

GUADALUPE – YET AGAIN

A City on Its Way to a Rebirth

SUMMARY

How often can a grand jury write a report which congratulates and gives public recognition to the advances made by a city administration? The 2007-2008 Santa Barbara County Civil Grand Jury does that in this report. The City of Guadalupe was justly criticized by the 2002-2003 and the 2005-2006 Grand Juries. The City was dysfunctional, had hired unqualified key people, misused its redevelopment money, and had a city government that ignored its duties to the community.

That has changed. There is a new City government working as a unit to plan for changes within the City. There is a new Mayor with the vision to see how positive changes can transform the City and open it up to tourism and controlled growth. The City Administrator has had a difficult job for the past five years but from all indications is now enthusiastic about the direction the City is taking and anxious to help make it happen. There is a new Finance Director, trained to do the job and committed to getting it done right. The City of Guadalupe has a long way to go to be the city it wants to be. However, the attitude of the government officials and the citizens that the jurors interviewed was positive, optimistic, and confident that Guadalupe could become a major tourist and residential attraction on the Central Coast of California.

INTRODUCTION

The City of Guadalupe is located sixteen miles west of Santa Maria, adjacent to the sand dunes which lead to the Pacific Ocean. In 2007 the population was 6,545, representing a growth of 14.8% from the 2000 census. The median home value was \$300,000, which is less than the nearest city, Santa Maria, and considerably less than other neighboring cities such as Arroyo Grande, San Luis Obispo, and Lompoc. Unemployment is high at 5.6%, and many residents commute to nearby towns to work. The City is predominately Hispanic, who comprise 85% of the population. The community is largely agricultural, with an annual median family income of approximately \$30,000.

There are no hotels or motels in Guadalupe. The nearest ones are located in Santa Maria. There are no supermarkets, although there is a small local market. The only movie theater, now owned by the Redevelopment Agency (RDA), is used for local events, and a portion is rented out to a sound studio. Entertainment can be found only in the nearby cities. There are several excellent restaurants.

The City has a city council, with a mayor and four council members. There is a full-time city administrator, a full-time finance director, police chief, and fire chief. Other key jobs are contracted out, including a director of utilities and public works. The City Attorney is accessible for all council meetings.

The 2002-2003 Grand Jury wrote a critical report entitled *Guadalupe – A City in Turmoil and Transition*. This was a lengthy report, detailing procurement problems, dysfunction on the City Council, and poor relations between the City Council and City Administrator.

The 2005-2006 Grand Jury likewise wrote a critical report entitled *Guadalupe ... Again. A Dysfunctional City*. This report listed as criticisms an expensive barbecue which had not been approved by the City Council, a finance director with inadequate skills and poor financial controls, inadequate management of city plans, and dysfunction on the City Council, with each side more interested in embarrassing the other side than in running the City properly.

With these reports clearly in mind, this year's Grand Jury set out to determine to what extent these problems still existed, whether the City of Guadalupe was working to correct the past, and how it was working towards creating new revenue and a new city image.

METHODOLOGY

The investigation consisted of meeting with the Mayor of Guadalupe, the City Administrator, the Finance Director, and several citizens, including two former City Council members. The Grand Jury also interviewed the auditor for both the City of Guadalupe and the RDA. In addition, jurors toured the City to view projects undertaken by the RDA, visited two museums and the Jack O'Connell Park where the barbecue had been built, saw the future site for two major planned developments, and finally viewed the celebrated Guadalupe sand dunes.

The initial interviews were designed to provide an overview to the problems the jurors needed to address. Subsequent interviews focused on the quality of the financial records and staffing, the City Administrator, political dysfunction, property tax overpayments to the RDA and RDA projects, and the controversial barbecue.

OBSERVATIONS AND ANALYSIS

Financial Records and Staffing

The current Finance Director has decades of experience in accounting for different agencies. The Director is dedicated, focused, and intensely loyal to the City. The accounting skills are obvious in the steps taken to improve the office. The June 30, 2006 City of Guadalupe audit had not been completed at the time of the Grand Jury's visit to Guadalupe because the financial records had to be recreated. With limited staff, this was a difficult task. However, by the time this Grand Jury report was being written, the audit materials had been assembled and were at the auditor's office. The June 30, 2007 audit is currently being finalized.

The staff in the Finance Department is not fully trained to prepare monthly financial statements, nor to stay on top of other accounting duties. Currently there are 3.5 positions in the department. One full-time person is responsible for filing and payroll. Another tracks fixed assets and monitors accounts payable. A third opens and closes accounts for water, trash and sewer. In addition, this third person is responsible for collecting payments and monitoring recycle and greenwaste containers. A half-time person helps this last employee. There is no backup for the

Finance Director, and no one to help balance the general ledger or to do other basic accounting duties. An additional full-time person in the Finance Department is critical to keeping the financial statements current and to providing proper financial documents for the City Council.

The Finance Director provides monthly financial information to the City Council in the form of a report that can exceed 50 pages, consisting of cash balances of restricted and non-restricted cash accounts, and over/under expenses when compared to the budget. The information is difficult to read and fully understand. The Grand Jury has been informed this is all the City Council has requested. In addition, there is not a consolidated profit and loss statement which would show monthly profits, which means discretionary monthly income is not readily discernable. Discretionary monthly income would be necessary to determine how much money can be repaid to the RDA and how much money might be available for new staffing.

City Administrator

The City Administrator has new focus because of changes on the City Council and is enthused about the improvements taking place in the City of Guadalupe. The City Administrator's stated goal today is to develop the City of Guadalupe to be more like Solvang and Arroyo Grande. The City Administrator has the full confidence of the Mayor. The City Administrator demonstrates a high degree of dedication by putting in all the time necessary to do the work, including evenings and weekends.

Furthermore, now working for the City Administrator is a part-time human resource expert who is charged with the responsibility of updating the personnel manual. The existing manual lists conflicting rules for probation periods for employees and for definitions of management. The work is still ongoing and requires coordination with the Service Employees International Union (SEIU).

Political Dysfunction

It is not possible to evaluate the City of Guadalupe without considering the changes which have taken place on the City Council. The two prior Grand Juries devoted much space to discussing the dysfunction of the City Council. The Grand Jury learned through its investigation that past council meetings were unnecessarily lengthy, had vendetta overtones, and were without professional dialog concerning current issues. By contrast, today's City Council represents a new beginning. In late 2006, a new mayor and two city council members were elected. They have created an atmosphere of enthusiasm and optimism. Together, the entire council is working to get projects accomplished. Additionally, there is little of the acrimony which existed before. The Grand Jury believes that citizens of Guadalupe should support the City's goals of creating more jobs and business and of attracting more residents. Since strong efforts are being made to accomplish these goals, negative opinions about the actions of the City Council and RDA should be addressed so that they do not detract from the current efforts to improve the City.

On a minor note, the current website is not up-to-date. The names of the City Council members and population data are inaccurate. Updating this website could assist in demonstrating advances that are being made, as well as identifying the current members of the Guadalupe City Council.

RDA Taxes and Loan Repayment

The auditor, from a well-regarded CPA firm in San Luis Obispo, arranged for the Grand Jury to receive the June 30, 2003, 2004, 2005, and 2006 audits for the RDA, as well as the June 30, 2004 and 2005 audits for the City of Guadalupe. The June 30, 2006 audit had not as yet been completed for the City at the time of the writing of this report.

The Guadalupe City Council also sits as the Board of the RDA. The RDA was formed in 1982, with a lengthy RDA plan authorizing the use of money to cure blight within the City. Buried in this plan is a section limiting the property taxes to be paid to a maximum of \$1 million per year. Members of the RDA Board were not familiar with this limit. The City Administrator found out only when contacted by the County of Santa Barbara Auditor-Controller. In the last three fiscal years, the following property tax payments were made to the RDA:

| Tax Year | Increment Received | Annual Limit | Excess Increment Received Over Limit |
|-----------------|---------------------------|---------------------|---|
| 2003-04 | \$1,120,791.19 | \$1,000,000 | \$120,791.19 |
| 2004-05 | \$1,165,867.80 | \$1,000,000 | \$165,867.80 |
| 2006-06 | \$1,354,192.93 | \$1,000,000 | \$354,192.93 |
| Total | \$3,640,851.92 | | \$640,851.92 |

Section 96.1(b) of the California Revenue and Taxation Code in part governs the ability of the County to recover overpayments of property taxes paid an entity. Once an audit covering the fiscal year in question has been closed by the State Controller's Office, the tax allocation is deemed correct and is not subject to revision. The property tax limits were not known by either the County or the City of Guadalupe until early 2007, by which time the State audits had been completed for fiscal years ending June 30, 2004 and 2005. Therefore, no correction could be made for the first two years. The County Auditor-Controller then notified the RDA that the 2006 overpayment needed to be corrected. A check was immediately issued to the County of Santa Barbara for \$354,192.93, and the issue was closed.

This issue raises several questions. First, why wasn't the Board of the RDA familiar with this clause in its plan? There is no easy answer. The plan is over 500 pages long, and the Board changes periodically as the City Council changes members. Nevertheless, the City Administrator should also have been familiar with this property tax limitation.

The second question is why this limitation was ever put in the plan. In 1982 a property tax payment of \$1 million probably was considered so large it could never take place. However, as property values rose in the 1990s and early 2000s, reaching this ceiling became imminent. The RDA Board is now working with the City Attorney to draft an amendment to the plan which will remove the \$1 million ceiling, thereby allowing Guadalupe to receive its full share of tax revenue. The City desperately needs every dollar it can receive from property taxes and other revenue.

A third question related to the RDA is whether RDA money can be used by the City of Guadalupe for non-RDA uses. The wastewater plant in Guadalupe emitted a noxious smell which, when the wind blew from the ocean, permeated the City. A decision was made to cure the smell and improve the quality of water, which ended up costing \$1,011,910. An argument might have been made that this smell could be considered blight and that therefore the RDA could pay for the retrofit. In 2004, the City Council determined, however, that the RDA needed to keep its capital for other ventures, and that therefore the City would pay for the retrofit and would borrow the money from the RDA. The RDA had bond money available, on which it was paying interest. When the City first borrowed money from the RDA, there was no agreement between the RDA and the City for the repayment of this loan. On August 8, 2006, two years after the money was borrowed, the City Council approved a payment schedule, calling for \$100,000 annual payments beginning July 1, 2007. No interest was called for on this repayment. No payment was made on July 1, 2007. Furthermore, according to city officials, in all probability the full payment will not be made in July 2008.

The City Council does not appear to draw a clear distinction between its role as a City Council and its role as the RDA Board. The intent to borrow the money from the RDA is good, as the repayment of the loan to the RDA provides the RDA with more money to develop other projects in the area. But if the City Council decides to borrow money, it needs to follow through with its stated obligation, and not let the agreement immediately become delinquent. Likewise, if the goal is to make the RDA whole, then interest should be paid on the money as well. The City Council acting as the RDA Board has a special duty to guard against conflicts of interest and must vigilantly protect each from the other in financial transactions.

RDA Projects

On a positive note, the RDA has shown its ability to renovate the City and generate additional revenue for the community's benefit. Three million dollars has been allocated to lend or grant to retrofit buildings for earthquake protection. Of the 30 buildings already retrofitted, 22 are unreinforced masonry. All retrofits must be completed by 2012. In addition, the RDA acquired the Royal Theater and rents it out for commercial functions. It also leases a portion of the theater as a recording studio, which the jurors were told was known for its excellent acoustics. The Lantern Hotel, which had been run down, has been refurbished, and now houses several upscale stores as well as three nice rental apartments.

Property tax revenues are sufficient to cover all bond payments, so any revenue the RDA can collect allows it to continue funding new projects.

The Controversial Barbecue

The 2005-06 Grand Jury criticized the construction of the barbecue – how it was funded and the permits which were received. Since that report, the State of California has completely reimbursed the City of Guadalupe \$171,655 for the cost of the barbecue. Members of the Grand Jury visited the barbecue, located in the Jack O'Connell Park, close to a very attractive low income housing development – River View. It was obvious from the visit that the area had not

yet been developed beyond the construction of the barbecue. The barbecue was surrounded by dirt, and there were no picnic tables or places for people to sit and eat. The jurors have learned the City has applied for a state grant of \$59,000 to landscape the area and to install picnic tables and playground equipment. The State has verbally indicated this grant request is valid and will be approved. In the opinion of the Grand Jury, this issue is behind them. The City Council has taken the steps necessary to make the surrounding area a park that can be enjoyed by the entire community.

Additional Revenue

The City of Guadalupe has negotiated a contract with Chevron Environmental Management Company to transfer approximately one million tons of non-hazardous hydrocarbon impacted soil (NHIS) from its facility at the Guadalupe Oil Field to the Santa Maria Landfill. The route for the transfer was negotiated between Chevron and the City. The terms of the contract were: an initial payment of \$250,000 to the City to enhance parks and recreation facilities; an annual payment of \$100,000 for five years to assist the City in hiring two full-time fire department staff; a payment of \$31,200 annually for five years to assist in funding two part-time crossing guards. Finally, Chevron agreed to limit the speed at which its trucks may drive and to comply with regulations regarding the transfer of NHIS materials. As a result of the efforts of the Mayor and the City Council, the City of Guadalupe is collecting approximately \$900,000 in desperately needed funds.

Future Projects

There are many plans for the future. The biggest is the plan to build up to 960 homes by DJ Homes. The construction of these homes has the potential to almost double the population of Guadalupe. The land has already been annexed to the City, and the developers and the City are looking for final approval. As one of the conditions, the developers will build and maintain a fire station for the City. There also are plans for a supermarket, the first in Guadalupe. The developer fees and new property taxes paid to the City are intended to be used to repay the RDA loan. If the project is not completed, the City still intends to repay the RDA, but with smaller payments.

A company selling wood for housing and roofs, as well as a granite and marble company, were two of the largest employers in Guadalupe. Both have now downsized considerably, which has aggravated the unemployment rate. The hope is that DJ Homes Development, by bringing in more people, will justify more stores with increased employment.

While DJ Homes has the largest development being planned, the City also is in discussions with a local developer to build a recreational vehicle park, with spaces people could purchase. The hope is that purchasers of the land will bring more spending money to the area.

CONCLUSION

The Grand Jury is impressed with the changes which have taken place in Guadalupe. The attitude of the Mayor and the administrative officers reflect their optimism for the future of the City, and

the steps they have taken to improve Guadalupe demonstrate their resolve and ability to make changes.

However, the City of Guadalupe has a long way to go to meet its goals of increased employment, more housing, and additional tourist activities that will provide more revenue for the City. The steps being taken show creativity and an understanding of the particular needs and expectations of its citizens. The Grand Jury has specific recommendations on how to improve operations, while applauding the City for the steps it has taken.

FINDINGS AND RECOMMENDATIONS

Finding 1: The monthly financial information provided the City Council is voluminous and does not provide any data from which one could determine discretionary cash flow.

Recommendation 1:

A monthly balance sheet and monthly/year to date income statement should be made available to each councilmember.

Finding 2:

The existing Finance Department staff is insufficient to cover the essential duties of the department.

Recommendation 2:

A new full-time employee should be hired for the Finance Department to assist the Finance Director.

Finding 3:

There still is dissension in the community, dealing with issues which are no longer relevant and which do not reflect the changes being undertaken by the City Council. In addition the City's website is out of date.

Recommendation 3:

The City Council should organize a public relations campaign that solicits input from the community on a monthly basis. In addition, the website should be updated.

Finding 4:

The RDA \$1,011,910 repayment plan is already delinquent, after one payment was due.

Recommendation 4:

The repayment plan should be carefully structured so that the money can be repaid with or without outside revenue becoming available. If more revenue comes in, payments can and should increase.

Finding 5:

The repayment plan to the RDA calls for principal only payments, with no interest.

Recommendation 5:

The repayment plan should be redrawn to include the same amount of interest as the RDA must pay on its bond.

REQUEST FOR RESPONSE

In accordance with Section 933(C) of the California Penal Code, each agency and government body affected by or named in this report is requested to respond in writing to the findings and recommendations in a timely manner. The following are the affected agencies for this report, with the mandated response period for each:

City of Guadalupe – 90 days

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| Findings | 1, 2, 3, 4, 5 |
| Recommendations | 1, 2, 3, 4, 5 |