



# CITY OF LOMPOC

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BY: \_\_\_\_\_

September 4, 2012

Honorable Judge Brian Hill

Presiding Judge of the Superior Court of Santa Barbara County

1100 Anacapa Street

Santa Barbara, CA 93101

Honorable Judge Hill:

The 2011-12 Santa Barbara County Civil Grand Jury recently released its report entitled *A Failure of Oversight – Lompoc Housing and Community Development Corporation (LHCDC)*. The City of Lompoc (City) is named as an affected agency and is required to respond to applicable findings and recommendations within 90 days after receipt of the report by the City.

The City Council acknowledges the Civil Grand Jury for the time and effort it has taken to review this important public matter. When non-profit organizations are provided public monies by means of loans and grants for vital public services and purposes, how that public funding is distributed, used and accounted for are critical to retaining the public's trust. The City Council regrets inactions by the City of Lompoc and the County of Santa Barbara that have diminished the public trust. In light of that and as a result of the recent very unfortunate situation regarding LHCDC, the Council is taking steps to improve its procedures to protect those expenditures and ensure that accountability. In fact, had the statutorily-required time frame allotted more time, this response could have provided more details about those improved procedures. As those details become available, the City will provide them to the Grand Jury.

Following are the City's responses to the individual applicable findings and recommendations in accordance with *California Penal Code, Section 933.05(b)(2)*. In addition, the City would like to provide information to clarify statements presented in the report prior to addressing the findings and recommendations.

## CLARIFICATION OF STATEMENTS

### Summary

#### Page 1 Paragraph 1: Summary

Report Statement:

"...two homeless shelters in the City, Marks House and Bridgehouse had closed with only five days notice on a holiday weekend. Public officials should have anticipated the



closing of the shelters, as it was clear that the Lompoc Housing and Community Development Corporation (LHCDC), the non-profit organization that owned and operated the shelters and many other affordable housing projects in the city, was failing."

Response:

The Bridgehouse is located in an unincorporated portion of Santa Barbara County. The City only appropriated funding to pay for a portion of operations through the City's Human Services Fund. Those services which were funded were provided by LHCDC. Funding to LHCDC was provided based on the criteria imposed and approved by the City's Human Services Commission and the City Council. That funding ceased after the Council, with the Commission's recommendation, established a policy that does not allow the Human Services Fund to be used for applicants that are not in full compliance with contractual obligations. That policy was adopted on June 15, 2010 by the City Council. The policy is incorporated into City contracts and states:

"On June 15, 2010, City Council approved new Human Services Funding Award criteria, based on a recommendation from the City's Human Services Commission. The requirement states that in the event that an agency is out of compliance with any City contract, Human Services funding will be withheld until compliance is achieved. The following is the funding award criteria approved by the Human Services Commission and the City Council:

"All agencies, which are entering into contract with the City of Lompoc whether financial or services based, must be in compliance with all City of Lompoc conditions as outlined in the contract in order to qualify for City Human Services funding. An agency designated to receive funding but deemed non-compliant in any contract with the City of Lompoc, will have said Human Services Funding withheld until compliance is achieved, as determined by City staff. Compliance must be achieved no later than the 3<sup>rd</sup> quarter of the City's fiscal year in which funding was awarded. Forfeiture of any funding by the end of the 3<sup>rd</sup> quarter will be reallocated in the 4<sup>th</sup> quarter by the City Council based on recommendation by the Human Services Commission."

The report is correct in that the Marks House is located within the City limits. The City had a deed of trust recorded on the property.

Lompoc City Council and administration did anticipate that LHCDC might close the shelter and proactive steps were taken several months before that closure to be prepared for such an action, as was taken by LHCDC on January 17. Homeless services were quickly restored at the Marks House due to the City Council's proactive steps.

To provide detail regarding the steps, we outline the following: On November 1, 2011, Lompoc City Council directed staff to identify an interim shelter services provider given that LHCDC indicated its impending dissolution. On November 7, 2011, staff issued a request for qualifications and in that document the following background information



was provided to make clear the City's intent to anticipate and prepare for the possibility that LHCDL might close the Marks House.

**Background from Request for Statement of Qualifications:**

"On November 1, 2011, City Council approved the issuance of a Request for Statement of Interest/Qualifications to identify potential interim providers to operate shelter facilities for homeless persons in Lompoc. The City will be developing a contingency plan to continue the provision of services in the event the current provider is no longer able to continue operating. The current provider of homeless shelter services has indicated it will be organizationally disincorporating as early as December 2011. That provider operates one (1) homeless shelter facility in the City of Lompoc. The Marks House Transitional Shelter...."

Statements of qualifications were due to the City the following week on November 14, 2011. The Human Services Commission for the City reviewed the Statements of Interest/Qualifications and on December 1, 2011, informed Good Samaritan Shelter that the Human Services Commission was recommending to Council that Good Samaritan Shelter be designated as the interim provider of shelter services for Marks House. On December 6, 2011, the City Council approved Good Samaritan Shelter services as an interim shelter provider for the Marks House in the event an interim operator was necessary.

In the Grand Jury Summary, it states the shelter closed before the Martin Luther King holiday weekend. However, as noted in the Lompoc Record in January 2012, the notice to close Marks House was received by the City of Lompoc on Friday, January 13, 2012, with the closing effective January 17 (after the long holiday weekend).

On Tuesday, January 17, the City and Good Samaritan Shelter Services began the process of securing and preparing the property for Good Samaritan to reopen the Marks House and alternate arrangements were made so Marks House residents were provided temporary shelter at the local Warming Center. LHCDL signed the Deed in Lieu of Foreclosure conveying Marks House to the City on January 17, 2012. The transaction was recorded on January 18, 2012, and Good Samaritan Shelter Services was able to reopen Marks House on Wednesday, January 25, 2012.

**Page 1 Paragraph 4: Summary**

**Report Statement:**

"Lompoc, at this time, does not know for certain how much it and its Redevelopment Agency (Agency) loaned LHCDL, nor the extent of its losses. As of October 2009, the Redevelopment Agency expenditure was \$1.8 million."

**City Response:**

The City does know how much it and its Redevelopment Agency loaned LHCDL and potential losses.



The report states the \$1.8 Million statement is taken from the "Lompoc Redevelopment Agency, *Redevelopment Housing Loan Covenants* Report, dated October 15, 2009 (LRA:RHLC)." The Agency is a separate legal entity from the City of Lompoc which has been dissolved by action of the State of California, along with all other redevelopment agencies in the State, with the passage of AB X1 26 in 2011. While active, the Agency was required to spend 20 percent of the tax increment received through the Low and Moderate Income Housing Fund (LMIHF) for affordable housing. The LRA:RHLC report cited addressed loans made by Agency housing funding and did not include commercial loans made to LHCD. There were two commercial loans. A \$70,000 loan made on November 14, 2003, on the vacant lot at the northeast corner of H Street and Ocean Avenue which was paid off in full by LHCD on August 15, 2008. The second loan was made on April 17, 2006, for \$250,000 in acquisition funding and amended on June 20, 2007, to add \$450,000 for predevelopment work for a total loan of \$700,000 secured with a 1<sup>st</sup> Deed of Trust on the Theater property (112 & 122 North H Street). The original loan proceeds of \$250,000 were paid directly to an escrow company for the acquisition of the property. The subsequent \$450,000 loan proceeds were paid on a reimbursement basis or paid directly to vendors for predevelopment activities. Reimbursement requests were required to include proof of payment to the vendors involved in the predevelopment project. Vendor payments required customary support such as an invoice. Some of that funding was used to pay a consultant for completed development plans. Those plans are now the property of the Successor Agency, which is the successor-in-interest to the dissolved Redevelopment Agency, due to LHCD's decision to not proceed with the project.

The LRA:RHLC report cited indicates there were \$615,000 in unpaid loans, and \$1,322,600 in paid loans as of October 15, 2009, which totals \$1,937,600 in loan volume originated through June 30, 2009, in the name of LHCD. It is unclear how the Grand Jury referenced \$1.8 Million in expenditures cited in the report was derived. The LRA:RHLC report, indicated as the source of information in the Grand Jury report, states a total expenditure different from the \$1.8 Million in the Grand Jury Summary report. The original report is attached for your reference.

For clarification, the statement should reflect Agency loan expenditures as of June 30, 2009, of approximately \$2.7 Million, as follows:

**LRA:RHLC Report:**

Outstanding loans to LHCD by the LMIHF	\$ 615,000
Paid off loans to LHCD by the LMIHF	\$1,322,600
Total loans made to LHCD by the LMIHF	<u>\$1,937,600</u>

Plus: LRA Commercial Loans (not included in the October 15, 2009, LRA:RHLC Report):

Outstanding loans to LHCD	\$ 700,000
Paid off loans to LHCD	\$ 70,000
Total Commercial Loans to LHCD	<u>\$ 770,000</u>

Total loans made to LHCD by the LRA	<u><u>\$2,707,600</u></u>
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As with the money loaned to LHCDC regarding the Theater, the proceeds of all the above loans were either distributed into escrows for purchases of properties or paid for expenses actually incurred by LHCDC as shown by invoices or other documentation. As of June 30, 2012, only the \$700,000 loan for Theater property remains outstanding to the Successor Agency (LRA). The Agency has a first trust deed as security for the loan.

In addition to Agency loans made to LHCDC, the City's Community Development Department has loaned LHCDC funds for a variety of projects.

The City CDBG Program and City and State HOME Program have provided the following loans to LHCDC:

CDBG Loans	\$ 1,002,316
State HOME Funding	\$ 168,000
City HOME Funding	\$ 332,000
City HOME in County Loan	\$ 497,563
Total Funded <sup>1</sup>	\$ 1,999,879

Of the \$1,999,879 provided to LHCDC, loans in the amount of \$310,000 have been repaid while loans of \$85,000 which were secured by the Marks House were satisfied with the receipt of a deed in lieu of foreclosure. The outstanding loan amount of the City CDBG Program and City and State HOME Program is currently \$1,604,879.

#### **Page 4 Paragraph 1: Lompoc Redevelopment Agency Enforcement:**

Report Statement:

"...The RDA had loaned LHCDC \$1.8 million by October 2009."

City Response:

As previously noted, the reported amount of loans to LHCDC by the Agency of "\$1.8 million by October 2009" has been clarified. The Agency has loaned LHCDC \$2.7 Million with \$700,000 remaining outstanding as of June 30, 2012.

Report Statement:

"These covenants were the same as those monitored under the HOME program."

City Response:

The Redevelopment Agency's Covenants were not the same as those monitored under the HOME program. The City will adopt a policy that insures compliance with covenants.

Report Statement:

"The RDA (Agency) relied upon LHCDC's rent survey to certify compliance with rent levels whereas the HOME Consortium examined rent rolls itself."

<sup>1</sup> Loans do not include operational grants, CDBG Human Services/Grant Funding made to LHCDC



City Response:

California Redevelopment Law (CRL) has specific requirements and provides guidance in regards to annual report monitoring. California Health and Safety Code Section 33418 states as follows:

33418.

(a) An agency shall monitor, on an ongoing basis, any housing affordable to persons and families of low or moderate income developed or otherwise made available pursuant to any provisions of this part. As part of this monitoring, an agency shall require owners or managers of the housing to submit an annual report to the agency.

The annual reports shall include for each rental unit the rental rate and the income and family size of the occupants, and for each owner-occupied unit whether there was a change in ownership from the prior year and, if so, the income and family size of the new owners. The income information required by this section shall be supplied by the tenant in a certified statement on a form provided by the agency.

(b) The data specified in subdivision (a) **shall be obtained by the agency from owners and managers of the housing specified therein and current data shall be included in any reports required by law to be submitted to the Department of Housing and Community Development or the Controller. The information on income and family size that is required to be reported by the owner or manager shall be supplied by the tenant and shall be the only information on income or family size that the owner or manager shall be required to submit on his or her annual report to the agency.**

Report Statement:

"The RDA (Agency), in turn, was required to send along certifications to the California Department of Housing and Community Development (HCD) by May 30 as required by California Redevelopment law (CRL)."

City Response:

The Lompoc Redevelopment Agency procedures requested annual reports be submitted by March 15<sup>th</sup> for the previous calendar year (January through December). The Agency adjusted that timeframe from the original December 31<sup>st</sup> submittal date at the request of affected property owners. The Agency process was to complete certifications by May 30<sup>th</sup> in order to provide compliance and non-compliance certificates by June 30<sup>th</sup>. Receipt of property owner Annual Report information is reported through the Agency's Annual Report and submitted to the California Department of Housing and Community Development and the State Controllers office annually by December 31. The Agency was required to report compliance by way of the Annual Report, which is submitted by December 31 for the previous fiscal year. The Agency fiscal year is July 1<sup>st</sup> through June 30<sup>th</sup>. There is no CRL requirement for the



Agency to submit certifications to HCD by May 30<sup>th</sup>. However, the Agency is required to submit receipt of Annual Reports as of June 30<sup>th</sup> to HCD.

**Page 5 Paragraph 1: Lompoc Redevelopment Agency Enforcement**

Report Statement:

"Casa Con Tres had an RDA (Agency) loan of \$46,335 and a County HOME loan of \$157,300."

City Response:

To clarify, the Agency loaned LHCD \$157,300 for Casa Con Tres apartment rehabilitation while the City HOME Program (not the County's) funded \$46,335 as part of a County HOME loan of \$201,335. The Agency loan was funded on June 16, 2003, and was fully repaid on August 15, 2005. The City/County HOME loan was funded on November 1, 1999. The City's HOME loan is due in 2029 (a 30-year loan) at an annual interest rate of 3%.

**Page 5 Paragraph 2: Early Signs of Compliance Trouble**

Report Statement:

"In a 2011 memo, the Lompoc Community Development Department reported to the City Council that LHCD already had property out of compliance as early as 2003 for failing to file the Affordability Covenants Annual Report."

City Response:

The memo cited from the Lompoc Community Development Department to City Council dated November 21, 2011 (noted as <sup>8</sup>) was a memo addressed to the City Administrator.

**Page 5 Paragraph 3: Early Signs of Compliance Trouble**

Report Statement:

"Consequences did not follow."

City Response:

City staff did make efforts to bring LHCD properties into compliance. Redevelopment Agency staff performed exterior visual inspections of properties with Agency covenants on a quarterly basis. When code enforcement and building division staff had cases at properties with Agency covenants, Agency staff worked with code enforcement and building division personnel to insure the situation was documented, notice was given to the property owner, and follow-up was achieved by code enforcement personnel. In many cases when situations were not addressed in a timely manner after a notice was issued and other measures for compliance were not effective, the violation case was transferred to the City attorney's office for final disposition. An example of the coordinated efforts of the City for compliance is when Agency staff worked with code enforcement and building personnel to address a complaint filed on an LHCD property at 401 West Chestnut. The complaint noted that the ceiling drywall had fallen in leaving



a hole in the ceiling, the heater was not operational, and several other issues needed to be rectified. On November 5, 2010, a notice of violation was issued and LHCDC was given until December 6, 2010 to rectify the situation. Agency staff made several calls to LHCDC to insure this became a priority situation. Building staff also made several phone calls to the property owners, as well as stopping by the residence, when the heater was being replaced to inform the property owner's representatives that the replacement of the heater on December 7, 2010, required a building permit. The building permit was issued on January 12, 2011 and completed inspection on January 13, 2011. In another instance, it was Redevelopment Agency staff that, during a quarterly inspection, noted boarded up windows with exposed shards of glass on the exterior of an LHCDC property on 713 North E Street. Agency staff notified code enforcement personnel of the unsafe situation. Code enforcement staff performed a site visit and issued a notice of violation on December 13, 2011. Agency and code enforcement staff continued to follow-up on the situation which ultimately was rectified by Cochrane Property Management, Inc., the court appointed property manager. There have been a total of 44 code enforcement cases involving LHCDC properties in the City of Lompoc.

Although unrelated to lending for projects, the Human Services Commission withheld funding to LHCDC beginning in June 2010 for eligible operational programs due to their noncompliance in other areas including Agency and CDBG loan covenants.

Lompoc City Council directed staff to perform an assessment of LHCDC loans and monitoring reports and develop a policy that will help ensure monitoring compliance and minimize loan risks. On December 20, 2011, the Lompoc City Council directed staff to execute a contract with a consultant to perform the assessment. The consultant is in the process of finalizing its report. Results from the report will assist City staff to finalize a draft policy for Council's review. This policy will be forwarded to the Grand Jury upon completion.

## **Page 7 Paragraph 2: Conclusion**

### **Report Statement:**

"The Lompoc Redevelopment Agency (Agency) loaned the Lompoc Housing and Community Development Corporation (LHCDC) approximately, \$1.7 million while the agency was technically out of compliance."

### **City Response:**

In footnote 12, the report cited a memorandum written by the Community Development Department on November 21, 2011. The memorandum cited refers **only** to CDBG and HOME loans to LHDC. The memorandum was specific to CDBG program activity and, as such, no information related to Agency loans to LHDC was included in the memorandum. None of the loans listed are Redevelopment Agency loans.

This concludes the additional information section to supplement statements presented in the report.

## **RESPONSES TO FINDINGS AND RECOMMENDATIONS**



Following are the City's responses to the individual applicable findings and recommendations in accordance with *California Penal Code, Section 933.05(b)(2)*:

**Finding 1:** LHCDC loan agreements gave Santa Barbara County, as the lead entity in the HUD HOME Consortium, authority to require audits and inspect the organization's records.

**City Response:** Although the City of Lompoc agrees with this finding, the City's response is that finding does not apply to the City of Lompoc and it is not appropriate for the City to respond to that finding. In its August 14, 2012 response to the Grand Jury, the Board of Supervisors agreed with that finding.

**Finding 2:** The Lompoc Redevelopment Agency (Agency) did not enforce the restrictive covenants on Lompoc Housing and Community Development Corporation (LHCDC) property. Official notices of noncompliance did not enunciate consequences nor did the Redevelopment Agency (Agency) Board of Directors take action when it had the opportunity.

**City Response:** The Agency disagrees with this finding. The Agency worked diligently to enforce the restrictive covenants on the properties owned and operated by LHCDC. The efforts of the Agency through its staff have been demonstrated by the documentation presented to the Grand Jury, some of which was included on page 5 of the Grand Jury Report.

**Recommendation 1b:** That the Lompoc City Council (Council) establish a policy that the Management Services Director conduct an annual audit, with time certain deadlines, of all organizations that receive City funds in excess of \$50,000.

**City Response:** The City intends to implement what it understands are the goals of this Grand Jury recommendation as follows:

Several levels of review and approval are already in place for organizations that request funding from the City. As an example, the City's Human Services Commission has an extensive vetting, review and application process for the distribution of funds in much smaller increments than the recommended limit of \$50,000. Once the Commission has approved an agency for funding, the disbursement of funds is contingent upon their compliance with all their obligations to the City. In addition, City Council still is the final authority and can deny funding that had previously been approved at the Commission level. While the City's Human Services Commission policy is not the City Council's policy, key points of the Human Services Commission policy can be used in the policy to be established by the City Council regarding organizations that receive funds from the City of Lompoc in excess of \$50,000 or with annual budgets of \$100,000 or more.

The City Council desires to establish a policy and to develop procedures to implement this recommendation. Had the statutory required time frame for responding to this report allotted more time, this response could have provided more details about those improved procedures. The established policy will be forwarded to the Grand Jury upon



adoption. The City Council policy regarding organizations that receive City funds in excess of \$50,000 or with annual budgets of \$100,000 or more will include the following major concepts:

1. Applies to all non-profit agencies that request or receive more than \$50,000 in any single City fiscal year or have annual budgets of \$100,000 or more (The City's fiscal year begins on July 1 and ends the following June 30).
2. A non-profit organization is defined as an agency that has received an exemption under Section 501(c)(3) of the Internal Revenue Code or is a private foundation as defined by Section 509 of the Internal Revenue Code.
3. The non-profit organization is required to submit current audited financial statements to the City in conjunction with their application for funds.
  - a. The date of the audited financial statements shall be within 21 months of the date of the application for funds (9 months are allowed to complete an audit per the Office of Management and Budget (OMB-133) and the audit would be "current" for up to 12 months after issuance, resulting in a total of 21 months).
4. Audits shall be conducted by an independent auditor qualified to conduct audits of non-profit organizations.
5. The financial cost of audits shall be borne by the organization requesting funds from the City. Organizations otherwise subject to this policy that received funds in the past and continue to be subject to the policy in the future that have agreements that do not require submission of annual audits will be required to complete audits according to this policy, at their cost.
6. The organization shall provide the City with audited financial statements for all reporting periods in which City funds were expended (and the annual dollar amounts continue to exceed the levels mentioned in paragraph 1 above).
7. The Management Services Department will provide an annual report to the City Council regarding all organizations that fall within the scope of this policy and shall identify all organizations and their status respective to the policy.
8. Organizations will be provided a courtesy first notice by the City if current audited financial statements are not received by the City 30 days prior to the date due for that agency's annual financial reporting.
9. Organizations that fail to respond to provide current audited financial statements within 9 months following the end of their fiscal year will be provided a second notice to comply. The second notice will include a final due date and will include language that the organization's deficient status will be reported to the City Council if a response is not received within 30 days.
10. Organizations subject to this policy that do not respond to the second notice within 30 days following delivery will have that status agendaized for the next available City Council meeting.
11. The City Council, upon receiving notification of non-compliance by the organization for failure to provide audited financial statements at a City Council meeting, will provide direction to City staff regarding consequences for the non-compliance. Consequences may include:
  - a. Forfeiture of any remaining unpaid grant or loan funds;
  - b. Repayment of previously paid grant or loan funds;



- c. Prohibition from applying for or receiving funds from the City in the future;
  - d. Any other legal consequence available to the City Council; and
  - e. Any other consequences outlined in the original application for funds.
12. The policy does not apply if funds are for City services obtained through normal procurement procedures.
13. The policy shall provide for a funding mechanism in the City's biennial budget to support the additional resources necessary to carry out the policy by the Management Services Department.

**Recommendation 2b:** That the City of Lompoc Management Services Director report the results of these audits annually to the City Council prior to budget approval.

**City Response:** The City intends to implement what it understands are the goals of this Grand Jury recommendation and points #7, #10 and #11 of the proposed policy identified under the City's response to Recommendation 1b address this recommendation specifically. For ease of reference, these specific points are repeated below:

- 7. The Management Services Department will provide an annual report to the City Council regarding all organizations that fall within the scope of this policy and shall identify all organizations and their status respective to the policy.
- 10. Organizations subject to this policy that do not respond to the second notice within 30 days following delivery will have that status agendized for the next available City Council meeting.
- 11. The City Council, upon receiving notification of non-compliance by the organization for failure to provide audited financial statements at a City Council meeting, will provide direction to City staff regarding consequences for the non-compliance. Consequences may include:
  - a. Forfeiture of any remaining unpaid grant or loan funds;
  - b. Repayment of previously paid grant or loan funds;
  - c. Prohibition from applying for or receiving funds from the City in the future;
  - d. Any other legal consequence available to the City Council; and
  - e. Any other consequences outlined in the original application for funds.

**Recommendation 3b:** That the City of Lompoc appropriates the necessary funds to allow the Management Services Director to conduct annual audits per Recommendation 1b or, where permissible, require that organizations requesting grant or loans in excess of \$50,000 bear the cost of an annual audit.

**City Response:** The City intends to implement what it understands are the goals of this Grand Jury recommendation and points #3, #4, #5, #6 and #13 of the proposed policy identified under the City's response to Recommendation 1b address this recommendation specifically. For ease of reference, these specific points are repeated below:



3. The non-profit organization is required to submit current audited financial statements to the City in conjunction with their application for funds.
  - a. The date of the audited financial statements shall be within 21 months of the date of the application for funds (9 months are allowed to complete an audit per the Office of Management and Budget (OMB-133) and the audit would be "current" for up to 12 months after issuance, resulting in a total of 21 months).
4. Audits shall be conducted by an independent auditor qualified to conduct audits of non-profit organizations.
5. The financial cost of audits shall be borne by the organization requesting funds from the City. Organizations otherwise subject to this policy that received funds in the past and continue to be subject to the policy in the future that have agreements that do not require submission of annual audits will be required to complete audits according to this policy, at their cost.
6. The organization shall provide the City with audited financial statements for all reporting periods in which City funds were expended (and the annual dollar amounts continue to exceed the levels mentioned in paragraph 1 above).
13. The policy shall provide for a funding mechanism in the City's biennial budget to support the additional resources necessary to carry out the policy by the Management Services Department.

In addition to the above points, specific considerations regarding the resources necessary to comply with this recommendation include:

- The policy would not supersede the City Council's budget setting authority.
- Costs related to complying with the recommended policy would be considered in conjunction with the City Council's overall budget setting authority during the preparation of each two-year budget.
- Compliance costs may be relatively minor but could include any functional types of costs such as staffing (salaries and benefits), contracts for services or supplies and capital outlay.
- The next opportunity to fund this recommendation would be for the 2013-2015 budgets.
- Planning for the 2013-2015 budget is scheduled to start in October 2012, roughly two months after the time this response was authored.

In addition to future biennial opportunities to fund costs related to this proposed policy, it should be noted the City Council has already appropriated funds during the current budget cycle (2011-2013) to have an independent external and comprehensive review conducted of all loans made to the LHCD by the City and the (former) Agency.

**Recommendation 4b:** That the City of Lompoc withhold all funding from any organization that fails to supply complete records for annual audits or has failed to meet requirements of existing contracts.

**City Response:** The City intends to implement what it understands are the goals of this Grand Jury recommendation and points #3, #4, #6 and #11 of the proposed policy



identified under the City's response to Recommendation 1b address this recommendation specifically. For ease of reference, these specific points are repeated below:

3. The non-profit organization is required to submit current audited financial statements to the City in conjunction with their application for funds.
  - a. The date of the audited financial statements shall be within 21 months of the date of the application for funds (9 months are allowed to complete an audit per the Office of Management and Budget (OMB-133) and the audit would be "current" for up to 12 months after issuance, resulting in a total of 21 months).
4. Audits shall be conducted by an independent auditor qualified to conduct audits of non-profit organizations.
6. The organization shall provide the City with audited financial statements for all reporting periods in which City funds were expended (and the annual dollar amounts continue to exceed the levels mentioned in paragraph 1 above).
11. The City Council, upon receiving notification of non-compliance by the organization for failure to provide audited financial statements at a City Council meeting, will provide direction to City staff regarding consequences for the non-compliance. Consequences may include:
  - a. Forfeiture of any remaining unpaid grant or loan funds;
  - b. Repayment of previously paid grant or loan funds;
  - c. Prohibition from applying for or receiving funds from the City in the future;
  - d. Any other legal consequence available to the City Council; and
  - e. Any other consequences outlined in the original application for funds.

## CONCLUSION

Although the recommended City Council policy has specified the types of organizations subject to it, the City of Lompoc has outlined a policy that embodies the intention of each Grand Jury recommendation such that when non-profit organizations are provided public monies by means of loans and grants for vital public services and purposes, how that public funding is distributed, used and accounted for results in the retention of the public's trust. The City Council policy regarding non-profits that receive City funding of more than \$50,000 or with annual budgets of \$100,000 or more will result in procedures that protect those expenditures and ensure accountability by the non-profit and the City and regain the public's trust.

These recommendations, along with a well structured system designed to provide checks and internal controls will assist the City of Lompoc in safeguarding limited public resources. The established policy will be forwarded to the Grand Jury upon adoption.

The above concludes the City's response to the Grand Jury's Report entitled, "A Failure of Oversight – Lompoc Housing and Community Development Corporation." The City respectfully submits this response to the Grand Jury and graciously appreciates all of their efforts associated with this 2011-2012 Grand Jury Report.




September 4, 2012


Response to the Grand Jury Report: A Failure of Oversight

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For additional information or questions regarding this response, please contact Linda Wertman, Redevelopment Coordinator of the Successor Agency of the (dissolved) former Lompoc Redevelopment Agency at (805) 875-8278 or via e-mail at [lwertman@ci.lompoc.ca.us](mailto:lwertman@ci.lompoc.ca.us), Teresa Gallavan, Economic Development Director and Assistant City Administrator of the City of Lompoc at (805) 871-8274 or via e-mail at [t\\_gallavan@ci.lompoc.ca.us](mailto:t_gallavan@ci.lompoc.ca.us) or Brad Wilkie, Management Services Director and Finance Director of the City of Lompoc at (805) 875-8271 or via e-mail at [b\\_wilkie@ci.lompoc.ca.us](mailto:b_wilkie@ci.lompoc.ca.us).

Respectfully submitted,

  
John H. Linn, Mayor  
City of Lompoc

  
Laurel M. Barcelona, City Administrator  
City of Lompoc

Attachment: Lompoc RDA, Redevelopment Housing Loan Covenants Report as of 10/15/09

cc: Santa Barbara County Grand Jury  
County Administration Building  
1100 Anacapa Street  
Santa Barbara, CA 93101  
(via certified delivery)

Ted Sten, Foreperson  
2011-2012 Santa Barbara County Grand Jury  
1100 Anacapa Street  
Santa Barbara, CA 93101

Lloyd G. LeCain, Foreperson  
2012-2013 Santa Barbara County Grand Jury  
1100 Anacapa Street  
Santa Barbara, CA 93101

Lompoc City Council  
Teresa Gallavan, Economic Development Director and Assistant City Administrator  
Brad Wilkie, Management Services Director and Finance Director  
Linda Wertman, Redevelopment Coordinator

Electronically to the Grand Jury via e-mail to [sbcgj@sbcgj.org](mailto:sbcgj@sbcgj.org)



# REDEVELOPMENT HOUSING LOAN COVENANTS

As of October 15, 2009

Category	Loan #	Borrower	Name of Project	Address	Loan Amount	Orig. Date	Cov't Maturity Date	Restrict Units	Extr Low 30%	40%	Very Low 50%	60%	Low 80%	Med 100 %	Mod 120 %	Last Report Submitted	Annual Report Due Date	Affordability Compliance Status	Payment Status
CalHFA 1	59702	LHCDC	Portobello *originally purchased 14 units, but only rehab'ed 13	305 - 309 N. K	156,000 (Paid)	11/14/00	11/14/30	13			13					12/31/05	3/15/10	Noncompliant	PAID
CalHFA 1	59703	LHCDC	Southern Court	709 - 713 N. E	132,825 (Paid)	02/27/01	02/27/31	12			12					4/6/07	3/15/10	Noncompliant	PAID
Set-Aside	59182	LHCDC	K Street Cottages	K 120 & 120 1/2 S. K	21,028 (Paid)	11/29/99	11/29/29	2			2					4/6/07	3/15/10	Noncompliant	PAID
Set-Aside	59184	LHCDC	Street Cottages		12,572 (Paid)	11/29/99	11/29/29												
Set-Aside	59186	HFH	Mitchell, E&N	518 W. Laurel	10,000	11/11/02	11/11/47	1			1					7/20/09	12/31/09	Compliant	Current
Set-Aside	59187	HFH	Vanwagenen, J	520 W. Laurel	10,000	11/11/02	11/11/47	1			1					4/20/09	12/31/09	Compliant	Current
Set-Aside	59701	LHCDC	Chestnut Apts	401 - 405 W. Chestnut	22,000 (Paid)	03/31/00	03/31/30	3			3					4/1/07	3/15/10	Noncompliant	PAID
CalHFA 1	59705	LHCDC	T & College(Bridge Loan)	521 - 537 N. T	227,000 (Paid)	10/05/01	10/05/31	35			35					4/1/07	3/15/10	Noncompliant	PAID
CalHFA 1	59706	LHCDC	T & College	521 - 537 N. T	297,825 (Paid)	10/05/01	10/05/31												
CalHFA 1	59707	LHCDC	Jay Apartments	501 - 513 N. S St. & 508 N. T	181,050 (Paid)	03/14/02	03/14/32	26			26					4/1/07	3/15/10	Noncompliant	PAID
CalHFA 1	59708	LHCDC	Casa Con Tres	434 - 438 N. L Street	157,300 (Paid)	06/16/03	06/16/58	12			12					4/1/07	3/15/10	Noncompliant	PAID
CalHFA 1	59704	LHCDC	Note: 2 units acquired. Rebuild 4 units+infant care center.	328 - 330 N. K	75,000 (Paid)	07/31/01	07/31/31	4			4					4/1/07	3/15/10	Noncompliant	PAID
Set-Aside	61607	LHCDC	Courtyard	733 N. E	40,000 (Paid)	06/16/97	06/16/37	18			18					4/1/07	3/15/10	Noncompliant	PAID
Set-Aside	96210	Casa Serena Assoc, LP	Casa Serena	100 5th St.	42,000 (Paid)	02/14/95	02/14/50	48			24	24				5/1/09	10/1/10	Compliant	PAID



	0.	*
156,000.	+	+
132,825.	+	+
21,028.	+	+
12,572.	+	+
22,000.	+	+
227,000.	+	+
297,825.	+	+
181,050.	+	+
157,300.	+	+
75,000.	+	+
40,000.	+	+
105,000.	+	+
135,000.	+	+
375,000.	+	+
1,937,600.	+	*
105,000.	+	+
135,000.	+	+
375,000.	+	+
615,000.	+	*
156,000.	+	+
132,825.	+	+
21,028.	+	+
12,572.	+	+
22,000.	+	+
227,000.	+	+
297,825.	+	+
181,050.	+	+
157,300.	+	+
75,000.	+	+
40,000.	+	+
1,322,600.	+	*
1,322,600.	+	+
615,000.	+	+
1,937,600.	+	*
1,937,600.	+	+
770,000.	+	+
2,707,600.	+	*