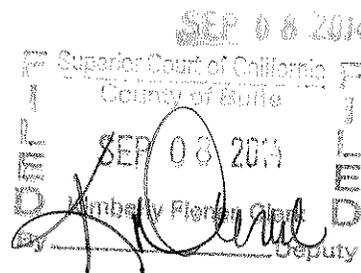




OFFICE OF THE
MAYOR

411 Main Street (530) 896-7250
P.O. Box 3420 Fax (530) 895-4825
Chico, CA 95927 <http://www.ci.chico.ca.us>



September 2, 2014

Honorable Kristen Lucena
Presiding Judge
Butte County Superior Court
One Court Street
Oroville, CA 95965

Re: FY 2013-14 Butte County Grand Jury Report, City of Chico Responses

Dear Judge Lucena,

The Chico City Council has reviewed the 2013-14 Grand Jury final report, and is providing this response, as attached, pursuant to Penal Code Section 933.

It is the Chico City Council and staff's desire to appropriately address the Butte County Grand Jury's findings and recommendations as related to its FY 2013-14 Annual Report. To reiterate, the City of Chico is committed to organizational transparency and accurately reporting facts. The matters raised by the Butte County Grand Jury are consistent with the concerns of the Chico City Council and appreciated in light of the challenges that the organization faces. If additional information and clarification is necessary, the City will be more than pleased to respond further.

The City Council wishes to thank the Butte County Grand Jury for its commitment to ensuring oversight of the City of Chico's government activities and evaluating and providing input on the manner in which our government operates so it best serves the needs of our citizens. It is our mission to accept the Grand Jury's report, reflect upon comments received and put into place improvements to ensure efficient and effective governance.

Yours truly,

Scott Gruendl, Mayor
Mark Sorensen, Vice Mayor
Mary Goloff, Councilmember
Sean Morgan, Councilmember
Tami Ritter, Councilmember
Ann Schwab, Councilmember
Randall Stone, Councilmember

CC: Mark Orme, City Manager
Chris Constantin, Assistant City Manager
Debbie Presson, City Clerk
Vince Ewing, City Attorney



Exhibit B

City of Chico Response to 2013-14 Butte County Grand Jury Report

FINDINGS

F1 The Grand Jury found no evidence of illegal activity on the part of Chico City management.

Agreed.

F2 Budget cuts required that the City eliminate positions and lay off 29 employees in 2013.

Agreed. The City Council agrees the severity of the City's fiscal condition, exacerbated by the national recession and the state's budgetary woes, required significant remedial actions by the City including organizational restructuring, attendant employee layoffs, and renegotiation of employee contracts. Specifically with regard to the state's budget, on January 1, 2011, Governor Jerry Brown declared a fiscal emergency with the state facing a \$25.5 billion dollar operating budget for the 2010-2011 and 2011-2012 fiscal years. This declaration followed Governor Arnold Schwarzenegger's declaration of a fiscal emergency on December 6, 2010. As the Report indicates, the state's budget deficit directly impacted the City's financial condition, as state deficits were remedied in part by reducing substantial funding to local governments, including funding reductions for numerous state-mandated programs, and by dissolving the State's redevelopment agencies. These economic forces with dramatically escalating payroll and benefits costs caused a serious financial imbalance.

F3 A council-manager model of governing leads itself to potential problems.

Disagree. California's Government Code expressly provides for the council-manager model of governance, and the Legislature is vested with the responsibility to declare the public policy of the state. This form of government combines the strong political leadership of elected officials in the form of a governing body, with the professional managerial experience of an appointed local government manager. It separates the policy making role of elected officials from the administrative and managerial role of professionally trained managers. The California City Management Foundation and the International City/County Management Association have stated the council-manager form of government is by far superior to other alternatives: it frees up the elective body to establish policy, which is carried out by administrative staff; encourages neighborhood input in the political process; diffuses the power of special interests; eliminates partisan politics from municipal hiring, firing, and contracting decisions; it balances diverse interests, response quickly to challenges, and brings the community together to resolve difficult issues; and the form of government is used by thousands of small, medium,

and large jurisdictions across the country. According to the National League of Cities, as of 2006 fifty-five percent (55%) of cities nationwide operated under the council-manager form of government, and according to *Managing America's Cities* by Roger Kemp, this is the most successful and popular form of government in cities over 10,000 in population. Though every form of government has potential weaknesses, the City Council does not believe the council-manager form of government, the most popular in the country, is more prone to these weaknesses than others.

F4 The City Council failed in its responsibility to oversee the actions of the Management Team and allowed it to frame its own agenda.

Agreed. The City Council failed in its fiduciary duty and oversight duties. The Council failed to require periodic substantiation of information presented, failed to recognize that revenue reductions were not met with adequate and timely adjustments in expenses and the result is that the city was allowed to deficit spend for many years, accumulate debt and erode its cash position to dangerous levels. All while being told that the General Fund was generally balanced each year.

The fact that there was such staunch staff refusal and obfuscation when asked to produce the very financial system reports that the Council receives today should have been an obvious sign of trouble.

Looking beyond the high level condensed information also improves understanding of the organizational cost structure.

Affirmative action was taken by the City Council in efforts to address the City's financial condition, and the City Council continues to take such action. In 2012 the City Council appointed a new City Manager, a new City Attorney has been appointed, and immediate actions were taken to reduce the number of city departments, reduce expenditures, recognize and address the significant General Fund deficit, and negotiate permanent employee compensation changes. Furthermore, pursuant to a 2012 Charter amendment the City Clerk reports as described below in response to "R7", the City Council has implemented procedural safeguards recommended by its auditors giving the City Council greater control over inter-fund transfers and borrowing.

F5 During the years 2008-2012, the City of Chico's upper level management failed to share complete and accurate information with Council members.

Agreed. As described in response to "F4," much of the City's upper-management has been replaced since 2011. In addition, the City Council has instituted requirements that department-specific budget reports are regularly presented to the Finance Committee and the City Council, allowing constant monitoring of budget trends so appropriate spending adjustments may be made in "real time."

F6 Some Council members believed that financial information presented to them was accurate.

Agreed.

F7 With respect to finances and structural deficits, it appears that the prior City Manager abdicated his responsibility and allowed the Finance Director to take charge.

Agreed. Among other things, the 2007-2012 City Manager failed in to reasonably perform under Chico City Charter Section 701 D. "Keep the council advised of the financial condition and future needs of the city and make such recommendations on any matter as may to the city manager seem desirable."

F8 The Grand Jury found no evidence of wrongdoing for personal gain, but questions how salary increases and enhanced pension benefits were granted to selected employees.

Agreed. The City Council agrees that no evidence of wrongdoing or acting for personal gain exists in context of employee salaries and benefits. Employee compensation and benefits packages are negotiated with individual employees in the case of management positions, or through the collective bargaining process for represented employees. In 2013, additional budget policies were implemented to increase the City Council's authority over budget appropriations.

F9 Enterprise accounts were manipulated and used to shore up the General Fund.

Agreed. The City Council agrees that various reserve accounts, enterprise and redevelopment funds were used to minimize the impact the recession had on the General Fund, which resulted in overstating the health of the General Fund. The City Council has taken action to address this issue, and the City has recognized a significant liability in the General Fund, has reduced the General Fund's dependence on enterprise funds, and is working to reduce deficits in the enterprise funds.

F10 Council members were aware that the City was in a deficit condition as far back as 2007.

Agreed. Financial records approved by City Council show fund deficits going back to at least 2007. The City Council took steps in efforts to address these deficits. In fact, the deficit condition of the Private Development Fund had been in existence since at least 2002.

F11 Salaries and benefits consume over 80 percent of the General Fund budget.

Agreed. In 2013-14, salary and benefits constituted eighty percent (80 %) of the General and Parks funds. In 2014-15, salary and benefit expenses are estimated to fall to seventy-seven percent (77%) of the General and Parks funds. While the

Grand Jury finding is specific to the General Fund, the Parks Fund is functionally a sub-classification of the General Fund used to account for Park activity. The City Council notes that Chico is a full service city, with its own police and fire departments. Salaries for these departments comprise a substantial portion of the total compensation paid to City employees.

F12 The largest portion of General Fund expenditures is for Public Safety (police and fire).

Agreed. In 2013-14 and as estimated for 2014-15, the public safety departments – police and fire – represent the largest portion of the General and Parks Funds.

F13 A firefighter who works overtime in a position classified at a pay rate lower than his/her own position is paid at the higher rate.

Agreed. Firefighters are paid at the hourly rate established for their position (i.e. a Captain is paid as a Captain even when working as a fire engineer). However as explained in response to “R5”, the Fire Department has implemented an internal process whereby overtime needs are first satisfied with employees of the applicable classification, before employees of high classifications are considered.

F14 Park and cultural programs, which helped make the City a tourist destination, have been severely cut or eliminated.

Agreed. Most City departments faced budget reductions and staffing eliminations. The City values its park and cultural programs and is finding opportunities to strengthen its role in leveraging park and cultural programs for increasing tourism. For example, the City was able to provide some support for the North Valley Community Foundation to provide funding for City community-based organizations. City staff looks forward to looking for opportunities to increase this partnership and focus on leveraging general funds with public giving through our partners.

F15 The new City Manager has initiated an open dialog with the City Council, restoring transparency to government operations.

Agreed. The City Council has taken action to address communication shortcomings of the organization. Since 2012, the City Council has made several key staffing decisions to appoint knowledgeable individuals to key management positions, and has implemented procedures to enhance the City Council’s knowledge of and participation in the day-to-day fiscal affairs of the City, as well as the public’s participation in that process.

RECOMMENDATIONS

- R1 The City Manager and the City staff should work together to make information more transparent to the City Council and the general public.**

Implemented. As described further below, in 2013 the City implemented additional budget policies to increase the City Council's involvement in the budgetary and inter-fund transfer processes. As a result, more financial matters are brought before the City Council in public meetings for discussion and approval. Additionally, a new budget monitoring process has been implemented which increased scrutiny of departmental budgets and require public discussion of spending trends and their impacts on City finances. The City is currently compliant with its Charter mandate that detailed monthly financial reports be generated, and these reports are published on the City's website. The City Council will continue to work with management and explore other mechanisms for providing enhanced fiscal transparency to the City Council and the general public.

- R2 The Grand Jury recommends that the City Council and City Manager work together to develop a plan to rehire lost staff when funds become available, instead of contracting out for services.**

Disagree. While the City felt the blow of the economy and loss of the Redevelopment Agency rather quickly, it would not be prudent to today make a decision to rehire all staff lost during our City reductions. The City must take a careful look at its current operations and decisions which in the long-term will be in the best interest of the City and organization. In one example, the City Council approved a plan to increase sworn police officer staffing – a decision which will result in significant expenditures, which under the Grand Jury's recommendation, would be better served going to hire other non-sworn positions. Additionally, in determining the best approach for providing City services, it is too early to eliminate certain options from being efficient and effective means for providing services. Each step will take careful consideration, analysis, and discussion. The City Council feels it needs to retain flexibility and keep all options available in determining the most efficient and effective means for providing excellent service to the community.

- R3 The City Manager or his delegates should provide orientation and training to familiarize all new Council members with how the City is governed. This should occur every 2 years, in January, following an election. In addition, the Grand Jury encourages current Council members to attend these sessions to reorient themselves with the policies and procedures of the City.**

Mostly Agree. The City Manager and City Clerk will continue to work together to provide additional training opportunities for new and continuing City Councilmembers. In 2012, the newly elected Councilmembers and appointed Mayor attended a new Councilmembers and Mayor training conference at the California League of Cities. Additionally, the City Clerk will be coordinating an orientation and training session after the November 2014 election in the December-

Jan 2015 timeframe, as well as providing a comprehensive handbook to all members of City Council. Prior to the November 2014 election, the City will also be holding a session to orient City Council candidates on these City's operations.

- R4 The City should look into the high cost of employees' salary and benefit packages and make adjustments in future contracts and hiring.**

Implemented. In 2013-14, the City renegotiated its agreements with every represented group. During these negotiations, the City was successful in garnering significant reductions in overall compensation. The City will continue to work with employee groups to contain the cost of salaries and benefits.

- R5 The City should establish a policy for overtime compensation that ties the rate paid to the work being performed.**

Partly Implemented. The Fire department has implemented an internal process to prioritize overtime replacements with the first priority being a fire fighter of the same classification. However, this does not eliminate the ability of a high class employee serving in a lower position for overtime pay in the higher classification. We will work in our future negotiations to address this internal weakness. We should note that some of our employee contracts are multi-year and still have over two years remaining.

- R6 The City should continue to invest in its parks, art, and cultural programs to the extent possible.**

Not Yet Implemented.

- R7 The City should implement procedures assuring that when enterprise fee funds are temporarily transferred to other accounts, a documented repayment plan is in place.**

Agreed. Finance is responsible for maintaining compliance over City funds. As part of our 2013-14 audit, the City accepted a recommendation to strengthen controls over enterprise fee funds. We expect this recommendation to be fully implemented by the end of the current year. Absent good cause, funds will not be allowed to go into a deficit position without a General Fund subsidy. In cases of cash deficits, the City Council will be asked for authority to approve internal borrowing arrangements with a specific repayment plan in place.