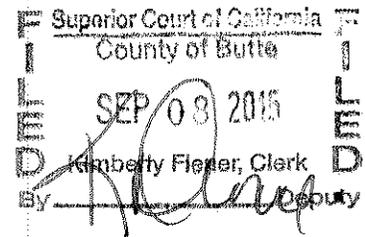




OFFICE OF THE
MAYOR

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September 1, 2015

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

Re: FY 2014-15 Butte County Grand Jury Report, City of Chico Responses

Dear Judge Lucena,

The Chico City Council has reviewed the 2014-15 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 2014-15 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,

Mark Sorensen, Mayor
Sean Morgan, Vice-Mayor
Andrew Coolidge, Councilmember
Reanette Fillmer, 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 A
City of Chico Response to 2014-15 Butte County Grand Jury Report

FINDINGS

- F1 The deficit has been reduced from \$13.1 million to \$7.8 million.**

Response

Disagree. The City instituted significant policy and operational changes with a focus on enhanced accountability, fiscal control, and deficit reduction. For the 2012-13 fiscal year, the City consolidated its General Fund deficits into a single fund bringing the overall deficit to \$7.8 million. With the consolidation, the City instituted a ten year deficit reduction plan.

For the 2013-14 fiscal year, the City continued its deficit reduction efforts to further reduce the deficit down to \$2.8 million. This was accomplished utilizing significant one-time savings due to vacancies and non-personnel savings, as well as increases to revenue sources from what was adopted for the 2013-14 budget.

The City is in the process of closing the 2014-15 financials, and preliminary information indicates that the City may be in a position to further reduce the remaining deficit ahead of schedule (as indicated in the deficit reduction plan).

- F2 Transparency between management and the City Council has improved.**

Response

Agree. Transparency and openness in governmental operations is dictated by those charged with governance. The City of Chico's City Council and management have dedicated themselves to these goals of transparency and openness. Specifically, transparency has improved dramatically through the implementation of a number of policy changes and positive action taken by the City to provide information publically as it becomes known instead of past practice where information may had been delayed or not provided at all. The City has also created a webpage dedicated specifically to provide open information to the public. This information includes all employee compensation data from 2007-2014 as well as all accounts payable information from 1994-present.

F3 New administrative, departmental, and fiscal policies have been implemented.

Response

Agree. The City has developed and implemented numerous administrative, departmental and fiscal policies. Moving forward, the City will continue to monitor its policies to incorporate best practices and internal controls that ensure that the City's fiscal and operational goals and objectives are met.

F4 The Self-insurance fund is in need of a comprehensive review.

Response

Agree. The City has been monitoring and evaluating all funds to identify the adequacy of those funds to support expenditures. The self-insurance funds are several funds of those monitored funds. (The City has three self-insurance funds – General Liability Reserve, Unemployment Reserve and Workers Compensation Reserve.)

F5 A repayment schedule for the Self-Insurance Fund deficit has not been identified.

Response

Agree. The City is changing its practice related to how workers compensation expenses are charged for currently active employees. Under the old practice, when an employee went out on workers compensation, the employee expense ceased to be an expense of the employee's department and became an expense of the self-insured workers compensation fund. This resulted in the creation of what appeared to be vacancy savings within the departments.

For the fiscal year 2015-16 budget, the City is changing its practice. Employees who are injured and required workers compensation will be charged to the employee's home department. A separate set of personnel line items will track the workers compensation expense. Consequently, department budgets will appear more realistic instead of showing significant savings. The workers compensation fund will be utilized for future claims expenses for non-active employees as well as to settle claims where settlement would reduce the City's future exposure. This should result in an increase in fund balance of the worker's compensation fund as well as a reduction in long-term liability.

RECOMMENDATIONS

- R1 The Grand Jury recommends that the City Council implement the accelerated restoration plan.**

Response

Implemented. The City has made significant strides to implement the accelerated restoration plan. As of June 30, 2014, the City has reduced the deficit to \$2.8 million. The City is in the process of closing the 2014-15 financials, and preliminary information indicates that the City may be in a position to further reduce the remaining deficit ahead of schedule (as indicated in the deficit reduction plan).

- R2 Continue dialogue between the City Council and staff.**

Response

Implemented. The City Council and staff have increased dialogue significantly both in the informal updates provided by the City Manager and the level of information provided by City staff during City Council and committee meetings. The current environment among the City's senior staff is one of providing open information and dialogue to improve decision-making ability.

- R3 The City Council and management need to keep reviewing and updating policies.**

Response

Implemented. The City has developed and continues to enhance its policies. This includes its budget and human resources policies, as well as to focus on revising antiquated, inaccurate internal administrative policies and procedures.

- R4 City Management should consider out-sourcing Workers Compensation Insurance and consider joining the Northern California Self-Insurance Fund (NCCSIF).**

Response

Disagree. The City currently outsources much of its workers compensation function to a third party provider. While the City agrees to continue evaluating alternative options to improve program cost-effectiveness and efficiency, the City's current plans to restructure its workers compensation program appear sufficient to address currently known deficiencies.

R5 The City should consider developing a plan to restore the Workers' Compensation Fund by developing a restoration plan similar to the General Fund Reserve Restoration Plan.

Response

Implemented. The weaknesses in the workers compensation program stem from the City's method of assigning workers compensation expenses. The past practice involved charging expenses to the workers compensation fund, thereby creating increased cost pressure on the workers compensation fund while showing significant savings in the departmental budgets. The City is changing its practices which will result in charging current employee workers compensation expenses to department budgets and increasing the fund balances in the self-insurance fund. It is anticipated that the City will achieve its 100 percent funding level over the next two to three years.

Exhibit B

**Butte County
Grand Jury**



**2014-2015
Final Report**

2014-2015 BUTTE COUNTY GRAND JURY REPORT CITY OF CHICO FINANCES

Summary

This City of Chico Finances Report is a follow-up to the 2013-2014 Grand Jury investigation. In the prior investigation, it was found that the City of Chico had a General Fund deficit of over \$15 million. Since that time, many practices and policies have been changed. By 2014 the deficit was down to \$7.8 million. Following the 2014 Fiscal Audit there are positive indicators indicating that a return to solvency has begun.

Transparency has been addressed and is mostly resolved. The City Council and the Finance Committee are also being given many more documents than in prior years. The City Manager and the Administrative Services Director have worked hard to accomplish these improvements.

Future Grand Juries need to monitor how the General Fund Restoration Plan is working.

Glossary

City – City of Chico

City Council or Council – City Council of Chico

City Manager – City of Chico City Manager

Council-Manager – A form of government in which the city council establishes policy and the city manager handles day-to-day management.

Background

The City of Chico was incorporated in 1872 and now encompasses over 33 square miles. Chico is the largest city in Butte County with a population of just under 90,000 or approximately 40 percent of Butte County's 221,000 citizens. A seven-member City Council governs the City. Under Chico's council-manager system, Council members are elected to four-year terms of office. Terms are staggered with elections held every two years. The Mayor is selected by a majority of the City Council and serves a two-year term. Council members, who are part-time modestly paid citizens, hire a professionally trained City Manager.

The Council also forms liaison committees of three members each to review internal, intergovernmental, and financial matters. For example, the Finance Committee meets with the City Manager and City staff on a variety of fiscal matters and circulates monthly reports to the full Council regarding the City's financial health.

The City Manager is responsible for the day-to-day operation of the City. He/she is also responsible for the hiring and firing of all city employees, with the exception of the City Attorney and the City Clerk, who report directly to the City Council (See Attachment A).

Daily operation of the city and fiscal matters (other than passing a budget) are typically left to the City Manager and the management staff. A level of trust and free exchange of information between the Council and the City Manager is essential. Without the proper checks and balances in place and continued oversight, the City Manager and administration can overstep their authority and compromise the council-manager separation of powers.

Under the council-manager government structure, the city manager has a powerful role. The council must trust and rely on the city manager for accurate information.

Approach

The Grand Jury performed the following activities:

- Conducted numerous interviews with the current City Manager, Administrative Services Director, and the Mayor;
- Observed City Council meetings; and
- Analyzed information in local news articles and websites.

Discussion

This follow-up was prompted by the inconsistencies of responses to the 2013-2014 Grand Jury recommendations. In its responses, the City said it had a deficit mitigation plan to repay the \$15.1 million. After a routine audit was finished, however, the deficit was found to be \$13.1 million. The City was also able to reduce the deficit to \$7.8 million by using the entire Emergency Reserve Fund of \$5.3 million.

When the audit for the fiscal year ending June 30, 2014 confirmed that the City General Operations Fund (Fund 001) ended the fiscal year with a positive \$4.8 million change in fund balance the Council directed staff to return with a report on the possible uses of these funds as Fiscal Year 2015-16 budget was developed. A City Council Agenda Report, for the March 3, 2015 meeting, provides details on staff recommendations, which were approved by the Council, regarding how the carryover funds should be spent. The amount and category for each expenditure fit within priorities previously established. The March 3, 2015 report also explains how the carryover occurred. Of the \$4.8 million carryover, \$2.45million was approved to pay down debt. (See Attachment B.)

The City Council and City Manager are optimistic that the deficit can be reduced on an accelerated schedule. The upturn of the economy is bringing more revenue into the City. Expenditures have also been reduced through decreases in staff, salary, and through outsourcing the legal department. Moreover, the Council has no intention to rehire former employees. Deficit reduction is dependent on the City Council's implementation of the accelerated restoration plan. (See Attachment C.)

The City Council has approved a number of policies that dictate what can or cannot be done and provides safeguards such as fiscal policies that don't allow funds to go into deficit or how inter-fund loans may be administered. Examples of the new fiscal policies that the City Council adopted are shown in Attachment D.

Transparency between the Council and management has improved. There are more documents provided to the Council as well as more verbal communication between management and Council. Management is trying to balance providing too much information versus providing information that has been too simplified. Monthly reports are now being given to the Finance Committee.

The internal Self Insurance Fund is an area that has not made positive growth. This is due mainly to the Workers' Compensation Fund that has gone from a positive balance of \$2 million to a deficit of just under \$2 million in just a few years. In response, the Administrative Services Director recommends discontinuing the process of assessing all the departments a flat assessment to cover Workers' compensation liability and costs. Instead each department would have an assessment that reflects the proportional costs of claims received by each department. In addition, the relevant department should be charged a percentage that reflects the cost of claims by department instead of charging Workers' Compensation Fund. This change would avoid an artificial savings to the relevant department and reduce the Workers' Compensation Fund.

Findings

- F1** The deficit has been reduced from \$13.1 million to \$7.8 million.
- F2** Transparency between management and The City Council has improved.
- F3** New administrative, departmental, and fiscal policies have been implemented.
- F4** The Self-insurance fund is in need of a comprehensive review.
- F5** A repayment schedule for the Self-Insurance Fund deficit has not been identified.

Recommendations

- R1** The Grand Jury recommends that The City Council implement the accelerated restoration plan.
- R2** Continue dialogue between the City Council and staff.
- R3** The City Council and management need to keep reviewing and updating policies.
- R4** City management should consider out-sourcing Workers' Compensation Insurance and consider joining the Northern California Self-Insurance Fund (NCCSIF).
- R5** The City should consider developing a plan to restore the Workers' Compensation Fund by developing a restoration plan similar to the General Fund Reserve Restoration Plan.

Responses

Pursuant to Penal Code §933 and §933.05, the Chico City Council is *required* to respond to all Findings and Recommendations of the Grand Jury Report.

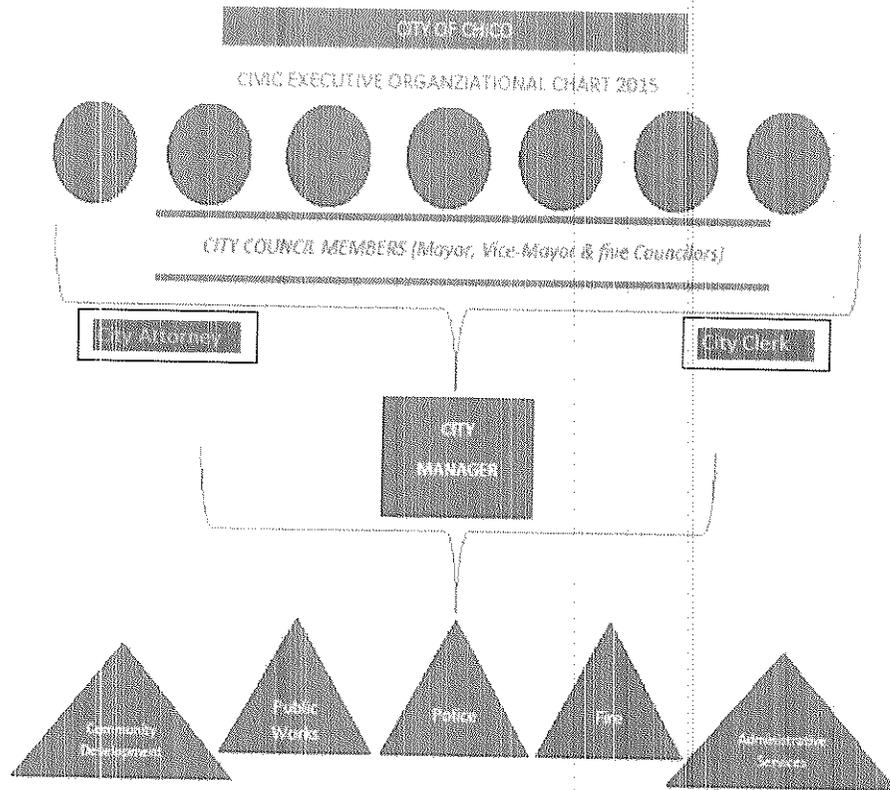
The Grand Jury *invites* the Chico City Manager to respond to all Findings and Recommendations of the Grand Jury Report.

The governing body indicated above should be aware that the comment or response of the governing body must be conducted subject to the notice, agenda and open meeting requirements of the Brown Act.

Reports issued by the civil Grand Jury do not identify individuals interviewed. Penal Code §929 requires that the reports of the Grand Jury do not contain the name of any person or facts leading to the identity of any person who provides information to the civil Grand Jury.

Attachment A

Chico City Organization



Attachment B

General Fund—Use of Fund Carryover from June 30, 2014
City Council Agenda Report—Meeting Date 03/03/2015

Exhibit B - Provides for a 51% (\$2.45M) transfer to the General Fund Deficit (Fund 004) and loan is written off, Airport Fund (\$100k), and allows for a (\$1.2M) fund balance in Fund 001 that can be used as beginning fund balance for the fiscal year 2015-16 budget.

General Fund - Exhibit B - Maximizes fund balance carryover in Fund 001 General Fund (Fund 001) fund balance reconciliation: Fund balance at 6/30/14 \$ 4,860,207

Items Previously Approved:

• Allocation of 3 Police Officers	\$190,000	
• Waste Hauler Consultant	\$120,000	
• Exp Bancroft Agreement - 1st Payment	\$120,000	
• Sycamore Pool Total	\$48,000	
• Items Previously Approved		
•		
	\$ 478,000	10%

Additional Items Proposed:

• PW Preventative Maint Software	\$2,500	
• Citywide Cyber Security Assessment	\$20,000	
• P. D. Interview Rooms - Monitoring Equipment	\$25,000	
• Library Funding	\$25,000	
• Citywide Document Management System (including P.D. workflow)	\$40,000	
• City Hall - Monitoring Equipment	\$50,000	
• LED Street Lights – Critical Intersections	\$50,000	
• P.D.-Laser Mapping System for the CSI and Major Accidents	\$74,000	
• City-Wide Timekeeping/P.D. Advanced Scheduler Program	\$75,000	
• PW Street Condition Assessment Total	\$85,000	

Items Previously Approved	\$446,500	9%
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Additional Transfers Proposed:

• Recommended fund balance carryover (Fund 001)	\$1,200,000	
• Recommended transfer to Fund -Zone 1 Neighborhood Parks	\$181,000	
• Recommended transfer to Fund 856 - Airport Fund Total	\$100,000	

Total Additional Transfers	\$1,481,000	30%
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<u>Recommended Transfer to General Fund Deficit</u>	\$2,454,707	51%
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Attachment C

Chico Fund Reserve Restoration Plan

Estimated Deficit Reduction and Reserve Contributions

Fiscal Year	Annual Contribution	Total Contributed	Deficit GF Remaining	General Fund Reserve
2014-15	\$ 800,000	\$ 800,000	(\$7,000,000)	
2015-16	\$ 900,000	\$ 1,700,000	(\$6,100,000)	
2016-17	\$ 1,000,000	\$ 2,700,000	(\$5,100,000)	
2017-18	\$ 1,100,000	\$ 3,800,000	(\$4,000,000)	
2018-19	\$ 1,200,000	\$ 5,000,000	(\$2,800,000)	
2019-20	\$ 1,300,000	\$ 6,300,000	(\$1,500,000)	
2020-21	\$ 1,400,000	\$ 7,700,000	(\$100,000)	
2021-22	\$ 1,500,000	\$ 9,200,000		\$ 1,400,000
2022-23	\$ 1,500,000	\$ 10,700,000		\$ 2,900,000
2023-24	\$ 1,500,000	\$ 12,200,000		\$ 4,400,000
2024-25	\$ 1,500,000	\$ 13,700,000		\$ 5,900,000
2025-26	\$ 1,500,000	\$ 15,200,000		\$ 7,400,000
2026-27	\$ 1,500,000	\$ 16,700,000		\$ 8,900,000
2027-28	\$ 1,500,000	\$ 18,200,000		\$ 10,400,000
2028-29	\$ 1,500,000	\$ 19,700,000		\$ 11,900,000
2029-30	\$ 1,500,000	\$ 21,200,000		\$ 13,400,000

Attachment D

City Council Approved New Fiscal Policies

In order to move the City towards fiscal health Council approved the following new fiscal policies (See the following Budget Policies):

"A budget must be sustainable into the future, not balanced with one-time fixes, such as transfer of reserves or set-asides, and must reasonably reflect expenditures that match available revenues."

"The City shall establish a plan to reduce the current deficits and to structurally balance the City's budget."

"The City will dedicate new ongoing revenue sources in the following manner and priority:

Priority 1: Reducing fund deficits, addressing anticipated fund deficits, funding significant long-term liabilities and replenishing established Fund balance targets.

Priority 2: Fixed cost increases outside Council control (e.g., health benefit escalators).

Priority 3: Replenishing internal service funds, such as Vehicle Replacement, Building Maintenance, etc.

Priority 4: Discretionary expenditures and negotiable items.

"One-time revenues not anticipated during the fiscal year will be primarily dedicated to reducing fund deficits, addressing anticipated fund deficits, funding significant long-term liabilities, and replenishing reserve and internal service funds to established targets."

This (next) section increased the safeguards and tightened controls over the use and appropriation of department expenditures.

"The City will refrain from allowing funds to fall into deficit positions or continuing growth in existing fund balance deficits. Annual fund deficits should be eliminated by transferring funds into the deficit fund to maintain the previous year's fund balance."

"Fund Deficit Mitigation and General Fund Reserve Restoration Plan" This section details the General Fund deficit repayment plan and the restoration of Fund Reserves through fiscal year 2029-30.

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