council expects to have a balanced budget in 2015/16.

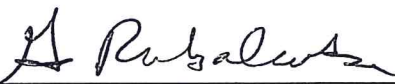
Sincerely,



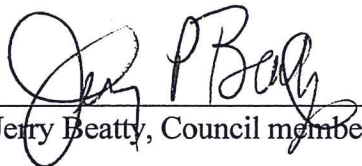
John Lizalde, Mayor



Ariston Julian, Mayor pro tem



Gina Rubalcaba, Council member



Jerry Beatty, Council member



Virginia Ponce, Council member

RESOLUTION NO. 2015-20

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GUADALUPE
ADOPTING A RESPONSE TO THE SANTA BARBARA COUNTY GRAND JURY REPORT TITLED
"GUADALUPE SHELL GAME MUST END"**

WHEREAS, the Santa Barbara County Grand Jury released a report on April 17, 2015 titled "Guadalupe Shell Game Must End" with thirteen findings and one recommendation; and

WHEREAS, City Council has 90 days to respond to that report, each finding, and the recommendation; and

WHEREAS, City Council on April 21, 2015 appointed a two-member subcommittee to draft a response for the entire Council; and

WHEREAS, that subcommittee met and prepared a draft response; and

WHEREAS, that subcommittee submitted its draft to Council for formal approval;

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

SECTION 1. City Council approves the subcommittee response as amended as the official response of the Guadalupe City Council to the Santa Barbara County Grand Jury.

SECTION 2. City Council authorizes staff to submit this final response with Council signatures to Judge James Herman and the Santa Barbara Grand Jury.

PASSED AND ADOPTED at a regular meeting on the 26th day of May 2015 by the following vote:

Motion: BEATTY/PONCE

AYES:	5	Beatty, Ponce, Lizalde, Rubalcaba, Julian
NOES:	0	
ABSENT:	0	
ABSTAIN:	0	

I, **Andrew Carter**, Deputy City Clerk of the City of Guadalupe, **DO HEREBY CERTIFY** that the foregoing Resolution, being **Resolution No. 2015-20**, has been duly signed by the Mayor and attested by the City Clerk, all at a regular meeting of the City Council, held May 26, 2015, and that same was approved and adopted.

ATTEST:



Andrew Carter
Deputy City Clerk



John Lizalde
Mayor