



City of Biggs

Agenda Item Staff Report For the Regular City Council Meeting: July 9, 2013

TO: Honorable Mayor and Members of the City Council
FROM: City Administrator
SUBJECT: Formulation of Responses to Grand Jury Report

Background:

A Butte County Grand Jury report was issued June 28, 2013 which requires responses from the City of Biggs within 90 days (by September 25). The relevant portion of the Grand Jury Report is attached.

Specifically, the Grand Jury requests responses to Findings F1 through F3 and to Recommendation R1 which are summarized below:

F1: The City of Biggs traditionally balances its General Operating Budget by supplementing its revenue with monies from the Electric Utilities Fund.

F2: Biggs wastewater treatment facility is antiquated and will need to be upgraded in the near future.

F3: Many roads need maintenance and repair.

R1: The City of Biggs should explore all funding possibilities for upgrading its wastewater treatment facility and road maintenance.

One common method of formulating responses is to appoint one or more persons to draft responses for future Council consideration, possible amendment and ultimate Council approval.

Recommendation:

Consider appointing one or more persons to draft responses to the Grand Jury report.

Mark Sorensen, City Administrator

2012-2013 BUTTE COUNTY GRAND JURY REPORT

THE CITIES OF BUTTE COUNTY

SUMMARY

The challenging economy of 2012-13 had significant consequences for the cities of Butte County. The Grand Jury reviewed the five incorporated cities: Biggs, Chico, Gridley, Oroville and Paradise. The latest recession reduced tax revenues. In response, the federal government reduced revenue sharing and grants to cities and states while increasing city and state responsibilities. California reduced revenue sharing and grants to cities while increasing local responsibilities with underfunded mandates. Cities struggled to balance budgets with more responsibilities and less revenue.

The Grand Jury conducted initial interviews with the city management of Chico, Oroville and Paradise which included interim managers and former managers. The financial situation as initially reported was mostly positive. Later interviews indicated that 2012-13 will likely end with deficits which would be covered with reserve funds. City management gave the impression that it was acceptable to cover deficits with reserve funds. City management also contended that financial issues were under control. The Grand Jury questioned how long reserves would last if they continue to be depleted. The Grand Jury found some cities did not provide a clear and up-to-date picture of their city's financial condition.

The Grand Jury conducted subsequent interviews, as city managements changed. In the fiscal year 2012-13, the Gridley City Manager was the only City Manager left from 2011-12. All other Butte County cities have new or interim managers. As the cities began the budgeting process for 2013-14, city councils and management staffs, many with a new perspective, realized that structures that were adequate in the past are no longer sufficient. City councils need to make hard decisions about staffing, programs offered and a more efficient way to conduct city operations.

In this report, the 2012-13 Grand Jury reviewed the embezzlement of funds in Gridley, which was discovered in 2009. The Grand Jury observed that limited staffs require crossover in duties which can result in internal controls being breached.

GLOSSARY

- BART – Bay Area Rapid Transit

- CAL FIRE – California Department of Forestry and Fire Safety
- CalPERS – California Public Employees’ Retirement System
- CHIP – Community Housing Improvement Program
- DWR – Department of Water Resources
- FERC – Federal Energy Regulatory Commission
- MW – Megawatt, a million watts
- PG&E – Pacific Gas & Electric
- NCPA – Northern California Power Agency
- RDA – Redevelopment Agency
- SBF – Supplemental Benefit Fund

BACKGROUND

Butte County has numerous distinct communities such as Bangor, Durham and Magalia. The County only has five incorporated cities: Biggs, Chico, Gridley, Oroville and Paradise. Oroville is the county seat while Chico is the largest city. Services for the non-incorporated communities are provided by Butte County. The cities have their own elected governments, property, revenue sources and employees that provide services within their city limits. All five cities use the elected city council/city manager form of government. The city council hires a city manager to be the city’s chief operating officer. In California, state and local governments use the fiscal year, July 1 - June 30.

In this fiscal year 2012-13, with the exception of Gridley, the cities have been in the process of replacing their city managers. The vacancies were caused by a combination of retirements and a manager moving on to another job. The city councils have hired interim managers while selecting permanent city managers.

Each city is unique and faces its own challenges, yet all face fiscal issues of various degrees. Among the sources of revenue for the cities are property taxes, sales taxes, vehicle taxes, fee income and occupancy taxes. Gridley and Biggs each own and operate municipal utilities whose profits help, along with taxes, to fund their government. By State law, all cities must end the fiscal year with a balanced operating budget. Many of the cities have found it necessary to draw on their reserve funds to balance their operating budgets. Obtaining an open-market loan is also an option to

balance budgets.

The 2011-12 operating budget for each of the five cities was:

- Biggs - \$3.9 million
- Chico - \$43.3 million
- Gridley - \$19.8 million
- Oroville - \$20.4 million
- Paradise - \$17.4 million

Causes of the operating budget deficits include the following:

- The state of the economy, since 2008, has hit every jurisdiction with reduced property, sales and other retail taxes. Although city revenue is down, the demand for services is not.
- The State of California fiscal challenges have impacted the cities. Local tax income and obligations of the State are distributed to the local governments by the State. The State, sometimes without warning, "temporarily" delays payments, changes the rules by legislation or executive order, or revises the formulas for allocation of funds.
- The State of California dissolved all Redevelopment Agencies (RDAs); therefore, the cities who had an RDA are no longer receiving an incremental share of property taxes. The funds were used to develop, expand and diversify their business sector and housing. This included infrastructure improvements and the subsidizing of city administrative costs. In Butte County, Chico, Gridley, and Paradise were affected in various degrees by the cancellation of RDA funds.
- Since the recession, the California Public Employees' Retirement System (CalPERS) has experienced significant shortfalls in its projected income from investments and other sources. This resulted in unfunded pension liabilities for cities and other participants. The cities are obligated to CalPERS for the amount of their unfunded liability. In addition, according to the guidelines of the National Accounting Standards Board, the amount of unfunded pension liabilities must be reflected as a liability on city 2013-14 balance sheets.
- CalPERS payroll contributions consist of an employer portion and an employee portion. In the past, many of the cities, in negotiating with their employee bargaining units, had agreed to pay all or part of the employees' portion of retirement contributions. In recent years, this practice is being reversed.

- The implementation of prison realignment (AB109) does not have a direct impact on city budgets. However, several cities have had an increase in police calls. The cities feel this is anecdotal evidence of an indirect impact on them. *(See the report on AB109 elsewhere in this Grand Jury Report.)*

Just as the causes of the fiscal challenges vary, the solutions adopted by each city have varied. The immediate short-term solution is to use their reserve funds. Every city uses reserve funds to cover temporary cash-flow deficits, but many have used the reserves to balance the budget at the end of the fiscal year. The ideal solution is to repay or possibly increase the reserves in the following fiscal year. After multi-year fiscal challenges, some cities are adopting long-term solutions, often involving austerity budgets.

Employee compensation is usually the largest element of a city's budget. Most cities have been negotiating with their employee bargaining units to freeze or reduce wages and/or increase employee contributions for individual pension and health insurance benefits. In some cases, cities are establishing multi-tier benefit packages. Another way to cut expenses is to reduce the size of the workforce. A city can start with a hiring freeze, which reduces the work force by attrition, or use direct layoffs to reach the fiscal goal. This may balance a budget in the short-term, but it may not solve the basic structural problems. With new management, some cities are taking the opportunity to restructure their city government by consolidating high-cost management positions, eliminating redundancy and reducing the total work force. Using outside contractors or selling city-owned property are other options.

Providing for public safety is a city's responsibility. Biggs contracts with Gridley to provide police protection. Biggs and Gridley have contracted with CAL FIRE to provide fire protection. In 2012-13, Paradise also contracted with CAL FIRE.

Many city governments believe there is a limit to how many expenditure cuts are possible without harming the city as a whole. To avoid the expenditure cuts, many cities are looking to increase revenue. A recovering economy should increase the tax base, but real growth may need to come from expanding retail, industrial and commercial sectors. Major infrastructure improvements are often financed with state and/or federal grants or bond measures. These funding sources are currently difficult to obtain.

APPROACH

For this report, the members of the Grand Jury have made multiple visits to each city. Our interviews included City Managers, Interim City Managers, one Temporary Interim City Manager, one retired City Manager, Finance Directors and an Electric

Superintendent. In addition to the interviews, the Grand Jury attended city council meetings and reviewed city websites, documentation and budgets.

DISCUSSION

The following analysis of the Butte County cities is not meant to be a comprehensive report of all issues facing each city. Instead, we have limited the scope of individual reports to the most significant challenges that are affecting their well being and financial condition.

Our analysis of Butte County cities follows:

City of Biggs

Established in 1871, the city of Biggs, with a current population of about 1,700 and total area of 0.6 square miles, is the smallest city in the county.

Biggs' revenue sources include the following:

- Electrical Utility Fund - 52%
- Vehicle Licensing Fees – 16%
- Property Tax – 13%
- Sales Tax – 2%

Many city functions and services are contracted out, including police and fire protection, accounting, legal advice and planning. Biggs never established a Redevelopment Agency (RDA).

Biggs' new city manager began his employment in August 2012. There are 9 full-time regular positions on the city staff and five elected City Council members. Biggs has one employee bargaining unit which represents its public works employees. Although there is an unfunded pension liability of \$177,280, the city has adequate revenues and contingency funds to cover any pension-related claims.

In 2013, Biggs substantially completed work on a new General Plan for the city that calls for an expansion through the annexation of suburban and agricultural lands. Furthermore, the Community Housing Improvement Program (CHIP) is working on a development that includes 53 new residential units, which may be built at a rate of 10 units per year.

There are two major issues in Biggs:

1. The wastewater treatment facility needs to be upgraded at an estimated cost of \$8 million. The city is exploring the availability of state and federal funding mechanisms.
2. Many roads need maintenance and repair. Funds for street repair come from gasoline taxes.

City of Chico

The City of Chico was incorporated in 1872 and encompasses 33 square miles. Chico has an estimated population of 100,000 people in the greater urban area, of which approximately 87,000 live within the incorporated area. It is the most populous city in Butte County. Chico is managed by a City Council consisting of seven members, each elected to a four-year term. The mayor is a council member, selected by the City Council. The City Manager, employed by the City Council, is responsible for the day-to-day operations of the city. As of April 2013, city staff totaled 375, a reduction from 450 staff members on January 1, 2011. The city negotiates with nine public employee bargaining units. Primary issues are a reduction of expenses through staff reductions and negotiating changes in compensation and pension plan payments.

Chico is a regional center of commerce and derives most of its revenue from these sources:

- Sales Tax – 41%
- Property Tax – 26%
- License & Fees – 9%
- Gasoline Tax – 7 %
- Transient Occupancy Tax – 5%

Primary sales tax generators include Costco, Walmart and numerous automobile dealerships. Economic drivers and the largest employers are California State University, Chico and Enloe Medical Center.

The City of Chico has recently experienced significant turnover in management. During the last ten months, long-time employees have been replaced in the positions of City

Manager, Assistant City Manager, Finance Director and Police Chief. The current Chico City Manager is restructuring city staff from eleven city departments to five departments in an effort to reduce expenses and improve efficiencies.

Chico's revenue was impacted by the defeat of a November 2012 ballot measure regarding a cellular telephone tax, which eliminated \$1 million in estimated revenue. The dissolution of the Redevelopment Agency (RDA) by the State of California impacted Chico significantly. Chico had a substantial RDA and commensurate RDA staff. The Grand Jury analysis found that the City of Chico did not address revenue reductions in a timely manner.

According to CalPERS annual Actuarial Valuation, on June 30, 2011, Chico had an unfunded pension liability of over \$69 million, an increase of \$5.3 million from the prior year. There is also an unfunded liability for employee medical coverage of \$10.1 million.

The Grand Jury met with Chico management in September and December 2012 and was given a favorable financial report in both instances. In March 2013, the Grand Jury sent a follow-up questionnaire to all five Butte County city managements and received Chico's response on March 8. The financial report again was favorable with no deficits disclosed. On April 3, 2013, senior management informed the Grand Jury that Chico's general fund had a significant structural deficit.

After further research and analysis, the Grand Jury identified inconsistencies and omissions. For example:

- Stale data was given to the Grand Jury. CalPERS Actuarial Valuation Report dated October 2012, for the period ending June 30, 2011, was available at the time of the City Management Questionnaire. However, the Grand Jury was not provided with this information. Instead, Chico management cited data from June 30, 2010, which was \$5.3 million less than the latest available data. As of June 30, 2011, total unfunded pension liability was \$69 million.
- Critical budget details were omitted. To the question "During the current fiscal year (ending June 30, 2013), do your operation expenditures exceed your revenues?" the answer was "No." Upon further investigation, the Grand Jury found that the City transferred funds from their Capital Projects Fund and Private Development Fund to supplement their cash flow. As a result, the Capital Projects Fund 400, as of February 28, 2013, showed a negative balance of \$3.0 million. The Private Development Fund 862, as of March 31, 2013, showed a negative balance of \$9.0 million. The City of Chico used funds that do not have to be balanced by law, to balance their operating budget. At the time of this report, the Grand Jury was unable to determine

how these funds will be replenished.

- In April 2013, the Grand Jury discovered financial information that directly contradicted the favorable reports we received from senior management.

City of Gridley

The City of Gridley is located in southern Butte County. It has a population of over 6,500 and occupies just over two square miles. Gridley is governed by a City Council of five elected council members, including the mayor who is selected by the other council members. They serve a term of four years with no term limits. The City Administrator, employed by the City Council, is responsible for the day-to-day operations of the city. The city has approximately 49 employees.

The 2010-11 and the 2011-12 Butte County Grand Juries conducted investigations of the City of Gridley because of the receipt of complaints. Both prior juries did thorough investigations and most of the complaints were resolved.

Revenue sources for the 2012-13 City of Gridley budget include:

- Electrical Utility Fund - 30%
- Sewer Usage Tax - 6.4%
- Water Usage Tax - 5.5%
- Sales Tax - 3.7%
- Property Tax - 2.5%

In addition, the 2012-13 budget included a one-time reimbursement of \$3.8 million from the federal government for the Gridley Springs housing project. This represented 20% of that year's budget.

The RDA represented less than 1% of Gridley's prior operating budgets. Recently, Gridley has been successful in attracting new businesses, such as Clean Flame Log Factory, and expanding existing businesses, such as Mary's Gone Crackers.

The City of Gridley has a five member financial staff, which requires crossovers in duties. In 2010, the City discovered an embezzlement. The amount of embezzlement was 2.5% of the operating expenses for fiscal year 2009-10. The City recovered 96% of the lost amount from insurance. This case is still in the courts. Expenditure of funds must now pass through multiple crosschecks. There is now a regular review of accounts

and a monthly treasurer report is issued. While no system is perfect, the city has taken several positive steps to ensure all financial transactions are approved.

Gridley Electric Department

Gridley Electric Utility, operating since 1910, oversees the procurement and delivery of wholesale power to the City of Gridley. Gridley is a member of the Northern California Power Agency (NCPA) with ownership in a hydroelectric generator at the Shasta Powerplant, two geothermal plants, two combustion turbines and 4% ownership in the Lodi Energy Center.

Gridley contracted with BART to build two solar array systems: a 1.0 MW and a 2.5 MW solar array system. The solar plants were built at no cost to the city of Gridley. Gridley Main 1, the 1.0 MW system, was placed in service in March 2013. The long-term contract provides BART with 2.5 MW of power.

Besides the solar plant, Gridley owns and maintains two substations and the city's distribution lines. Gridley has a contract to maintain Biggs' powerlines and substation. Gridley consumers have a choice of purchasing their electricity from either the City of Gridley or PG&E. Gridley rates are less than PG&E's rates and the monies received by the Gridley Electrical Fund subsidize the Gridley General Fund. This on-going stream of income contributed \$3 million to the city in calendar year 2012.

City of Oroville

In 1856, the town of Ophir was re-christened Oroville and became the county seat of Butte County. It was one of the most populated mining towns in California and became its fourth city in importance. Incorporated in 1906, it currently has an estimated population of 16,000 and a total of 55,000 in the greater Oroville area.

Oroville is managed by a City Council consisting of seven members, including the mayor. The mayor is elected separately and serves a four year term. Five council members serve a four year term and the council member receiving the least amount of votes serves a two-year term. As of April 2013, the City Administrator position is filled with an Interim City Administrator.

The City of Oroville's revenue sources include:

- Sales Tax – 26%
- Utility User Tax – 15%
- Property Tax – 11%
- Departmental Revenues, i.e. fees and fines – 9%

- Transient Occupancy Tax – 3%

In connection with the Federal Energy Regulatory Commission (FERC) relicensing of Oroville Dam, the California Department of Water Resources (DWR) entered into an agreement with the City of Oroville that was designed to benefit the local community. The agreement established the Project Supplemental Benefits Fund (SBF) that DWR funds on an annual basis and designated the City of Oroville as the Fund Administrator. The City receives compensation for administering the fund. The SBF money is provided as grants to organizations that stimulate recreation, tourism and economic development to the community. From 2009 to 2012, DWR has funded the SBF \$100,000 a year. When the relicensing of Oroville Dam is completed, DWR will provide up to \$61,270,000, with a combination of initial payments and annual payments for the term of the new license.

The City of Oroville is designated as one of 44 Enterprise Zones in the state and is currently tracking 13 businesses. This classification provides many incentives for a new business in the zone including wage credits, sales tax credits and business and property expenses for a period of five years.

An issue that the City Council addressed in 2012-13 was fee waivers for the use of city facilities and parks. Over the past 24 months, the City Council had granted fee waivers in excess of \$68,000 requested by various groups for special events, while they denied others. In January 2013, the Council adopted a new Facility and Park Fee Waiver Policy to be consistent on granting fee waivers.

The City of Oroville is facing fiscal problems due to the loss of RDA revenue. When the RDA was started, the City loaned it \$1.8 million for start-up costs. In 2012, the RDA repaid the loan to the city. The State is now demanding that loan repayment money be paid to the State with the rest of the RDA funds. This is in litigation with many other cities in the State that started their RDA in the same fashion. Four percent of Oroville's 2011-12 operating budget was funded by RDA revenue.

The City of Oroville has not seen reductions in other revenues; however, current annual operating expenditures exceed revenues by approximately \$4,300 per day. The City has been using its contingency fund to balance the operating budget. The largest operating expenditures are employee salaries (48%) and employee benefits (30%).

The Interim City Administrator is developing various options to address the projected 2013-14 budget deficit of \$2 million. These were presented to the City Council for review.

Town of Paradise

The Paradise community dates back to the Gold Rush days of the 1850's. It once had its own railroad station. Canals built for the hydraulic mining of gold still exist. However,

Paradise did not become the incorporated Town of Paradise until 1979, which makes it Butte County's youngest incorporated area. The town of 18.2 square miles has a population under 27,000. Although the Town is proud of its distinct character, it is still basically a bedroom community with many of its citizens working and shopping in Chico and Oroville. The largest employer in Paradise is Feather River Hospital and the adjacent medical community.

The Town of Paradise's management is in transition. The long-term Town Manager retired as of December 31, 2012. As part of the budget process, the plan for the fiscal year 2012-13 was for the Town Manager to work part-time from June through December and then have the Assistant Town Manager become the Interim Town Manager. As part of the 2013-14 budget process the Town Council will make plans for procuring a new Town Manager.

Paradise's revenue sources include:

- Property Taxes – 46%
- Motor Vehicle Taxes - 21%
- General Sales & Use Taxes – 18%

As of February 2013, fiscal year 2012-13 expenses exceeded revenue by \$294,000. The Town management expects to be in balance by the end of the fiscal year by reducing expenses. To save costs this fiscal year, the Town contracted with CAL FIRE rather than operate a Town fire department. However, the non-recurring costs in transitioning to CAL FIRE have been more than anticipated and could make it difficult to balance the budget this fiscal year.

The Town lost \$2.6 million in General Fund Revenue as the result of declining property values since 2008-09. Budget analysis for the fiscal year 2013-14 indicates that there should be a modest increase in its primary revenue income due to the improvement in the economy. In preparing the 2013-2014 budget, the Town plans to continue to reduce expenses. The Town continues to negotiate with employee bargaining units on salary and benefit packages. This includes placing caps on medical insurance contributions, having employees pay a greater percentage contribution to CalPERS, and establishing a third tier of retirement benefits. Employee concessions have totaled \$560,000 over the last four years. The Town is also planning to defer maintenance and postpone equipment purchases when possible. Further cuts in staffing will be a last resort.

The Town of Paradise's diligence in solving immediate fiscal problems will not lead to long-term fiscal health. The Town of Paradise is a bedroom community that is without an adequate retail sales tax base. Paradise needs to increase its sales tax base. This could be accomplished by attracting additional retailers. Paradise should be able to attract new business investors due to its customer base which includes customers from the Upper Ridge areas such as Magalia and Stirling City. The primary barrier to growth

is the lack of a sewer system and possible water shortages. *(For information about the Town's water situation, see the report Water: Butte County's Vital Resource, Paradise Irrigation District, found elsewhere in this Grand Jury Report.)*

The Town, both residential and business districts, is on septic systems. The Town of Paradise is the largest community west of the Mississippi River without a sewer system. When a large retail complex wishes to locate in Paradise, it must build a self-contained wastewater system. This is a costly challenge to these businesses. Lack of a sewer system is also making growth difficult for the existing businesses whose septic systems are reaching capacity. Some heavy-use businesses, such as restaurants, must pump their systems daily. Due to the mountain topography, it is not practical to have a sewer system for all residential areas. Paradise has been exploring the creation of a sewer system for the business area. There are tentative talks with Chico about connecting to Chico's treatment plant, which has excess capacity. This could be beneficial to both communities. Without solving the sewer/septic issues, business growth in Paradise is limited. Without business growth, the Town of Paradise will have limited options for solving its financial problem.

FINDINGS

Biggs

- F1 The City of Biggs traditionally balances its General Operating Budget by supplementing its revenue with monies from the Electric Utilities Fund.
- F2 Biggs wastewater treatment facility is antiquated and will need to be upgraded in the near future.
- F3 Many roads need maintenance and repair.

Chico

- F4 Primary revenue sources of Chico are taxes which have been reduced by the slowing economy.
- F5 The City of Chico had a significant turnover in senior management in 2012-13 and is in the process of restructuring the city government.
- F6 The City of Chico was slow to respond to the loss of RDA funding and of other funding sources.
- F7 City management provided the Grand Jury with some financial data that was outdated, incomplete and misleading.

- F8 Shortfalls in operating revenues are being covered by transfers from non-general revenue funds. Some of these funds continue to carry significant negative balances.

Gridley

- F9 Gridley traditionally balances its General Operating Budget by supplementing its revenue with monies from the Electric Utilities Fund.
- F10 Gridley strengthened its internal controls after an embezzlement discovered in 2010.

Oroville

- F11 The City of Oroville, under contract with DWR, is the Fund Administrator for the Project Supplemental Benefits Fund and will be disbursing grants to the community to stimulate recreation, tourism and economic development.
- F12 The City Council's adoption of a new Facility and Park Fee Waiver Policy will bring consistency to this process.
- F13 Although the City of Oroville has a shortfall in its annual operating expenditures as compared to its revenues, City management is transparent about their steps to correct the situation.
- F14 The City of Oroville balanced its operating budget by using its Contingency Fund.

Paradise

- F15 The Town of Paradise is primarily a residential community with minimal retail and commercial businesses. Therefore, Paradise residents often work and shop elsewhere, leaving their sales tax dollars in other jurisdictions.
- F16 The Town of Paradise has experienced revenue challenges for many years, which impact town services.
- F17 The Town of Paradise carefully planned for the transition to a new town manager.
- F18 The Town of Paradise's lack of a sewer system has been a barrier in attracting significant new retail and commercial businesses.

- F19 A sewer system for the residential districts is impractical due to the Town of Paradise's topography.

RECOMMENDATIONS

BIGGS

- R1 The City of Biggs should explore all funding possibilities for upgrading its wastewater treatment facility and road maintenance.

CHICO

- R2 The City of Chico should become more transparent in its financial condition, reporting and budgeting process.
- R3 The City of Chico should continue the process of restructuring the city government.
- R4 The City of Chico should develop a viable financial plan to replenish funds with negative balances.

GRIDLEY

None.

OROVILLE

- R5 The City of Oroville should develop a sustainable financial plan to replenish their contingency fund.

PARADISE

- R6 The Town of Paradise should explore all options for a sewage system in its business districts and adopt a plan to resolve this problem.

REQUEST FOR RESPONSES

Pursuant to Penal Code sections 933 and 933.05 the Grand Jury requests responses to the recommendations as follows:

- Biggs City Council
 - A response to Findings F1 through F3 and Recommendation R1

- Chico City Council
 - A response to Findings F4 through F8 and Recommendations R2 through R4
- Gridley City Council
 - A response to Findings F9 through F10
- Oroville City Council
 - A response to Findings F11 through F14 and Recommendation R5
- Paradise Town Council
 - A response to Findings F15 through F19 and Recommendation R6

The governing bodies 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 Section 929 requires that reports of the Grand Jury do not contain the name of any person of facts leading to the identity of any person who provides information to the Civil Grand Jury.

Appendix A

City of Chico's Response to the Butte County Grand Jury's
QUESTIONS FOR CITY MANAGERS
 March 8, 2013

1. During the current fiscal year (ending June 30, 2013), do your operation expenditures exceed your revenues?

No, expenditures do not exceed revenues within the City's General/Park Fund for Fiscal Year 2012-13. The table below provides the City's Adopted Budget, Modified Adopted Budget (which reflects the Adopted budget plus any Council-approved modifications after budget adoption in July) as well as the City's mid-year projection. The Net Revenue/(Deficit) line below indicates that the City no longer has a structural deficit.

GENERAL & PARK FUNDS FY2012-13 BUDGET FUND SUMMARY	ADOPTED BUDGET 2012-13	MODIFIED ADOPTED BUDGET	PROJECTED ACTUALS (as of Jan'13)	VARSANCE FROM BUDGET
Total Tax Revenues	38,917,487	38,917,487	38,501,861	(415,626)
All Other Revenues	1,594,509	1,594,509	1,594,509	0
Other Financing Sources	2,941,605	2,941,505	2,941,605	0
TOTAL REVENUE SOURCES	43,453,602	43,453,602	43,037,975	(415,626)
Total Operating Expenditures	42,963,073	43,026,576	41,957,266	(1,059,470)
Capital Improvement Projects	100,000	122,458	174,468	52,000
Other Financing Uses	282,677	282,677	282,677	0
TOTAL EXPENDITURES	43,345,750	43,431,711	42,414,411	(1,017,470)
NET REVENUE/(DEFICIT)	87,851	21,781	523,625	501,844
BEGINNING FUND BALANCE	174,055	254,287	254,287	
Available Funds	261,907	276,068	777,912	691,844

If so, by how much?

Not applicable

If so, what is the source of funds you will use to balance the budget?

Not applicable

2. For the fiscal year ending June 30, 2014, how do you plan to balance your budget? City staff is in the process of developing its FY2013-14 Budget, so figures are not yet available for this fiscal year. The City has only two methods for balancing its budget: reduce costs or increase revenue. The City's General Fund is comprised of 90% tax revenue, which cannot be increased without a vote of the people, therefore if a structural imbalance occurs, the City must reduce expenditures to balance the budget.